

GLOBAL CREDIT BOND FUND

Quarterly update

LOW-COST ACTIVE
FIXED INCOME

The Vanguard Global Credit Bond Fund is an actively managed fixed income solution investing primarily in a diversified portfolio of global investment-grade fixed income securities. The fund is managed by Vanguard's Fixed Income Group and aims to generate a diversified, consistent level of return and income over the long term.

Highlights

- Riskier assets faced the headwind of more hawkish central bank rhetoric.
- Government bond yields were relatively unchanged, despite the hawkishness.
- Credit spreads widened slightly, led by high-yield corporates and emerging market debt.
- The Vanguard Global Credit Bond Fund outperformed its index over the quarter.
- Volatility in anticipation of reduced central bank support could lead to credit dislocations.

Market overview

Riskier assets began the third quarter positively as upbeat developments in Covid-19 vaccination rates and the perceived containment of the Delta variant buoyed sentiment. Strong second-quarter corporate earnings announcements and a supportive stance from developed market central banks further boosted risk appetite early in the quarter.

However, September marked a shift in sentiment as a combination of drivers weighed on markets. Firstly, real estate developer Evergrande—China's largest corporate issuer—nearly defaulted on its bond payments. While Evergrande's debt was high yield, the default triggered concerns in the market around possible contagion to other areas of credit, although this did not ultimately transpire. Secondly, September saw a sharp rise in energy prices, as hikes in the cost of both gas and oil across Europe led to a revision of inflation expectations.

Finally, central banks took a more hawkish tone. The US Federal Reserve—citing a stronger labour market and inflation outlook—said it could taper its stimulus measures and raise interest rates sooner than originally expected, while the European

Central Bank's General Council agreed to slow the pace of quantitative easing (QE) and upgraded its growth and inflation forecasts. The Bank of England's Monetary Policy Committee also raised its official inflation forecast substantially.

Government bond yields in Europe and the US remained relatively unchanged, despite the more hawkish central bank rhetoric in the latter part of the quarter, and the US Treasury yield curve flattened slightly. UK gilts saw larger moves as yields went broadly up, led by the short end of the curve, causing the UK government bond yield curve to flatten¹.

In the corporate bond markets, spreads widened slightly during the quarter. High-yield issuers across corporate bonds and emerging markets (EM) experienced greater spread widening, driven partly by profit-taking by some investors after previous strong performance, as well as by concerns around high-yield issuer Evergrande.

Technicals remained supportive during the quarter, buoyed by strong liquidity and high cash levels, and demand for new issues was robust, with appetite for "green" or "sustainable" assets especially strong.

¹ Vanguard and Bloomberg as at 30 September 2021.

Fund performance and positioning

The Vanguard Global Credit Bond Fund returned 0.12% over the quarter. This compared with a return of 0.01% for its benchmark, the Bloomberg Global Aggregate Credit Index Hedged².

The fund's duration positioning in US Treasuries was a positive contributor to overall performance. A sector allocation to European investment-grade credit also added value.

The fund's sector allocations to high-quality North American corporate bonds weighed on performance during the period. Our total credit allocation also marginally detracted.

In terms of positioning, the fund's overweight to credit risk was reduced relative to earlier this year, although we remain selectively positioned across those pockets of the market that we believe are likely to benefit from strong investor demand and a steadily improving macroeconomic backdrop.

With valuations at high levels, there remain opportunities to add value but they are rarer and require higher conviction and performance will be driven by individual security selection. We maintained a constructive risk positioning, albeit lower than that of the index. The fund also remained selectively invested in emerging market debt and high-yield corporate bonds.

Outlook

While spread tightening has slowed, strong demand for credit and accommodative central banks have continued to support the credit market. Meanwhile, investors have continued to seek higher returns further out on the risk spectrum in search of yield.

However, peak global liquidity and central bank support is likely behind us, with many policymakers now indicating that tapering is on the way.

We remain constructive on the credit asset class, although many of the highest-quality issuers are now priced too richly, in our view, while lower-quality issuers are vulnerable to a change in market sentiment. As a result, we have reduced our credit exposure over the last several months and are now focused on investment in credits that have upside potential based on improving fundamentals. Relative to more than a year ago, overweight positions in specific sectors, business models or credit-quality buckets offer little value in today's market.

We anticipate increased volatility in fixed income markets as the market adapts to the trajectory of normalised interest rates and reduced central bank liquidity.

This is likely to lead to dislocations in credit, leading to certain sectors that have to date been relatively insulated from volatility, thanks to the effect of QE, being more exposed. This should create opportunities for us to selectively add value.

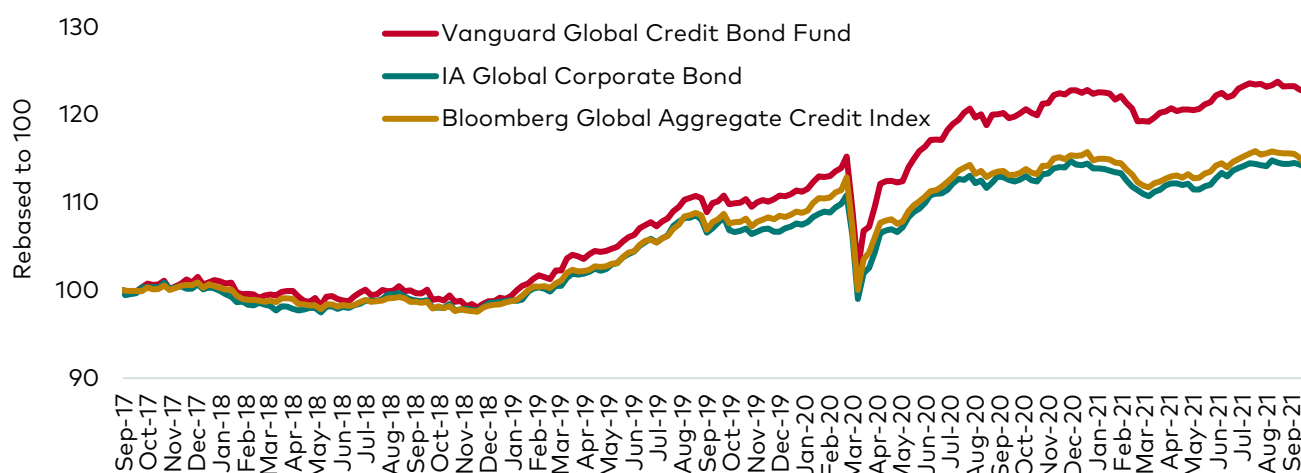
² Source: Bloomberg as at 30 September 2021.

Key fund facts (as at 30 September 2021)

Investment manager: Vanguard Group
Inception date: 14 September 2017
Domicile: Ireland
Benchmark: Bloomberg Global Aggregate Credit Index
Ongoing charges figure¹: 0.35%
Fund AUM: GBP 448m

Number of holdings: 1,347
Average coupon: 3.0%
Average maturity: 8.9 years
Average quality: A-
Average duration: 7.2 years
ISIN: IE00BYV1RG46

Fund performance since inception (as at 30 September 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-0.13	0.12	2.49	7.02	--	5.18
Peer group	-2.10	1.01	-1.76	4.26	2.45	2.82
Benchmark	-1.08	0.01	1.19	5.09	2.94	3.41

Year on year (%)	1 Oct 2016 - 30 Sep 2017	1 Oct 2017 - 30 Sep 2018	1 Oct 2018 - 30 Sep 2019	1 Oct 2019 - 30 Sep 2020	1 Oct 2020 - 30 Sep 2021
Fund	--	0.17	10.13	8.59	2.49
Peer group	0.48	-0.41	11.84	3.68	-1.76
Benchmark	0.85	-1.25	9.59	4.64	1.19

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 30 September 2021. Peer group is IA Global Corporate Bond. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees, and the return may increase or decrease as a result of currency fluctuations.

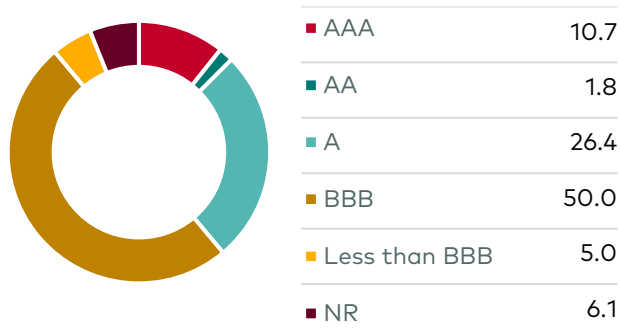
¹The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

Fund breakdown (as at 30 September 2021)

Distribution by issuer (% of bonds)

	Fund %
Industrials	35.0
Financial institutions	32.8
Treasury/federal	11.3
Sovereign	7.3
Cash	6.1
Utilities	6.1
Agencies	1.4
Provincials/municipals	0.0
Asset-backed security	0.0
Commercial mortgage-backed security	0.0
Other	-0.2
Supranational	0.0
Local authority	0.0

Distribution by credit quality (% of bonds)



Credit quality ratings for each issue are obtained from Bloomberg 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.

Source: Vanguard, as at 30 September 2021.

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.

Past performance is not a reliable indicator of future results.

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.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only.

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>.

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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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