



## Quarterly commentary

Vanguard Global Multi-Factor Fund/ETF

### Commentary – Factor performance and fund exposure

The market rebounded in the second quarter after steep falls during the first quarter. The overall market has seen significant volatility over the past year with divergence in factor performance.

Large-cap has dramatically outperformed small-cap over the past 12 months, notwithstanding a reversal over the June quarter. Momentum and quality continued strong run over the past year as the top performing factors for the quarter. Despite providing a positive absolute return, value underperformed the broader market over the past quarter and one year. Low volatility underperformed as investors moved from defensive equities into high beta equities.

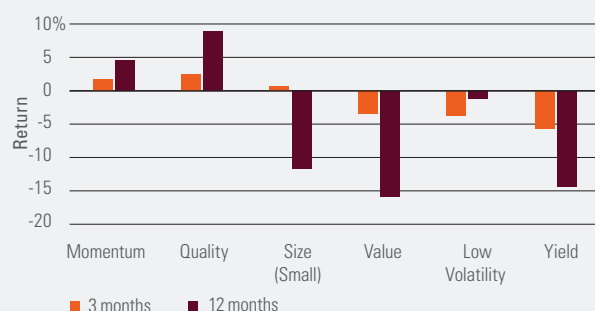
Factor investing is inherently active and we use an actively implemented portfolio management process. Spikes in volatility and market dislocations like the ones we saw recently highlight the benefits to our approach. Such sharp changes usually lead to changes in the make up of a factor which can result in factor drift. Our process allows us to use turnover and cash flows to adjust the portfolios and maintain overall exposure to the desired factor, rather than one that is struck by an index on a set rebalancing schedule. Through this process we are able to ensure a more consistent exposure to the targeted factors.

### Commentary – Fund/ETF performance

The fund/ETF has underperformed its benchmark over the past quarter and one year. From a factor lens, the consistent overweight exposure to small-cap and value has detracted from the 12 month performance, while the exposure to momentum and quality aided returns. Both the small-cap and value factors have seen a significant underperformance over the past year.

From a sector perspective, the overweight exposure to consumer discretionary and industrials were the largest contributors to return over the quarter. An underweight to technology was the largest detractor on returns.

### FTSE Developed Factor Indexes, return relative to the broad market



Source: Morningstar Direct, FTSE Global Factor Index Series. The FTSE Global Factor Index Series is a family of benchmarks designed to represent the performance of specific factor characteristics. FTSE's factor definitions may differ from those of the investment manager's. Past performance is not an indication of future performance.

### Vanguard factor definitions

#### Value

- Low price relative to fundamentals
- Book to Price
- Forward Earnings to Price
- Cash Flow to price

#### Quality

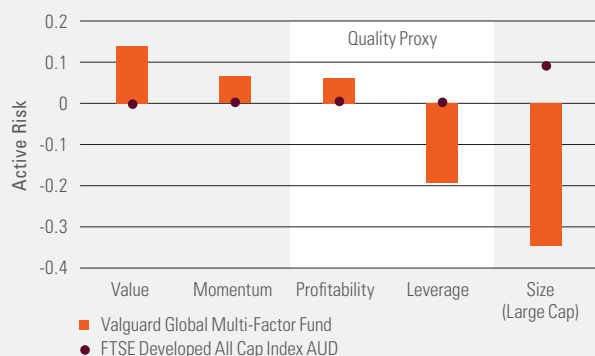
- Strong fundamentals
- Return on equity
- Gross profitability
- Balance sheet quality

#### Momentum

- Strong recent performance
- 11 month momentum
- 6 month momentum
- 1 year risk adjusted momentum

Source: Vanguard.

### Vanguard Global Multi-Factor Fund average active factor exposure, Axioma risk model



Source: Vanguard, Axioma. Average 12 month daily exposure. Factors use standard Axioma definitions. Axioma factor definitions may differ from those of the investment manager's and are not specifically considered during the portfolio management process. For illustration only. The investment manager's bottom-up multi-factor construction initially removes the most volatile stocks in the universe. Individual stocks are then selected according to their equally weighted ranking across the three factors.



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1. Refer to the Morningstar Australasia Essentials Licensing Agreement dated 30 March 2012 and Morningstar Essential Usage Guidelines.

# Vanguard Global Multi-Factor Fund

Key fund facts	
Management fee	0.35% p.a.
Indirect costs	0.01% p.a.
Buy spread	0.08%
Sell spread	0.08%
Inception date	08 April 2019
Income distribution	Quarterly
Wholesale class size	\$4.2 million
Total fund size	\$20.6 million
Number of holdings	765

Trading information	
APIR code	VAN3759AU
Minimum investment	\$500,000 (No minimums apply for platforms)
Platform availability	For platform availability visit <a href="http://vanguard.com.au/mastertrust">vanguard.com.au/mastertrust</a>

Benchmark information	
Benchmark (Bmk)	FTSE Developed All-Cap in Australian dollars Index <sup>D</sup>
Number of holdings	5,641

## Investment objective

Vanguard Global Multi-Factor Fund seeks to provide long-term capital appreciation and aims to outperform the FTSE Developed All Cap Index (with net dividends reinvested) in Australian dollars before taking into account fees, expenses and tax.

## Fund overview

The Fund invests in a group of global equity common stocks with the potential to generate higher returns relative to the broad equity market. A rules-based quantitative process is employed to evaluate securities based on three factors:

- Momentum- stocks that exhibit strong recent performance.
- Quality- stocks that exhibit strong profitability and healthy balance sheets.
- Value- stocks with low prices relative to fundamental measures of value.

The portfolio includes a diverse mix of companies representing many different market sectors, industry groups, and countries. The portfolio manager uses a rules-based quantitative model to evaluate all of the securities in an investment universe comprised of large, mid and small capitalisation stocks to construct an equity portfolio that seeks to achieve exposure to these factors. After applying an initial screen to remove the most volatile stocks in the universe, stocks are then selected according to their equally weighted ranking across the three factors.

The investment universe is comprised of securities in the FTSE Developed All-Cap Index (comprised of large, mid and small capitalisation securities in developed markets), and the Russell 3000 Index (comprised of the 3,000 largest publicly held companies in the US, and used to provide more access to US mid and small capitalisation securities). The Fund may also invest in securities that cease to be or are expected to be included in the indices.

## Performance return<sup>A, B</sup> (%)

	Fund gross	Bmk	Fund total	Distb'n	Growth
1 month	-1.34	-1.03	-1.37	0.51	-1.88
3 months	5.89	6.49	5.80	0.55	5.25
6 months	-14.68	-4.60	-14.83	0.73	-15.56
1 year	-8.39	3.88	-8.71	1.32	-10.03
3 years (p.a.)	N/A	N/A	N/A	N/A	N/A
5 years (p.a.)	N/A	N/A	N/A	N/A	N/A
10 years (p.a.)	N/A	N/A	N/A	N/A	N/A
Inception (p.a.)	-5.88	5.61	-6.21	1.55	-7.76

## Year to year gross return<sup>A, B</sup> (%)

	Dec - Dec		June - June	
	Fund	Bmk	Fund	Bmk
YTD	-14.68	-4.60	-8.39	3.88
2020	N/A	N/A	-8.39	3.88
2019	8.79	12.09	N/A	N/A

## Income distribution<sup>C</sup>

Quarter ended	Amount (CPU)	Reinvestment price
30 June 2020	0.4748	\$0.9056

## Notes

- <sup>A</sup> Past performance is not an indication of future performance.
- <sup>B</sup> Returns assume reinvestment of all distributions. Returns for periods longer than 1 year are annualised. Fund gross returns are before management fees and taxes, but after transaction and operational costs. Fund total return is the fund gross return less management fees. Index returns do not allow for taxes, management, transaction and operational costs.
- <sup>C</sup> Past distributions are not an indication of future distributions.
- <sup>D</sup> The Vanguard Global Multi-Factor fund is actively managed and does not intend to track or replicate the performance of the benchmark. Benchmark data is for reference only.

# Vanguard Global Multi-Factor Fund

## Characteristics

	Fund	Bmk
Number of holdings	765	5,641
Median market cap	\$16.9B	\$78.9B
Price/Earnings ratio	15.0x	19.6x
Price/Book ratio	1.9x	2.2x
Return on equity ratio	14.6%	14.9%
Earnings growth rate	12.3%	11.9%
Equity yield (dividend)	2.4%	2.3%

## Top 10 holdings

1. eBay Inc.
2. Humana Inc.
3. Micron Technology Inc.
4. Target Corp.
5. Lam Research Corp.
6. Biogen Inc.
7. Lockheed Martin Corp.
8. Kimberly-Clark Corp.
9. General Mills Inc.
10. AbbVie Inc.

The top 10 holdings represent 5.0% of the total fund.

## Sector allocation (%)

	Fund	Bmk
Industrials	20.5	13.5
Financials	19.9	17.6
Consumer Goods	14.1	10.9
Technology	12.9	20.2
Health Care	12.0	13.2
Consumer Services	11.4	11.9
Basic Materials	5.8	3.9
Telecommunications	1.7	2.3
Oil & Gas	1.2	3.3
Utilities	0.5	3.2

## Market allocation (%)

	Fund	Bmk		Fund	Bmk
United States	64.1	63.4	Denmark	1.3	0.7
Japan	8.7	8.3	Hong Kong	1.2	1.1
United Kingdom	4.6	4.7	Netherlands	1.0	1.3
Switzerland	2.7	3.0	Finland	1.0	0.4
Sweden	2.7	1.1	Italy	0.9	0.8
Canada	2.6	3.2	Norway	0.8	0.2
Korea	2.2	1.6	Singapore	0.5	0.4
Germany	1.7	2.8	Belgium	0.3	0.3
France	1.5	3.0	New Zealand	0.2	0.1
Australia	1.4	2.3	Other	0.6	1.3

## Glossary

**Median market cap** is the midpoint of market capitalisation (market price multiplied by the number of shares outstanding) of the shares in the fund. Half the shares in the fund will have higher market capitalisation, half will have lower.

**Price/Earnings ratio (P/E ratio)** is a measure of the market value of a share compared to the earnings of the company. A share with a price of \$10, and earnings last year of \$1 a share, would have a P/E ratio of 10. For a fund, the ratio is the weighted average P/E ratio of the shares it holds. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. Companies with negative earnings are excluded from the calculation.

**Price/Book ratio** is calculated by dividing the current market price of the share by the book value per share of the company.

**Return on equity ratio** is a measure of how much profit a company generates relative to its shareholders' equity. For a fund, the ratio is the weighted average return on equity ratio of the shares it holds.

**Earnings growth rate** is a measure of the trailing Earnings Per Share growth for a given company and share. For a fund, the rate is the weighted average earnings growth of the shares it holds.

**Equity yield (dividend)** is the dividend income earned by shares, expressed as a percentage of the market price of those shares. For a fund, the yield is the weighted average equity yield of the shares it holds.

## For more information:

Our telephone service is available from 8am to 6pm, Monday-Friday AEST.

### For personal investors:

Call 1300 655 101

Email [clientservices@vanguard.com.au](mailto:clientservices@vanguard.com.au)

### For advisers:

Call 1300 655 205

Email [adviserservices@vanguard.com.au](mailto:adviserservices@vanguard.com.au)

### For institutional investors:

Call 1300 655 102

Email [institutional@vanguard.com.au](mailto:institutional@vanguard.com.au)

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