Vanguard

Manager Select Series

As at quarter end 30 June 2020

Quarterly commentary

Vanguard Active Global Credit Bond Fund

Fund overview

The Vanguard Active Global Credit Bond Fund seeks to provide investors with a moderate and sustainable level of income by investing in a well-diversified portfolio of global credit bonds.

The fund also seeks to outperform the Bloomberg Barclays Global Aggregate Credit Index hedged into Australian dollars over the market cycle, by employing a fundamental approach to identifying the most attractive investment opportunities across the global credit universe.

Experienced investment team – Vanguard's Fixed Income Group (FIG) has over 35 years of experience managing active fixed income portfolios, having launched its first active bond fund in 1982. FIG's philosophy emphasises a rigorous and consistent portfolio construction, driven by analysis, to achieve highly controlled and cost-effective investment results.

Global reach and specialist knowledge – The fund is managed globally by a community of teams based in the US, UK, Australia and Hong Kong. Trading, management and research is conducted across all regions. This gives FIG's global teams of traders 24-hour market access so local experts can make timely decisions, while their portfolio managers and research analysts provide their specialist in-market knowledge to maximise value for investors.

Highly diversified – The fund is highly diversified with investments focused on global investment grade credit markets.

Keep more of your returns – Investors can't control the markets, but they can control the costs of investing.

Fund details

APIR code:	VAN3932AU
Inception date:	18 September 2019
Portfolio manager:	Vanguard Investments Australia
Structure:	Australian Managed Investment Scheme
Benchmark:	Bloomberg Barclays Global Aggregate Credit Index hedged into AUD
Currency:	Hedged to AUD
Distribution:	Quarterly
Minimum initial investment:	$500,000
Management fee:	0.40%

Performance

	3m	6m	1yr	3yr	5yr	since inception
	%	%	%	% p.a.	% p.a.	%
Fund	8.80	5.56	n/a	n/a	n/a	6.86
Benchmark	6.57	2.64	5.50	5.02	5.34	3.56
Outperformance	2.23	2.93	n/a	n/a	n/a	3.30

Inception date: 18 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. Benchmark data is for reference only. Inception date 18 September, 2019. Benchmark is the Bloomberg Barclays Global Aggregate Credit Index hedged into AUD.

Portfolio overview | Data as at 30 June 2020

Portfolio characteristics

Fundamentals	Fund	Benchmark
Number of issuers	459	3989
Number of holdings	804	16,319
Yield to maturity	1.91%	1.74%
Weighted average coupon	3.45%	3.21%
Weighted average maturity	9.7 years	9.6 years
Weighted average credit quality	A-	A-
Effective duration	6.91 years	7.13 years
Running yield	2.87%	2.88%

Sector allocation

Issuer	Fund	Benchmark
Corporate	70.3%	76.1%
Gov-Related	14.0%	23.8%
Cash	6.3%	0.0%
Treasury	5.7%	0.0%
Securitized	3.6%	0.0%
Other	0.1%	0.0%

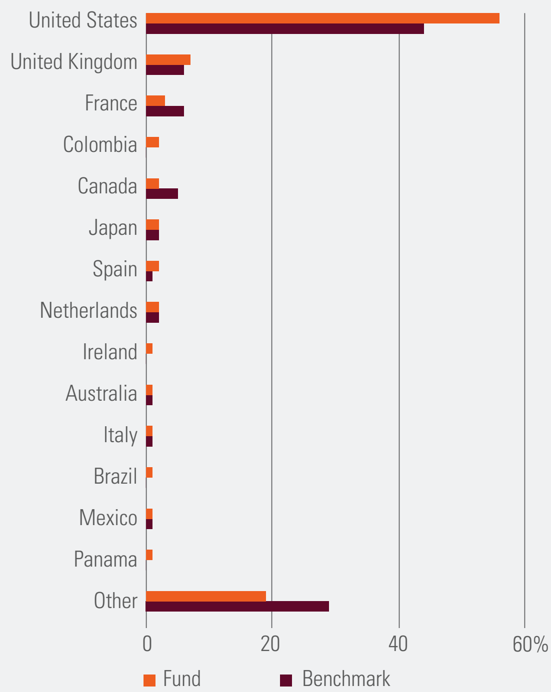
Distribution by credit quality

Maturity	Fund	Benchmark
AAA	6%	9%
AA	5%	12%
A	30%	35%
BBB	48%	43%
Less than BBB	4%	0%
Not rated	6%	0%

Distribution by credit maturity

Credit Maturity	Fund	Benchmark
Under 1 Year	7%	0%
1 - 5 Years	32%	40%
5 - 10 Years	34%	30%
10 - 15 Years	7%	6%
15 - 20 Years	6%	6%
20 - 25 Years	3%	6%
Over 25 Years	12%	12%

Country exposure



Notes: Please see back page.

Broad market review

The fastest market sell-off in history during the first quarter of 2020 gave way to one of its strongest rallies during the second quarter, following unprecedented levels of support from central banks around the world.

With interest rates pinned near zero, the combined impact of central bank bond buying and a steady global demand for yield drove credit spread levels significantly tighter, generating positive returns across nearly all segments of the global bond market.

Despite the considerable uncertainty surrounding the shape and nature of an economic recovery, markets remained forward-looking in the face of weak economic data. Investors were optimistic that the current and future commitments from monetary and fiscal authorities would be enough to bridge the gap in economic activity during a period where the primary concern was public health.

In developed countries' government bond markets, the significant stimulatory central bank actions to support the functioning of bond markets contributed to steepening of yield curves and relatively stable longer-term bond yields.

In credit, the relative rally in government bonds, along with increased monetary policy, helped spreads recover to near pre-COVID-19 levels. The US high yield and asset-backed security markets recovered considerably since the end of March. US and European investment-grade bonds also recovered in line with the aforementioned markets, but from slightly less elevated levels. Overall, the Bloomberg Barclays Global Aggregate Credit Index's spreads tightened 95 basis points for the quarter.

Fund performance and positioning

Vanguard Active Global Credit Bond Fund outperformed its benchmark, the Bloomberg Barclays Global Aggregate Credit Index Hedged, for the quarter.

The outperformance stemmed from the fund's relatively more defensive positioning leading up to the COVID-19 crisis. This allowed the manager to capitalise on new opportunities that emerged with valuations at their most attractive levels in many years.

Greater risk was reintroduced to the fund across all credit sectors, helping performance. Emerging market bonds and lower-quality US investment-grade allocations were the largest contributors to relative returns. These gains were partially offset by the rally in developed-market non-corporate bonds, in which the fund was underweight.

Outlook

The climb out of a global recession will be a lengthy process and the trajectory and pace of any corporate recovery will likely be led by the success of lockdown-easing measures. This will vary significantly between corporate sectors and issuers, creating an environment best suited to bottom-up security selection.

The most important dynamic ahead will be the tug-of-war between the substantial amount of central bank support provided and the harsh realities of economic contraction. While central banks may not provide new or additional programs of support, their commitment to a well-functioning market should provide a brake to any large-scale downturn/excessive spread widening.

Overall, we expect credit spreads to trade in a relatively confined range. However, should volatility increase, we are well prepared to amend our risk profile and capitalise on new opportunities. We believe the 'easy money' has been made in the investment-grade segment of the market and the ability to generate outperformance will be far more challenging over the less-liquid summer months. The need for high-quality credit research and security selection, which is fundamental to our approach, is critical.

In our view, the corporate-bond market has further room to run given the strong technical indicators of supply and demand. Although investment-grade valuations have recovered a long way already, they still look cheap in a world of financial instability.

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Notes to page 2: Changes in yields may reflect rounding. The PTR (Portfolio Turnover Rate) approach considers the total security purchases and sales, the total subscriptions and redemptions and the average net assets of the fund to calculate the turnover figure. Credit-quality ratings for each issue are obtained from Barclays using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used. The allocations are subject to circumstances such as timing differences between trade and settlement dates of underlying securities that may result in negative weightings. The fund may also employ certain derivative instruments for cash management or risk management purposes that may also result in negative weightings. Allocations are subject to change. Cash includes physical cash on the account, cash like instruments (such as ultra-short term treasury bonds) and derivative instruments. Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) is the product issuer. We have not taken yours or your clients' circumstances into account when preparing this presentation so it may not be applicable to the particular situation you are considering. You should consider yours and your clients' circumstances, and our Product Disclosure Statements ("PDSs"), before making any investment decision or recommendation. You can access our PDSs at vanguard.com.au or by calling 1300 655 205. Past performance is not an indication of future performance. This presentation was prepared in good faith and we accept no liability for any errors or omissions. The Fund will (at least initially) invest substantially all of its assets in the Australian Dollar Hedged share-class ("AUD Hedged Class") of the Vanguard Global Credit Bond Fund ("Irish Fund"). The Irish Fund is a sub-fund of Vanguard Investment Series PLC, an investment company constituted as an umbrella fund with segregated sub-funds under the laws of Ireland and regulated by the Central Bank of Ireland under the European Communities (undertakings for Collective Investment In Transferable Securities) Regulations 2011 (as amended). This material is directed to wholesale clients as defined in the Corporations Act 2001 (Cth), and should not be distributed to, or relied upon by investors who are not wholesale clients. The funds or securities referred to herein are not sponsored, endorsed, or promoted by Bloomberg Barclays, and Bloomberg Barclays bears no liability with respect to any such funds or securities. The PDS contains a more detailed description of the limited relationship Bloomberg Barclays has with Vanguard and any related funds.

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