Manager Select Series

As at quarter end 30 September 2020

Quarterly commentary

Vanguard Active Emerging Market Equity Fund

Fund overview

The fund seeks to provide long-term capital growth by investing primarily in equity securities of companies located in emerging markets around the world.

The fund aims to pick the best companies in each industry by employing an industry specific, bottom-up research to anticipate fundamental changes and yield better stock level insights. Wellington uses a team approach, applying the expertise of their global industry analysts (GIAs) that have developed in-depth industry expertise in emerging markets. Each GIA applies a framework that is most effective for the industry they cover. The portfolio invests in over 100 "best idea" stocks and maintains broad diversification across all industries as well as diversification by investment style.

Investment expertise – The fund allows investors to tap into the investment expertise of Wellington's GIAs. This is a group, with an average of nearly two decades of professional experience, leverage their deep industry knowledge to create a portfolio of their best emerging market stock ideas.

Best approach to each industry – Each GIA follows a unique investment philosophy, process and analytical framework that is most effective for the industry they cover.

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Performance

	3m	6m	1yr	3yr	5yr	since inception
	%	%	%	% p.a.	% p.a.	%
Fund	4.39	10.05	1.10	n/a	n/a	2.98
Benchmark	5.24	10.47	4.02	5.55	8.52	6.85
Outperformance	-0.85	-0.42	-2.91	n/a	n/a	-3.87

Inception date: 3rd September 2019.

Returns are in AUD and assume reinvestment of all income distributions. Past performance is not an indication of future performance. Returns for periods longer than 12 months are annualised. Fund returns are calculated after allowing for management and transaction costs. The fund is actively managed and does not intend to track or replicate the performance of the benchmark. Inception date September 3rd, 2019. Benchmark is the MSCI Emerging Market Index.

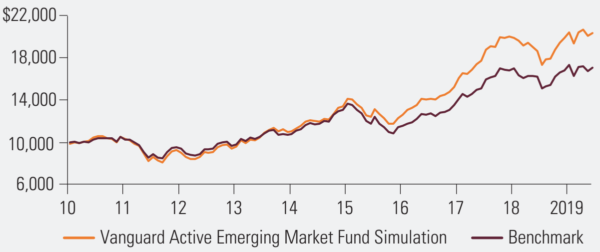
Fund details

APIR code:	VAN0221AU
Inception date:	3 September 2019
Portfolio manager:	Wellington Management Australia Pty Ltd
Investment style:	Core - All Cap
Benchmark:	MSCI Emerging Market Index (with net dividends reinvested) in Australian Dollars
Currency:	Australian Dollars
Distribution:	Quarterly
Share classes:	Wholesale
Active share[1] (expected):	70-80%
Management fee:	Base Fee 0.88% Performance Fee +/- 0.165%
Strategy:	The Vanguard Active Emerging Market Equity Fund's strategy closley aligns with Wellington's Emerging Market Research Equity Strategy, which has been operating since March 2010.

1 Active share measures how much an equity portfolio's holdings differ from the benchmark index constituents.

Simulated past growth

March 2010 through September 2019



Based on the Wellington Emerging Market Research Equity Composite, in Australian Dollars. Benchmark: MSCI Emerging Market Index. The returns presented above are net of fees and reflect the reinvestment of dividends and interest. The results are for illustration purposes only and include an estimate of the fees that may have been charged by the Vanguard Active Emerging Market Equity Fund as described in the PDS. Simulation is from March 2010 to September 2019. The simulation end date roughly aligns to the inception date of the fund. Please refer to the disclaimer for further details. Source: Wellington & Vanguard.

Portfolio overview | Data as at 30 September 2020

Portfolio characteristics

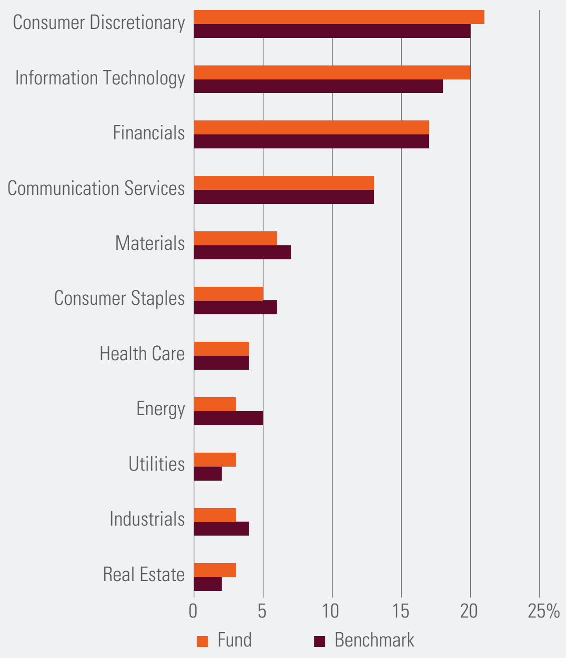
Fundamentals	Fund	Benchmark
Number of holdings	147	1,387
Median market cap	$52.69 B	$46.23 B
Equity yield (dividend)	2.2%	2.4%
Price/Earnings ratio	17.8x	16.9x
Price/Book ratio	1.92x	1.79x
Return on equity ratio	17.6%	16.8%
Earnings growth rate	16.1%	13.9%
Turnover rate (as at 30 September 2020)	n/a	n/a

Top 10 stock holdings

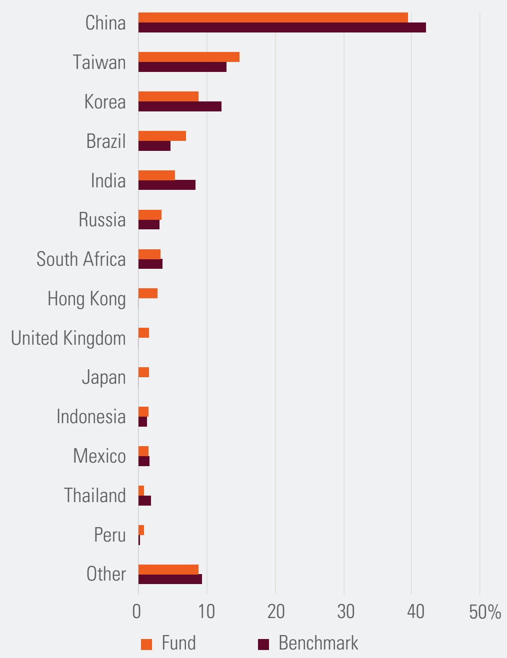
	Company	%
1	Alibaba Group Holding Ltd.	10.4%
2	Tencent Holdings Ltd.	7.6%
3	Taiwan Semiconductor Manufacturing Co. Ltd.	6.3%
4	Samsung Electronics Co. Ltd.	3.5%
5	AIA Group Ltd.	1.6%
6	MediaTek Inc.	1.5%
7	Ping An Insurance Group Co. of China Ltd.	1.4%
8	China Mengniu Dairy Co. Ltd.	1.3%
9	China Construction Bank Corp.	1.3%
10	Petroleo Brasileiro SA	1.3%

Top 10 holdings represent approximately 36% of the total fund

Sector allocation



Market allocation



Notes: Sector categories are based on the Global Industry Classification Standard system ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period. Benchmark is the MSCI Emerging Market Index. May exclude any temporary cash investments and equity index products.

Broad market review

Emerging markets equities rose in the third quarter, fuelled by increased optimism about the global economic recovery amid looser quarantine restrictions and continued fiscal and monetary policy support.

Asian equities generated strong returns despite indications that U.S.-China relations deteriorated. Taiwan was driven by ongoing strength in technology export orders and stronger domestic demand for services. South Korea also benefited from strength in technology, and an uptick in the auto industry. China enjoyed a pickup in industrial production and improved consumer sentiment.

EMEA finished the quarter in positive territory. Russia ended higher amid higher oil prices but was pressured by rising COVID-19 case counts and elevated geopolitical risks. Hungary, the Czech Republic and Poland declined amid a sharp rise in European coronavirus cases in September. South Africa settled lower on concerns about its financial stability and rising debt.

Latin American equities produced mixed results in the third quarter. Argentina rallied on news that the government had reached an agreement with top creditors to restructure U.S.$65 billion of debt. Peru and Colombia also posted positive results, supported by firmer commodity prices. Brazil declined amid ongoing financial uncertainty, as the government sought to increase public spending to mitigate the economic impact of the pandemic. Chile was the weakest performer, with high COVID-19 case counts and recurrent lockdowns continuing to disrupt key economic activities.

Fund highlights

Performance

The fund returned 4.39% through the quarter underperforming the benchmark by 0.85%, which gained 5.24%.

Within the index, four out of 11 sectors rose over the quarter. Consumer discretionary and information technology were the top performing sectors, while utilities and financials were the bottom performing sectors.

Weak selection in energy and information technology was partially offset by selection in health care, communication services and industrials. On a country basis, strong stock selection in Russia, Taiwan and South Africa was partially offset by selections in Argentina, China and India.

Within industrials and health care, our top relative contributors were an overweight to Airtac International and an out-of-benchmark allocation to Apollo Hospitals, respectively. Within energy and information technology, our top relative detractors were an overweight to YPF and an out-of-benchmark allocation to Formosa Sumco Techno, respectively.

Shares of Airtac International, a manufacturer and seller of pneumatic equipment, ended the quarter higher. The company announced strong second quarter earnings that outperformed expectations. June sales were up substantially year-over-year as the pneumatic market demand recovers from the coronavirus pandemic.

Shares of Argentine energy company YPF fell over the period after the company announced worse-than-expected second-quarter results. The company reported revenue of ARS133.6 billion, down 17% year–over-year, EBITDA of ARS11.6 billion, down 74% year-over-year, as well as a net loss of ARS85.1 billion. This is due to the pandemic as Argentina had imposed a nationwide lockdown hurting domestic production and demand.

Sector themes & positioning

Technology – hardware and equipment: Escalating trade tensions between the U.S. and China continued to be top of mind this quarter. In August, the U.S. Department of Commerce amended its Foreign Direct Product rule to further restrict companies that use U.S. technology from supplying Huawei. The Global Industry Analyst (GIA) has focused on securities expected to withstand near-term volatility, particularly those with exposure to data centre and cloud networking, consumer electronics/connected devices, and the 5G smartphone upgrade cycle. Positions are concentrated in high conviction names such as MediaTek, Realtek, Luxshare, and Accton where they still have differentiation in the future trajectory of earnings compared to consensus.

Technology – software and internet: Geopolitical tensions between China and the U.S. have affected the software and internet space as well, with the U.S. citing data privacy and security concerns in their decision to restrict certain popular Chinese apps such as WeChat and TikTok. The GIA continues to believe COVID-19 will lead to increased digital penetration and adoption of many processes such as digital payments, mobile gaming, cloud services and ecommerce and continues to own high conviction names in size, such Alibaba, Tencent, and Nexon.

Energy: Broadly speaking, the investment manager is starting to see an improvement in oil fundamentals, especially relative to the first quarter. This improvement is being driven by supply cuts and a pickup in economic activity. The team is leaning into stocks that have upside with rising oil prices such as China Oilfield Services and YPF.

Financials: Despite economic activity levels improving in many emerging markets, the pandemic itself is not showing signs of coming under control in select geographies and the range of outcomes for EM banks continues to be wide. The GIA continues to believe this is a great time to buy strong franchises at a steep discount to where they have historically traded.

Recent transactions have been focused on China and India, reducing exposure to Russian banks, and adding to select opportunities in Latin America that have lagged the broader recovery such as Itau Unibanco in Brazil and Creditcorp in Peru.

Healthcare: the GIA remains overweight in China due to its position in the COVID-19 recovery and the domestic economy moving towards more normalised levels. While trading was limited on the quarter, we are mindful of valuations and less upside in some areas. They are focused on owning high quality companies with supportive government policy including select biotech and medtech names as well as contract research organisations (CROs). They recently initiated a position in Amoy Diagnostic, a leading cancer molecular diagnostic company in China, and Hangzhou Tigermed, a leading clinical research organisation in China.

Real Estate: Commercial, portions of residential, and hotel owners continue to face near-term challenges, but opportunities are presenting themselves. The GIA is favouring select Asia-based logistic warehouse developers, such as ESR Cayman, that are benefiting from the structural tailwind of growing online consumption in this region. Additionally, they are overweight in a handful of Chinese residential homebuilders which we believe will benefit from government policy support such as Shimao and China Overseas Land and Investment Limited.

Consumer: The GIA remains concentrated in consumer staples holdings, leaning into long-term compounders. Domestic travel recovery in China has been improving as various local governments are strongly supporting recovery of tourism within the country. They remain overweight in travel names, which are expected to benefit as they emerge from the crisis with higher market share, greater operating efficiency, and better brand perception. Additionally, they have maintained exposure to ecommerce and online education names despite strong performance year-to-date.

Fund outlook

Global markets remained volatile in the third quarter but ultimately advanced as investors remain drawn to equities amid historically low interest rates. This year, equity markets have seen both a historic drop and a remarkable recovery. Throughout this turbulent period various sectors have led and lagged as allocators attempt to navigate when, and to what degree, economies will shift in a post-COVID world.

The lasting impacts of COVID on enterprise and consumer behaviour are key topics for debate amongst Wellington's GIAs and broader market participants. The uncertainty fuels dispersion in analyst estimates worldwide, which can lead to pricing inefficiencies in the market. The belief that deep fundamental research, industry expertise, and breadth of coverage of the analyst managed approach puts the strategy in a strong position to capitalise on these inefficiencies.

There are a number of macro developments on the horizon that can have a profound effect on various industries worldwide including:

- The work of pharmaceutical companies toward a COVID-19 vaccine and the related infrastructure to distribute doses.
- Worldwide stimulus efforts and central bank policies as countries deal with elevated unemployment levels and an economic recession.
- The U.S. presidential election and its potential impact on geopolitical and trade relationships worldwide.

The GIAs are aware of the risks and opportunities associated with these macro events, but their focus remains on how these developments affect industries and companies. For example, how might revenue generation, costs, regulation, and supply/demand dynamics change as a result of these macro event outcomes. These insights are then incorporated into the fundamental assessment of a business. They remain focused on identifying companies within their coverage areas that are best positioned for growth in both the current environment and years to come.

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