

## Global Credit Bond Fund

### Consistency pays in active fixed income

Achieving consistent returns with active bond funds is pivotal to helping investors and their clients meet their objectives in fixed income.

We believe that the best way for fixed income investors to access more consistent alpha generation with less downside risk is through true-to-label active bond funds that derive alpha from security selection across diversified sources, without taking excessive top-down directional risk.

**“Our focus on security selection and relative value, combined with our large global fixed income team, including credit research analysts and traders, makes us ideally positioned to identify and invest in the best credit opportunities, wherever they may present themselves.”**

**Sarang Kulkarni, portfolio manager, investment-grade credit**

### The case for global credit bonds

High-quality, global credit can deliver investors a number of benefits, including a combination of income, diversification, strong risk-adjusted returns and liquidity.

The Vanguard Global Credit Bond Fund seeks to provide a moderate and sustainable level of current income by investing in a diversified portfolio of global credit bonds. The fund offers:



- **Consistent returns and alpha** – The fund aims to achieve consistent returns through security selection, targeting a broad variety of focused opportunities with a high probability of success.



- **Effective diversification** – The manager focuses on high-quality, investment-grade holdings that should act as a long-term diversifier relative to equities through varying market conditions.



- **Opportunity** – Though the emphasis is on the investment-grade universe, the fund has a wide remit on where it can seek opportunity for investor returns in a risk-controlled manner, primarily from bottom-up security selection via a “best ideas” approach from the global fixed income team.

### Transparent and true-to-label

Like all our active fixed income funds, the Global Credit Bond Fund aims to be true-to-label:

- The fund has a similar risk and asset class profile to the assets it represents.
- Our managers strive to achieve consistent alpha generation over the market cycle.
- Our investment guidelines allow flexibility to add value while staying true to the character of the fund.
- Our scale keeps our costs competitive, resulting in one of the most attractive value propositions in the industry.

## Investment policies

1. The fund employs an active management strategy, and while the fund will invest in components of the Bloomberg Barclays Global Aggregate Credit Index, its investment manager will follow distinct approaches in managing the fund's assets.
2. The investment manager may in its discretion restrict the extent to which the fund's holdings deviate from the index constituents on a security selection and fixed income sector basis. The fund may take active fixed income sector views with the focus on bond-specific selection.
3. The extent to which the fund can outperform the index may be restricted by constraints applied by the investment manager which limit the potential volatility of the difference between the return of the fund and the return of the index. Such constraints may change or be removed from time to time at the investment manager's discretion and depending on market environments.

## Team-based investment approach

Our investment process revolves around the portfolio management team, headed by the lead portfolio manager. This team differs from fund to fund but will always incorporate specialist portfolio managers and integrated risk managers along with the lead portfolio manager. This is to ensure that while there is a single point of accountability (the lead portfolio manager), there is also the right balance of collaboration and specialisation, accountability and autonomy.

The portfolio management teams collaborate extensively with the vast array of resources available at Vanguard—including economists, strategists, quantitative researchers and credit analysts—as well as portfolio managers from other fixed income sectors (such as the Global Rates and Credit teams). This is where top-down and bottom-up input from specialist teams and Vanguard's resources come together in discussions around market opportunities, with the emphasis on cross-sector and security relative value. The lead portfolio managers are involved and benefit from these discussions, allowing them to assess the relative attractiveness of the specialist sectors and allocate risk accordingly. The portfolio construction process places less reliance on directional market timing and more on alpha generation from security selection and relative value.

Our approach leverages the capabilities of multiple teams and is designed to maximise the collective and specialised expertise of our portfolio managers, traders, credit analysts and quantitative strategists. Investors can benefit from this approach as they are supported by diverse sets of teams that each add their own particular value. This prevents our portfolios from being too dependent on a single person for portfolio decisions.

In our investment teams, there are no "star managers" or individuals who make all the key investment decisions. As a result, our approach produces a wide range of insights within our decision-making process and there is no single person whose potential departure could leave investors vulnerable.

All members of the investment team report into a global head who is part of the Senior Investment Committee. Portfolio management, research and risk management have separate reporting lines. The Senior Investment Committee provides oversight of the investment team and ensures that appropriate governance, systems and structures for the management of the team and the funds are in place.

## Global rates and credit strategies

Lead portfolio managers regularly meet with members of the global rates and credit teams to get an understanding of opportunities and risks in different sectors of the fixed income market. These discussions form the basis of allocating risk across the funds.

The Global Rates and FX team includes specialist teams covering US Treasuries, European and UK government bonds, inflation-linked bonds, agency bonds and agency mortgage-backed securities and foreign exchange. This team helps the lead portfolio managers develop an outlook for various rates markets and allocate the risk budgets across them, including duration and yield-curve positioning. This team determines its outlook using three primary factors – the market, the economy and policy.

The Credit team includes the leaders of specialist teams covering US investment-grade corporates, European investment-grade corporates, high-yield corporates, emerging markets and structured products. This team helps the lead portfolio managers develop an outlook for global credit markets and allocate the risk budgets across the different specialist credit sectors. The team collaborates with members of the rates team to incorporate top-down drivers into their analysis.

A collaborative investment process			
<b>Input and analysis</b>	<b>MACROECONOMIC ANALYSIS</b> Senior Investment Committee, Investment Strategy Group	<b>CREDIT AND RATES STRATEGY</b> Portfolio managers, sector leads	<b>SECTOR VIEWS</b> Portfolio managers, analysts, traders
	<ul style="list-style-type: none"> <li>• Source inputs from economics and investment teams</li> <li>• Produce longer-term views on the economy, policy and the returns of primary risk factors</li> <li>• Views inform investment teams and act as foundations for risk-management scenarios</li> </ul>	<ul style="list-style-type: none"> <li>• Led by heads of credit and rates</li> <li>• Form baseline views on rates and credit sectors with focus on cross-sector relative value</li> <li>• Generate broad sector-level recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Assess fundamentals, technicals, valuations, and risks for each sector</li> <li>• Make sector allocation recommendations</li> <li>• Explore individual sectors' impact on broader environment</li> </ul>
<b>Decision</b>	<b>PORTFOLIO MANAGEMENT</b> Portfolio management team		
	<ul style="list-style-type: none"> <li>• Led by lead portfolio managers, supported by integrated risk managers and senior research analysts</li> <li>• Determines asset allocation and portfolio strategy including risk-factor targets and ranges</li> </ul>	<ul style="list-style-type: none"> <li>• Lead portfolio managers have full discretion to implement views and are ultimately responsible for portfolio performance</li> <li>• Allocates assets and risk to sector teams</li> </ul>	
<b>Execution</b>	<b>SUBSECTOR AND ISSUER SELECTION</b> Portfolio managers, analysts, traders		<b>Sector teams</b>
	<ul style="list-style-type: none"> <li>• Manage sector allocations across portfolios focusing on security selection, relative value and tactical opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• US investment-grade corporate</li> <li>• European/Asia-Pacific corporate</li> <li>• Structured products</li> <li>• Emerging markets and sovereign debt</li> <li>• High-yield corporate</li> <li>• Mortgage-backed securities</li> <li>• US Treasury and TIPS</li> <li>• Global rates</li> </ul>	
<b>Oversight</b>	<b>GOVERNANCE AND RISK OVERSIGHT</b> Senior Investment Committee		<b>Risk Management Group</b>
	<ul style="list-style-type: none"> <li>• Committee sets macroeconomic outlook and oversees fund investment policies and guardrails</li> <li>• Provides oversight of investment teams and global investment process</li> </ul>	<ul style="list-style-type: none"> <li>• Risk managers aligned to each fund analyse and provide insights on portfolio positioning and stress scenario performance</li> </ul>	

## Credit research

Fundamental credit research lies at the heart of the fund. Our approach begins with a deep analysis of the fundamentals to formulate judgments about a particular company's creditworthiness. The credit process is dynamic and the Vanguard Fixed Income Group continually monitors issuers and regularly updates our proprietary research database with information based on a number of sources, including:


- Direct analysis of company balance sheets
- Company financial statements and other periodic reports.
- Company or country visits and calls with senior policy makers and politicians, as well as other commentators or experts.
- Integrating ESG risk with the support of external data systems.
- External sources such as fixed income and equity analysts.

- Data from major rating agencies such as Moody's, Standard & Poor's and Fitch, central bank or finance ministry websites and other data releases.

The internal credit screening process includes both quantitative and qualitative evaluation. Our quantitative evaluation assesses the company's current capitalisation, profitability and liquidity. It also reflects an appraisal of the company's business mix, its relative standing among peer companies and trend in financial performance. The qualitative aspect to our credit analysis adds value by giving our Fixed Income Group a first-hand look at the issuer and its management team. We assess the quality of a company's management team, its strategies as they relate to the company's core competencies and its ability to execute its plans and strategies.

Credit analysts produce ratings that anticipate any upcoming changes to be made by the public rating agencies. Once credit risk factors are determined, our Fixed Income Group incorporates our analysts' assessments of credit trends, event risk and performance outlook to select the individual issuers that will address these risk exposures.

## Credit research supported by deep specialisation



**Comprehensive market coverage**

**80%+**

Bloomberg Barclays  
Global Aggregate  
Credit Index

**90%+**

US and Americas  
Region\*

**QUALIFICATIONS**

Specialised sector analysts apply depth and wealth of experience. Each analyst covers 45–60 issuers.

**16** average years' experience

**19** CFAs

**22** Graduate degrees

Source: Vanguard. Data as at 30 December 2020

## Close collaboration between credit researchers and traders

The trader's key role is clear and well defined, focusing on adding value or portfolio alpha through consistent and rigorous security selection. Trading uses Vanguard's extensive investment research capabilities and combined with strong relationships with issuers, enables global teams to identify strong and improving or deteriorating companies to take active views. The ability to avoid companies or sectors who face challenging times ahead is just as important, if not more important than identifying the winners.

Traders at Vanguard have their individual expertise and are all experienced and well versed in all aspects of portfolio construction and investment risk. The research-driven security selection process leverages specialised regional skills and expertise across the US, Europe and Asia-Pacific.

Company financials	Business risk	Company risk	Industry risk	ESG risk
Research analysts	Research analysts	Research analysts	Research analysts	Research analysts
<ul style="list-style-type: none"> <li>• Solvency</li> <li>• Leverage</li> <li>• Liquidity</li> <li>• Asset quality</li> <li>• Profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Experience &amp; tenure of management</li> <li>• Corporate governance</li> <li>• Corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>• Rates view</li> <li>• Fiscal policies*</li> <li>• Monetary policies</li> <li>• GDP and balance of payments*</li> <li>• Political stability*</li> <li>• Central banks*</li> <li>• Legal and regulatory considerations</li> <li>• Employee protection regimes</li> <li>• Bankruptcy law</li> <li>• Energy and commodities research*</li> </ul>	<ul style="list-style-type: none"> <li>• Barriers to entry</li> <li>• Cyclicalities</li> <li>• Industry stability</li> <li>• Competition</li> <li>• Legal and regulatory considerations</li> </ul>	<ul style="list-style-type: none"> <li>• Does pricing reflect risk?</li> <li>• Any material implications</li> <li>• Use of Sustainalytics and Fitch to assess risk</li> <li>• If an ESG risk arises that impacts event risk and/or credit trend this can impact the overall rating score</li> <li>• Assign low, medium and high risk based on issuer's susceptibility to ESG risks and the associated financial impact</li> </ul>

Internal assigned rating, recommendation and rationale	Pricing, valuation & relative value	Issue specific
Research analysts	Trader	Trader
<ul style="list-style-type: none"> <li>• Current price vs fair value</li> <li>• Curve/relative value analysis</li> <li>• Outperform – buy/add</li> <li>• Market-perform – hold/maintain</li> <li>• Underperform – sell/reduce</li> </ul>	<ul style="list-style-type: none"> <li>• Market demand</li> <li>• Benchmark vs non benchmark issue</li> <li>• Supply/demand analysis</li> <li>• Market technical analysis (flows)</li> <li>• Beta adjustment analysis</li> <li>• Current price vs fair value price</li> <li>• Price discovery</li> </ul>	<ul style="list-style-type: none"> <li>• Size of issue</li> <li>• Currency of issue</li> <li>• Maturity of issue</li> <li>• Coupon of issue</li> <li>• Curve/relative value analysis</li> </ul>

\* Emerging Market Debt Focus Areas

## Risk-management principles

Three principles guide Vanguard's risk-management activities:



**1. Commitment.** Considerable resources are committed to risk management, which we view as fundamental to Vanguard's investment process. RMG consisting of risk managers, quantitative researchers, financial analysts and data experts works closely with the portfolio managers and analysts in Vanguard's Fixed Income Group. RMG reports directly to Vanguard's chief risk officer (CRO).



**2. Humility.** No one has perfect foresight and even the safest investments can go wrong. Vanguard builds margins of safety into risk assessments, so that losses will be contained if assumptions fail. Any miscalculation is used as an opportunity to learn and recalibrate models.



**3. Execution.** Vanguard defines parameters for risk, tests assumptions and continually monitors the outcome within the portfolio. The parameters include very tight ranges around the identified risk factors, such as weight deviations (versus the index), sector, industry and countries. Execution takes place at both the qualitative and quantitative levels. The qualitative approach frames the goals and expectations for a portfolio at a high level. The quantitative approach imposes discipline, translating general expectations into concrete metrics.

### Fund facts

<b>Investment manager</b>	Vanguard Global Advisers, LLC	
<b>Management Team</b>	Vanguard Fixed Income Group	
<b>Benchmark</b>	Bloomberg Barclays Global Aggregate Credit Index Hedged	
<b>Investment objective</b>	The fund seeks to provide a moderate and sustainable level of current income by investing in a diversified portfolio of global credit bonds.	
<b>Structure</b>	UCITS domiciled in Ireland	
<b>Share class<sup>1</sup> and inception date</b>	Investor Hedged Accumulation (USD/GBP)	14 September 2017
	Institutional Hedged Accumulation (USD/EUR)	14 September 2017
	Institutional Hedged Accumulation (AUD)	18 September 2019
	Investor Hedged Income (GBP)	11 December 2019
<b>Minimum initial investment</b>	Investor Hedged Accumulation (USD/GBP)	100,000 (in currency of relevant share class)
	Institutional Hedged Accumulation (USD/EUR/AUD)	5,000,000 (in currency of relevant share class)
<b>Ongoing charges figure (OCF)<sup>2</sup></b>	Investor Hedged Accumulation (USD/GBP)	0.35%
	Institutional Hedged Accumulation (USD/EUR/AUD)	0.30%
	Investor Hedged Income (GBP)	0.35%
<b>Sectors</b>	Corporate investment-grade and high-yield, emerging markets debt (US dollar denominated and local currency), securitised commercial mortgage-backed securities, asset-backed securities, sovereign/agency, money market.	
<b>Maximum high-yield allocation</b>	10%	
<b>Currency hedging Maximum</b>	10% non-US dollar allocation	

<sup>1</sup> Additional dormant share classes are available on request. Source: Vanguard as at 28 February 2021

<sup>2</sup> The OCF administration, audit, depository, legal, registration and regulatory expenses incurred in respect of the funds

## Why Vanguard?

Vanguard firmly believes in active management. As one of the largest providers of active fixed income funds in the world, we have the scale, experience and expertise to deliver value to investors by focusing on time-tested performance.



### We're structured for success

**A focus on talent, culture and process:** Our 50+ analysts conduct rigorous sector analysis and our unique combined portfolio manager-trader model allows us to access opportunities where others can't.

**A fixed income pioneer:** we manage over \$1.7tn in active fixed income assets globally and have over 35 years' experience managing active strategies. Our scale and unique client-owned structure in the US allow us to offer lower fees so that clients keep more of their return.

**True-to-label funds:** We thoughtfully define the opportunity set for key risk and return drivers for each fund so you know what to expect.

Source: Vanguard as at 30 June 2021

Our investment process is based on our deep specialisation and collaborative culture. Our 180-strong Fixed Income Group combines global access to opportunities with local expertise, allowing us to provide consistent alpha generation over the market cycle.



### We manage for outperformance

**Diversified alpha:** Our deeply specialised yet collaborative approach reduces sector bias and improves relative-value decisions with an emphasis on bottom-up security selection and relative value.

**Intelligent risk:** Our low costs mean we aren't pressured into taking excessive top-down directional risk and instead can focus on high-conviction ideas.

**ESG integration:** We assign each credit an ESG risk rating based on our assessment of the probability of an ESG event and the potential magnitude of its impact on the issuer's credit profile. We also integrate ESG into our sector-level analysis.

## The Vanguard Fixed Income Group

The Vanguard Fixed Income Group has over 35 years of experience managing active fixed income portfolios, having launched our first active bond fund in 1982. Our philosophy emphasises rigorous, consistent and analysis-driven portfolio construction to achieve highly controlled and consistent investment results.

The Fixed Income Group has formalised a framework within which we analyse market relationships and individual credits, and continuously seek to enhance our quantitative analysis capabilities. One of the group's focus areas is forecasting individual issuer credit trends. Depending on market conditions, the team also concentrates on changes in credit spread

and market volatility as well as yield-curve reshaping. Additionally, the Fixed Income Group closely monitors global economic activity and monetary policy.

Since inception, the Fixed Income Group has sought to refine its techniques for delivering consistent performance, tightening risk control and maintaining transparency. We are continually strengthening our risk management process to ensure we capture the critical drivers of performance.

**Learn more about active fixed income management at Vanguard**

## Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

The Vanguard Global Credit Bond Fund may use derivatives, including for investment purposes, in order to reduce risk or cost and/or generate extra income or growth. For all other funds they will be used to reduce risk or cost and/or generate extra income or growth. The use of derivatives could increase or reduce exposure to underlying assets and result in greater fluctuations of the Funds net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

Some funds invest in securities which are denominated in different currencies. Movements in currency exchange rates can affect the return of investments.

For further information on risks please see the "Risk Factors" section of the prospectus on our website at <https://global.vanguard.com>.

## Important information

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For further information on the fund's investment policies, please refer to the Key Investor Information Document ("KIIDs"). The KIID for this fund is available in local languages, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>.

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