Vanguard

Q4 2023

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

- Bond markets rallied strongly in the fourth quarter.
- Government bond yields fell across the curve.
- In credit markets, investment-grade spreads broadly tightened.
- The Vanguard Global Credit Bond Fund outperformed its benchmark over the quarter.
- The fund remains cautiously overweight to high-quality credit.

Market overview

Markets changed course over the quarter, with a dovish pivot by the US Federal Reserve (Fed) in November providing a positive boost in sentiment to global bond markets. This came on the heels of a sell-off in government bonds earlier in the quarter, driven by soaring US Treasury yields and the conflict in the Middle East that saw US 10-year Treasury yields cross 5% for the first time since 2007. In October, the US Treasury announced its refunding plan, citing smaller 10-, 20- and 30-year auction sizes than markets expected.

November saw a reversal with bond markets rallying strongly, which continued through to the end of the year. Softer inflation prints and more dovish narratives by developed market central banks fueled the notion that policymakers would begin cutting interest rates over the coming year. Bond markets quickly moved to price in over 100 basis points (bps) of rate cuts starting as early as the first quarter of 2024, as US, UK and eurozone central banks continued to leave interest rates at current levels.

US inflation broadly slowed, with headline and core inflation falling to 3.1% and 4.0%, respectively. A similar story unfolded in the UK and the eurozone, where headline inflation fell to 3.9% (the lowest level in two years) and 2.4%, respectively. Commodity prices were broadly lower, led by oil and gas prices.

Economic growth in the US continued to show resilience, as GDP growth for the third quarter came in at an annualised 4.9%. In the eurozone, the growth picture looked quite different, as GDP growth fell to -0.1% in the third quarter with manufacturing and services reports coming in below expectations.

In Japan, the central bank continued its bond purchasing operations and tweaked its yield curve control (YCC) policy, referring to the 1% limit on 10-year yields as a 'reference point' rather than a hard cap. This fueled market expectations that the Bank of Japan may begin to loosen its YCC policy. Following the announcement, the yen weakened.

In developed market bonds, the US 10-year Treasury yield fell by 70bps, the German 10-year Bund yield fell by 81 bps and the UK 10-year gilt yield fell by 84bps[1].

In credit, US, eurozone and UK investment-grade (IG) spreads tightened by 26 bps, 15 bps and 26 bps, respectively, over the quarter[2]. Emerging market IG and emerging market high-yield (HY) spreads tightened by 14 bps and 91 bps, respectively[3].

[1, 2, 3] Source: Vanguard and Bloomberg, for the period 30 September 2023 to 31 December 2023.

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Fund performance and positioning

The Vanguard Global Credit Bond Fund returned 7.43% over the quarter. This compared with a return of 6.99% for its benchmark, the Bloomberg Global Aggregate Credit Index (GBP Hedged)[4].

The largest contributors to outperformance over the quarter included a mixture of relative value credit and developed market government bond trades. Heading into November, the fund's overweight in duration helped boost relative returns when yields began falling. Allocations to North American corporates also contributed to the fund's relative outperformance versus its benchmark.

The fund's underweight to credit risk detracted from returns, especially as spreads tightened over the quarter. Allocations to emerging markets also detracted.

In terms of positioning, we remain cautiously overweight to high-quality credit, with a view to adding more as IG issuance picks up. Our focus remains on well-capitalised companies with strong balance sheets. We view non-US IG valuations to be fair relative to US IG valuations, and within their historic ranges. Furthermore, we remain biased towards non-cyclicals versus cyclicals, and financials versus non-financials.

We continue to be underweight in US IG, as spreads remain compressed, but have been selectively adding to attractively-priced names via bottom-up security selection. Similarly, we will look to add back risk in HY where we have conviction in the underlying companies.

We remain cautiously underweight in Japan rates.

Outlook

As we enter 2024, markets are shifting their focus from persistent inflation to growth and the potential for interest rate cuts. Developed market central banks have paused their rate-hiking cycles, with investors in the US pricing in rate cuts as early as the first quarter of 2024. However, we believe rate cuts will begin later in the year.

In the US, the soft landing narrative around the economy has continued, with growth remaining resilient and inflation appearing to be moderating. However, the manufacturing sector appears to be contracting, and there has been a sharp deceleration in international economic momentum – with the eurozone, UK and China reporting weakening growth.

In HY corporates, we are seeing an uptick in default activity, and expect this to continue as fundamentals weaken. The technical backdrop for the HY sector is improving, driven by the lack of supply as well as the upgrade of Ford Motor Company's credit rating to investment-grade. A recessionary outcome would leave lower-quality sectors more vulnerable, although yields at current levels are likely to offset some of the spread widening.

Overall, we believe yields are attractive. Historically, yields at these levels have typically been followed by strong returns over the next six to 12 months.

[4]Vanguard and Bloomberg. Calculations are for the period 30 September 2023 to 31 December 2023 and are in GBP.

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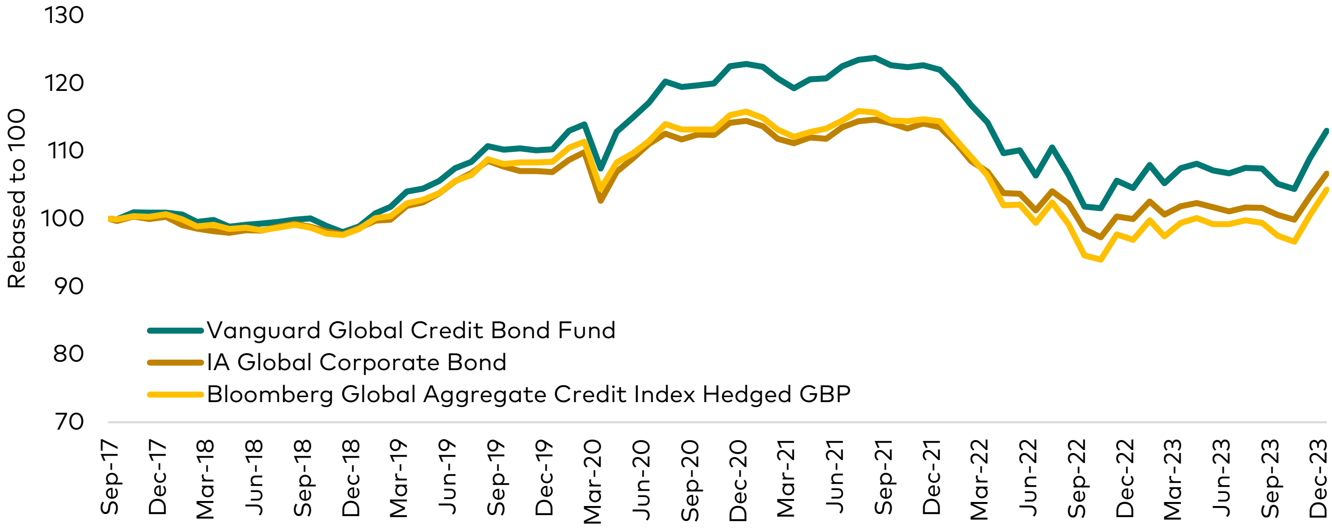
Key fund facts (as at 31 December 2023)

Investment manager: Vanguard Group
Inception date: 14 September 2017
Domicile: Ireland
Benchmark: Bloomberg Global Aggregate Credit Index Hedged GBP
Ongoing charges figure[1]: 0.35%
Fund AUM: GBP 740m

Number of holdings: 1,521
Average coupon: 4.1%
Average maturity: 8.3 years
Average quality: A-
Average duration: 5.9 years
ISIN: IE00BYV1RG46

Fund performance (Cumulative % growth, GBP, 14 Sep 2017 to 31 December 2023)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception (ann.)
Fund	8.08	7.43	8.08	-2.75	2.70	1.96
Peer group	6.72	6.08	6.72	-2.31	1.58	1.03
Benchmark	7.64	6.99	7.64	-3.42	1.14	0.67

Calendar year (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	--	--	--	--	-2.01	11.50	11.41	-0.68	-14.32	8.08
IA sector	8.66	1.08	13.39	3.31	-1.66	8.36	7.04	-0.79	-11.94	6.72
Benchmark	7.80	0.21	5.33	4.22	-2.13	9.97	6.83	-1.13	-15.34	7.64

Year on year (%)	1-Jan-14 to 31-Dec-14	1-Jan-15 to 31-Dec-15	1-Jan-16 to 31-Dec-16	1-Jan-17 to 31-Dec-17	1-Jan-18 to 31-Dec-18	1-Jan-19 to 31-Dec-19	1-Jan-20 to 31-Dec-20	1-Jan-21 to 31-Dec-21	1-Jan-22 to 31-Dec-22	1-Jan-23 to 31-Dec-23
Fund	--	--	--	--	-2.01	11.50	11.41	-0.68	-14.32	8.08
Peer group	8.66	1.08	13.39	3.31	-1.66	8.36	7.04	-0.79	-11.94	6.72
Benchmark	7.80	0.21	5.33	4.22	-2.13	9.97	6.83	-1.13	-15.34	7.64

Past performance is not a reliable indicator of future results.
Source: Vanguard and Morningstar, as at 31 December 2023. 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.
[1]The 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.

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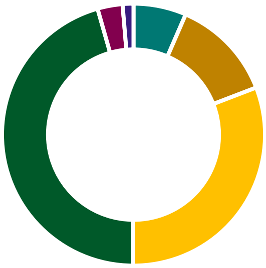
Fund breakdown (as at 31 December 2023)

Distribution by issuer (% of bonds)

	Fund %
Industrials	35.8
Financial institutions	32.7
Treasury/federal	10.1
Utilities	8.1
Agencies	6.5
Sovereign	3.9
Cash	1.8
Supranational	1.3
Local authority	0.1
Provincials/municipals	0.0
Asset-backed security	0.0
Other	-0.3

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.

Distribution by credit quality (% of bonds)



AAA	6.50
AA	12.65
A	30.90
BBB	45.54
Less than BBB	3.08
Not rated	1.33

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.

Source: Vanguard, as at 31 December 2023.

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.

Performance may be calculated in a currency that differs from the base currency of the fund. As a result, returns may decrease or increase due to currency fluctuations.

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.

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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