

## Emerging Markets 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.

**“There are many highly attractive active investment opportunities among emerging market sovereign bonds, provided you approach the asset class with the right investment process and the right risk-adjusted framework.”**

**Nick Eisinger, emerging markets lead strategist**

### The case for emerging market bonds

Emerging market bonds can deliver investors strong risk-adjusted returns and act as an attractive yield generator in a credit portfolio.

The Vanguard Emerging Markets Bond Fund seeks to provide total return while generating a moderate level of income by investing primarily in bonds of issuers in emerging market countries. The fund aims to offer:



- **Consistent returns** – The fund aims to achieve consistent long-term outperformance by identifying opportunities in multiple emerging markets across various maturities, currencies, yields and qualities.



- **Risk control** – The management maintains a broad variety of focused opportunities, avoiding the potential for significant drawdown and with a bias towards liquidity.



- **Fundamental research** – The managers believe that the best opportunities are to be found through rigorous, evidence-driven research and relative-value analysis.

### Transparent and true-to-label

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

- **Consistent:** the fund has a similar risk and asset-class profile to the assets it represents.
- **Reliable:** our managers strive to generate alpha over the market cycle.
- **Flexible:** our investment guidelines allow flexibility to add value while staying true to the character of the fund.
- **Scale:** As one of the largest providers of fixed income funds in the world, we have the scale to keep our costs competitive.

## Investment policies

1. Under normal circumstances, the fund will invest at least 80% of its assets in fixed income securities of issuers that are tied economically to emerging market countries.
2. The fund seeks to have a majority of its assets denominated in or hedged back to the US dollar but has the ability to invest in bonds denominated in a local currency on an unhedged basis.
3. The fund may invest no more than 10% of its assets in unhedged global currencies to facilitate proper risk management and execution of the investment objective and strategies of the fund.

## Emerging Markets and Sovereign Debt team

The fund is managed by the Emerging Markets and Sovereign Debt team within the Vanguard Active Fixed Income Group (part of the global Fixed Income Group). The seasoned, dedicated team is co-led by Daniel Shaykevich (portfolio manager) and Nick Eisinger (emerging markets lead strategist).

Our co-led team structure allows for a strong integration of portfolio management, trading and fundamental research and strategy. The portfolio manager-and analyst-led team approach ensures that every trade idea is a well-vetted active decision that fits the portfolio to maximise risk-adjusted returns while controlling downside risks.

## Team-based investment approach

The team includes portfolio managers, credit research analysts, traders, risk management professionals and economists that collaborate with their colleagues across the US, the UK and Asia. Our approach is designed to ensure that our strategy and risks in the portfolio are well understood by each team member, ensuring the global trading desks can take advantage of opportunities around the clock.

To mitigate key-man risk, Vanguard takes a team-based approach to investment management, avoiding a "star manager" system. Each portfolio manager is cross-trained and can carry out investment management responsibilities across all relevant portfolios. This approach ensures fund management continuity and consistency over the long term.

Vanguard has a global investment platform that employs the same daily, disciplined and tightly risk-controlled approach. Trading desks in the US, the UK and Australia manage and trade fixed income assets across the UK-and

Ireland-domiciled product ranges. This global platform allows Vanguard to trade assets locally; for instance, the London desk handles portfolio management and trading functions for European bonds.

Regardless of location, the portfolio management teams use the same investment philosophy and approach, which is supported by a single, global investment management platform that combines portfolio management, trading and operations tools. One of the many benefits of this global integration is the ability to provide contingency trading and coverage for different desks located around the globe. Vanguard traders and portfolio managers use multiple trade execution systems. If one fails, they can use an alternative.

A unique aspect of Vanguard is that our portfolio managers are also traders and the trading and portfolio management functions are integrated into one team. Portfolio managers sit alongside the dedicated index traders on the trading desk. Complementing our trading operations and working collaboratively with our portfolio management team is the middle office team. They handle cash reconciliation, confirmation of trades, reconciling corporate actions and mortgage allocations, all in support of the trading activities.

## STRATEGY AND PROCESS

### Investment philosophy

Our methodology for investing is based primarily on evaluating the fundamentals and technicals of credit curves; we believe our research resources, market relationships and quantitative tools allow us to generate consistent levels of alpha over the long term.

Our process is also designed to be dynamic and flexible – as such, we do not have any particular bias to duration or quality, but these factors are used as inputs into how we believe a particular credit is priced.

We do have a liquidity bias, as maintaining higher-than-average portfolio liquidity allows us to take advantage of more of the opportunities that the market provides.

We also may hold higher cash balances than some peers for the same reason. Above all, our process is focused on identifying relative-value opportunities and reducing dependence on market directionality.

Further, we have a number of quantitative tools designed to identify opportunities for market directional, country selection and security-level exposure, but these are screens rather than black-box models.

## Vanguard Emerging Markets Bond Fund: key features

**Relative-value approach:** The Emerging Markets and Sovereign Debt team seeks to identify and exploit the most attractive risk/reward opportunities. They focus on bottom-up selection opportunities, taking into account the most attractive areas of emerging markets in terms of credit, curve and instrument. The fund is designed and managed within a risk-adjusted approach, focusing on alpha without taking significantly more risk than required.

**Separates alpha from beta:** The Emerging Markets and Sovereign Debt team uses macro and micro drivers of emerging markets to identify securities that have the greatest odds of producing alpha while reducing reliance on overall market direction.

**Diversified benchmark:** The most common benchmark across competing active funds is the J.P. Morgan EMBI

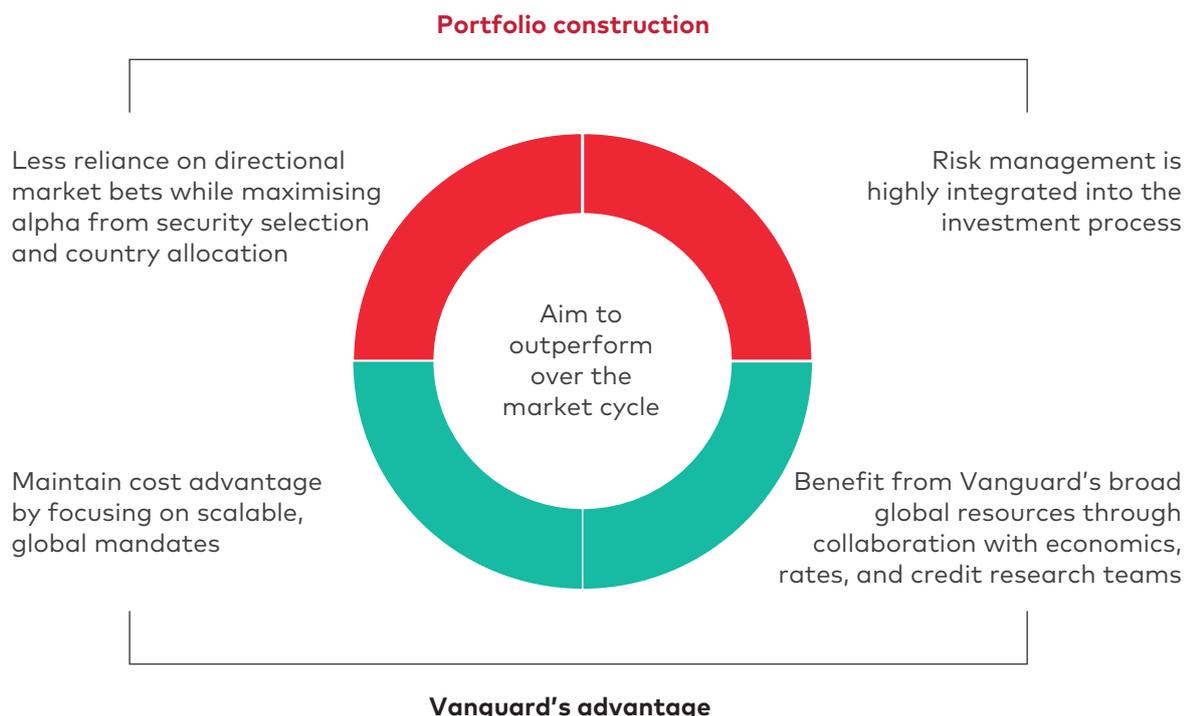
Global Index. The managers of the Vanguard fund have chosen to perform against the J.P. Morgan EMBI Global Diversified Index as it better aligns with the fund's investment approach. The two J.P. Morgan indexes contain the same basket of securities but differ in their allocations across these securities. This promotes lower concentration and more diversification in the fund.

**Global investment platform:** Vanguard has a global investment platform that employs the same daily, disciplined and tightly risk-controlled approach. Trading desks in the US, the UK and Australia manage and trade fixed income assets. This global platform allows Vanguard to trade assets locally while credit research takes place in the region where the issuer is based. This allows both local research and best execution.

## Emerging market debt portfolio construction and Vanguard's advantage

Vanguard's investment process is centred on four key areas:

- Diversified sources of alpha that drive consistent performance.
- Deliberate and controlled exposure to top-down correlated risks.
- Focus on alpha generation from security selection and country allocation.
- Trades are sized based on avoiding large downside losses.



## Emerging market debt investment process

We combine top-down macro views with bottom-up security selection ideas.

1. Macro/asset class	2. Country allocation	3. Security selection
<ul style="list-style-type: none"> <li>Utilizing Vanguard's global economic resources</li> <li>Measuring impact of macroeconomic scenarios on emerging markets external, local, and corporate debt</li> </ul>	<ul style="list-style-type: none"> <li>Rigorous fundamental research to identify improving stories and avoid "crisis countries"</li> <li>Understanding macro drivers</li> <li>Incorporating impact of technical factors</li> </ul>	<ul style="list-style-type: none"> <li>Separating alpha from market risk (beta)</li> <li>Focus on deviations away from fair value and mispricing of bonds</li> <li>Assessing efficiency of cash bond versus derivative for positioning</li> </ul>

### Portfolio construction

- Focus on deliberate and controlled risk taking while controlling for downside risk
  - Managing market beta and other correlated risks
- Maximizing use of high Sharpe ratio strategies such as security selection

At every stage of our process, we adopt a risk-adjusted mind-set: in essence, this is about understanding whether and how historical relationships between assets (across countries, parts of a credit curve, foreign exchange and local government bonds) are changing and how they may evolve.

We maintain a disciplined single-portfolio approach to ensure we avoid siloes across our investments, and thus maintain control over our top-level risks and do not introduce unintended beta to our portfolios.

#### Fund facts

<b>Investment manager</b>	Vanguard Global Advisers, LLC	
<b>Management Team</b>	Vanguard Fixed Income Group	
<b>Benchmark</b>	J.P. Morgan EMBI Global Diversified Index	
<b>Base Currency</b>	USD	
<b>Methodology</b>	Active	
<b>Investment objective</b>	The fund seeks to provide total return while generating a moderate level of income by investing primarily in bonds of issuers in emerging market countries.	
<b>Structure</b>	UCITS domiciled in Ireland	
<b>Share class<sup>1</sup> and inception date</b>	Institutional Plus Accumulation Shares (USD)	3 December 2019
	Investor Accumulation Shares (USD/EUR/GBP)	3 December 2019
	Investor Hedged Accumulation (EUR/GBP)	3 December 2019
<b>Minimum initial investment</b>	Institutional Plus Accumulation Shares (USD)	USD200,000,000
	Investor Accumulation Shares (USD/EUR/GBP)	100,000 (in currency of relevant share class)
	Investor Hedged Accumulation (EUR/GBP)	100,000 (in currency of relevant share class)
<b>Ongoing charges figure (OCF)<sup>2</sup></b>	Institutional Plus Accumulation Shares (USD)	0.45%
	Investor Accumulation Shares (USD/EUR/GBP)	0.60%
	Investor Hedged Accumulation (EUR/GBP)	0.60%

## 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.

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.

Source: Vanguard as of 30 June 2021

## 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**

<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

## 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.

Some funds invest in emerging markets which can be more volatile than more established markets. As a result the value of your investment may rise or fall.

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 Emerging Markets 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

**This is an advertising document.**

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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/>.

**For Dutch investors only:** The fund(s) referred to in this document are listed in the AFM register as defined in section 1:107 Dutch Financial Supervision Act (Wet op het financieel toezicht). For details of the Risk indicator for each fund listed in this document, please see the fact sheet(s) which are available from Vanguard via our website <https://www.vanguard.nl/portal/instl/nl/en/product.html>.

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