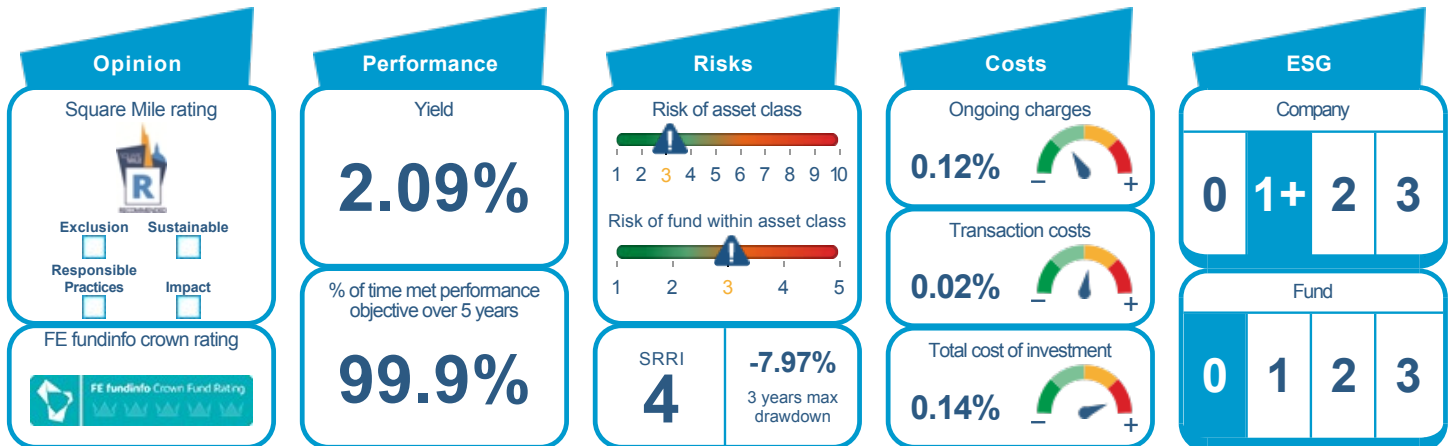


# Vanguard UK Investment Grade Bond Index Inc GBP

November 2021  
Investment Research



## Overview

The fund is focused on generating a secure but variable level of income through investment into high quality corporate bonds. The level of income on the fund is not guaranteed and will vary depending on prevailing interest rates and associated coupons (interest payments) available on corporate bonds. The current yield on the fund is relatively low, reflecting the low interest rate environment.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
		●	

## Square Mile Expected Outcome

We believe a return that closely matches that of the Bloomberg Barclays GBP Non-Government Float Adjusted Bond Index is a reasonable expectation for this passive investment strategy.

<b>Active/Passive:</b> Passive	<b>Domicile:</b> Ireland
<b>Asset Class:</b> Fixed Income	<b>IA Sector:</b> IA Sterling Corporate Bond
<b>Launch Date:</b> 20/03/2007	<b>Fund Size (as at 12 Nov 2021):</b> £4229.7m
<b>Yield:</b> 2.09%	<b>Distribution Pay Date:</b> Mar 29, Jun 29, Sep 28, Dec 31 (Final)
<b>Fund Manager:</b> -	<b>Ongoing Charge Figure:</b> 0.12%
	<b>Transaction Cost ex Ante:</b> 0.02%



## Fund Opinion

We believe that Vanguard have a very strong commitment towards managing passive strategies.

Our rating on this fund is based upon our opinion of the suitability of the index tracked, the management group's commitment to operating passive strategies, the size of the fund, the fund's cost and its good historic record of tracking the index.

Investors should note that they are unlikely to attain exact index performance in this fund due to the payment of fees as well as any small tracking errors brought about by inefficiencies in the fund's management process, such as not being fully invested at any one point.

The Bloomberg Barclays GBP Non-Government Float Adjusted Bond index consists of investment grade bonds with greater than one year to maturity issued in sterling by UK or overseas companies. The index is structured in such a way that the largest constituents will be the companies with the highest absolute levels of debt. Whilst this could be a concern from a credit risk perspective, it does not necessarily mean that these companies are the most debt dependant since they may also have large quantities of equity financing. However, we believe such index weighting is a factor of which investors should be aware. The maturity profile of the index also tends to be quite long and, as such, the fund may be more suitable for long-term investors. In the shorter term the fund could be quite volatile.

## Fund Description

Vanguard is one of the world's largest managers of passive strategies. The organisation is mutually owned by investors in its US domiciled funds and the company has a policy to return profits to all its clients through lower charges. The firm offers an extensive range of index funds to its international client base.

The fund is structured as an Irish domiciled OEIC with UK reporting status. The fund invests in physical securities and adopts a stratified sampling approach. This approach is commonly used when tracking a corporate bond index due to the high costs that would be involved in purchasing every bond in the index which arise from the illiquid nature of the underlying market. The portfolio managers start by identifying the main risks that drive the performance of the index, such as, credit risk, interest rate risk, time to maturity and sector, industry and geographical exposure. This is then used as a framework for selecting securities that will result in a portfolio with similar risk and return characteristics to the index. Investors should be aware that a stratified sampling approach will lead to a higher tracking error gross of fees compared to a full replication approach, but net of fees the results are generally similar.

The fund cut off for dealing is 12pm GMT, however the funds are not priced until the following close of business in the underlying market. This means that from a reporting perspective the fund continues to closely track its index. This removes any need to apply a fair value adjustment to the fund to align its price with that of the tracked index. We believe that this represents good practice for index funds although investors should be aware of the short time delay in obtaining full exposure to a market as a result.

This fund operates with a full swing pricing policy. This means that units in the fund are bought and sold at the same price. The fund's management will apply a small spread if there are net flows into or out of the fund. This involves adding (in the case of net inflows) or subtracting (in the case of net outflows) the costs of creating or cancelling units in the fund and means that the incoming or exiting investors will bear these costs rather than the existing investors. We consider this policy to be good practise, as it protects the interests of those who continue to hold the fund.

The fund does not undertake any stock lending activity.

## Risk Summary

The fund invests in fixed interest instruments and the major risks are likely to be interest rate risk and credit risk. The nature of this market means that the average maturity of the securities in the fund is always likely to be high and can be in excess of 10 years. Any rise in real bond yields may have a negative impact on the fund's value over the shorter and medium term. Unlike an active manager who can mitigate interest rate and credit risks through active asset allocation, interest rate management and credit analysis, this passive fund is unable to take any of these measures. In addition, investors should be aware that investing in passive funds, whilst eliminating many of the biases and potential for misjudgements inherent in actively managed strategies, brings risks of its own. This is largely due to the fact that the managers of the fund have little to no discretion as to the timing of trades and the selection and sizing of holdings. Investors should therefore be aware that in a sharp sell off the fund will fall in line with the index and that there is no flexibility for the managers to mitigate this.

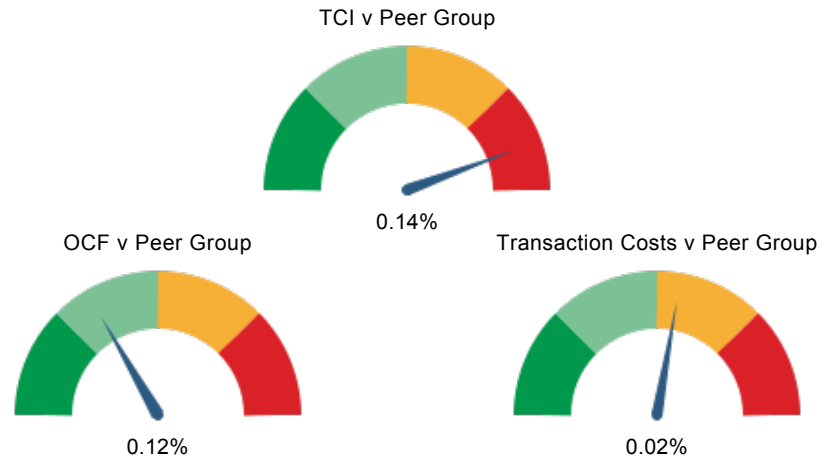
Because this is a passive fund that tracks its benchmark, the funds risk score is a nature of funds in the peer group and not the fund. The funds risk score of 3, shows that the peer group has broadly an equal number of funds that are more and less risky than the benchmark.

The performance, all else equal, is likely to lag the index slightly over time because of the impact of fees, although the managers will try to regain some of this by taking small views, where allowed, on the timing of purchases and sales.

## Value for Money

The fund's Total Cost of Investing (TCI) is in the fourth quartile of passive funds in the Sterling Corporate Bond peer group. Over the long term the fund has reasonably tracked its benchmark, therefore we believe that the fund represents fair value for money. The fund is one of the most expensive in its peer group, however relative to active Sterling Corporate Bond funds its considerably cheaper.

Vanguard have adopted an all in fee structure, so the Annual Management Charge is equal to the OCF. The OCF will remain stagnant until reviewed by Vanguard, however the TCI will change depending on changes to the funds ex ante transaction costs.



## ESG Integration

Company Assessment	0	1+	2	3
The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
There is no discernible approach to, or consideration of ESG factors in the fund's investment process.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Additional Information

<b>Annualised Return</b>	4.35%
<b>Annualised Volatility</b>	5.42%
<b>Max Drawdown</b>	-7.97%
<b>Max Gain</b>	5.73%
<b>Max Loss</b>	-7.97%
<b>Sharpe Ratio</b>	0.73
<b>Sortino Ratio</b>	0.60

(3 years data to last month end unless otherwise stated)

### Currency of Share Class

GBP

### Fund Price (as at 11 Nov 2021)

£61.1

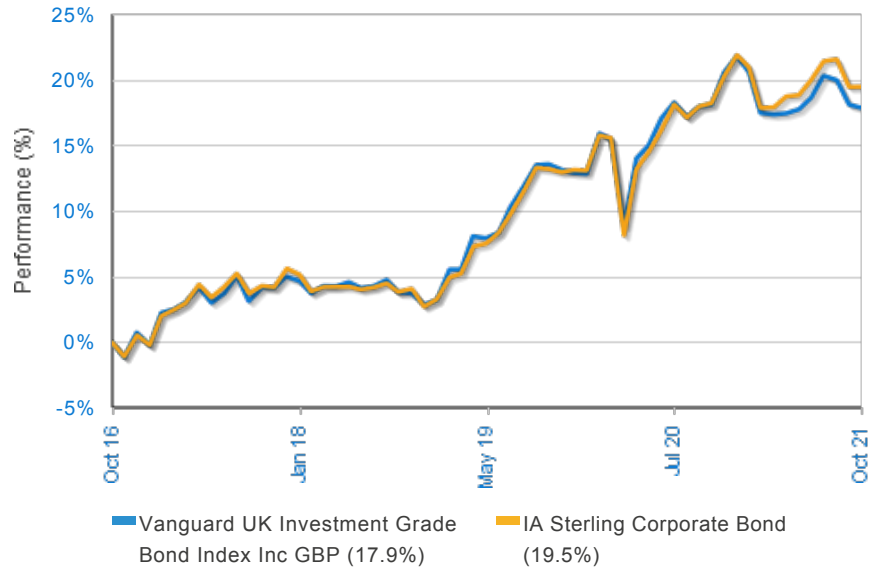
### Benchmark

Bloomberg Barclays GBP  
Non-Government Float Adjusted Bond  
Index

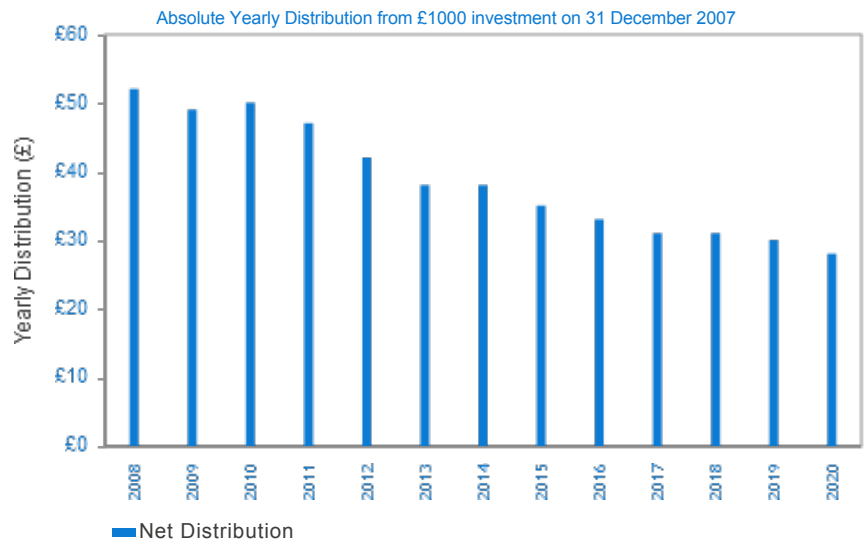
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	0.1	1.3	4
12-24m	3.9	4.2	3
24-36m	9.4	9.0	3
36-48m	0.7	0.1	1
48-60m	-0.5	0.6	4

## Capital Growth



## Income



This graph assumes that income is distributed to shareholders and not reinvested.

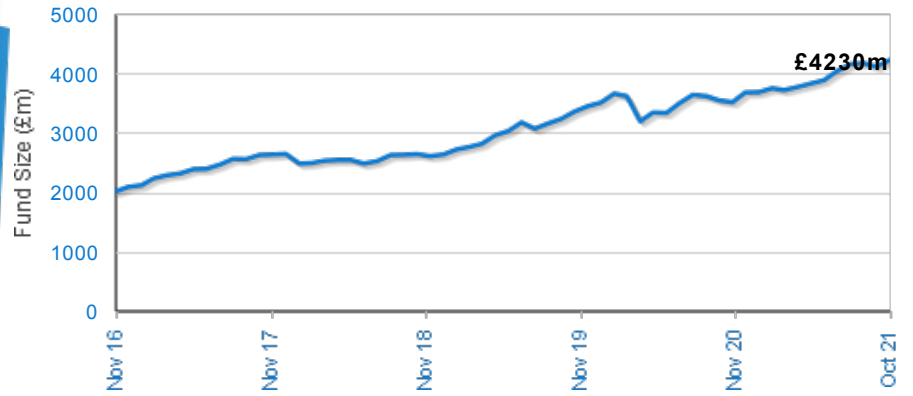
**Credit Rating** (Data as at 30 Sep 2021)

Name	%
AAA	19.4
AA	9.5
A	28.6
BBB	41.6
Non-Rated / Others	0.9

**Bond Maturity**

(Data as at 30 Sep 2021)

Name	%
Cash & Floating Rate Notes	-
1-3 Years	1.0
3-5 Years	32.4
5-15 Years	28.5
15+ Years	38.0

**Assets Under Management**

## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			●
Interest Rate Risk	●		
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk			●

### Equity Risk

The fund has no material direct exposure to shares.

### Interest Rate Risk

The fund is predominately invested in high quality fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected.

### Credit Risk

The fund has significant exposure to high grade corporate debt. Widespread credit downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

### Exchange Rate Risk

The fund is invested in sterling denominated assets.

### Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

### Emerging Markets Risk

The fund predominantly invests in developed markets.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The fund is managed using a team-based approach and no one individual is seen as a critical element in Square Mile's rating on the fund.

FE Risk Rating: 28.00

SRRI: 4

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