Vanguard

Q4 2021

EMERGING MARKETS BOND FUND

Quarterly update

LOW-COST ACTIVE FIXED INCOME

The Vanguard Emerging Markets Bond Fund is an actively managed fixed income solution investing primarily in emerging market sovereigns. The fund is managed by Vanguard's Fixed Income Group and aims to generate a diversified, consistent level of return over the long term.

Highlights

- Emerging market bonds delivered a negative return over the quarter.
- The emergence of the Covid-19 Omicron variant weighed on the asset class.
- The Vanguard Emerging Markets Bond Fund underperformed its benchmark.
- Overweight positions in Latin American debt detracted from performance.
- Despite our ongoing caution, select pockets of value remain in emerging market bonds.

Market overview

Emerging market (EM) bonds continued to experience a challenging environment in the fourth quarter, notably midway through the period. The US Federal Reserve's (Fed's) announcement of an accelerated pace of tapering for its bond-buying programme and the emergence of the Covid-19 Omicron variant later in the quarter both weighed on the asset class.

EM bond returns were relatively flat for the first month of the quarter, as a handful of high-yield EM names—most notably Ghana and Tunisia—saw spreads widen while most other credits fared relatively well. Then in November, the appearance of the Omicron strain of Covid-19 dented confidence in EMs, causing spreads to widen and EM high-yield in particular to underperform[1].

In December, EM credit markets clawed back some of the losses incurred the previous month despite a retracement higher in US Treasury yields, registering returns of 1.4% for the month as the return from tighter credit spreads (2.1%) exceeded the US Treasury sell-off (-0.7%)[1]. However, EM debt returns remained in negative territory for the period overall. Over the fourth quarter as a whole, EM bonds, as measured by the JPM EMBI Global Diversified Index, returned -0.44%.

The spread between high-yield and investment-grade EM bonds widened significantly during the fourth quarter, finishing 2021 0.4 percentage points wider than they had started the year[1].

After a period of high volatility, the EM technical backdrop improved towards the end of the year, with monthly hard-currency fund flows increasing to $2.3 billion in December. Gross sovereign supply was $181 billion for the whole of 2021, with net supply totalling $56.3 billion, supported by additional flows into the asset class of around $52.6 billion[2].

Strategy, performance and positioning

The Vanguard Emerging Markets Bond Fund recorded a negative absolute return and underperformed its benchmark over the quarter, returning -1.07% compared with a return of -0.63% for its benchmark, the JPM EMBI Global Diversified Index[3].

Factors detracting from performance in the quarter included the fund's overweight positions in the debt of Latin American issuers, notably El Salvador and Colombia.

1 Source: : J.P. Morgan. J.P. Morgan EMBI Global Diversified Index, as at 31 December 2021.
2 Source: Bloomberg, as at 31 December 2021.
3 Source: Vanguard and J.P. Morgan as at 31 December 2021.

The government bonds of El Salvador sold off after the market continued to take a negative view of the country's unorthodox economic policy. Colombian government debt also sold off as the country's central bank hiked rates amid rising inflation.

The largest contributor to performance was the fund's underweight allocation to Turkish bonds. Turkish bonds sold off and the Turkish lira depreciated during the quarter as the country implemented further interest rate cuts in spite of strong inflation. The fund's underweight position in Sri-Lankan bonds also positively impacted relative returns as ongoing concerns around Sri-Lanka's creditworthiness weighed on the sovereign's bonds.

In terms of the portfolio's positioning, we remain cautious on the EM asset class overall and we see no near-term catalysts for a sustained reversal of current weakness, especially in EM currencies and rates.

We anticipate that local EM rates will present attractive alpha opportunities, although for these to materialise there must first be signs of EM growth outperforming developed markets, as well as of the market over-pricing terminal policy rates. Although sovereign credit spreads have widened, especially in EM high yield, there is likely to be further downside ahead given the macroeconomic challenges that remain.

We see merit in remaining defensive, which is reflected in our positioning in certain credit curves which we believe are mispriced and our continued search for attractive yield-curve opportunities in countries with favourable credit fundamentals. While EM corporate bonds have typically been a defensive asset class within EM, valuations are now at tight levels, and EM corporate debt tends to lack the liquidity of EM sovereign bonds.

Outlook

Our ongoing caution around EM is based partly on the impact that the gradual but definitive removal of monetary stimulus by the Fed and other developed market central banks will have on risky assets, including EMs. Also of concern is that EM growth did not catch up with that of developed markets during the second half of 2021. Meanwhile, we anticipate that the Omicron variant will cause a small but manageable setback to global activity, although EMs could be disproportionately affected.

Some EM central banks have pre-emptively tightened policy ahead of any actual Fed tightening—as well as before the economic rebound is assured—while also reducing fiscal stimulus – a risky move given that EM growth remains fragile. Despite fragile economies, many EM sovereigns are expected by market participants to reduce, or at best consolidate, their fiscal funding needs this year, and countries that fail to do so will likely be punished by the market.

That said, there are reasons for cheer around EM. While fundamental deterioration will likely limit the potential for large upside performance, low valuations, higher yields and strong forward-looking technicals will support the asset class.

In the EM high-yield market, the recent sell-off has improved valuations and upcoming supply during the early part of 2022 is likely to bring relative-value opportunities, although risks remain as long as the Fed continues to fine-tune its policy.

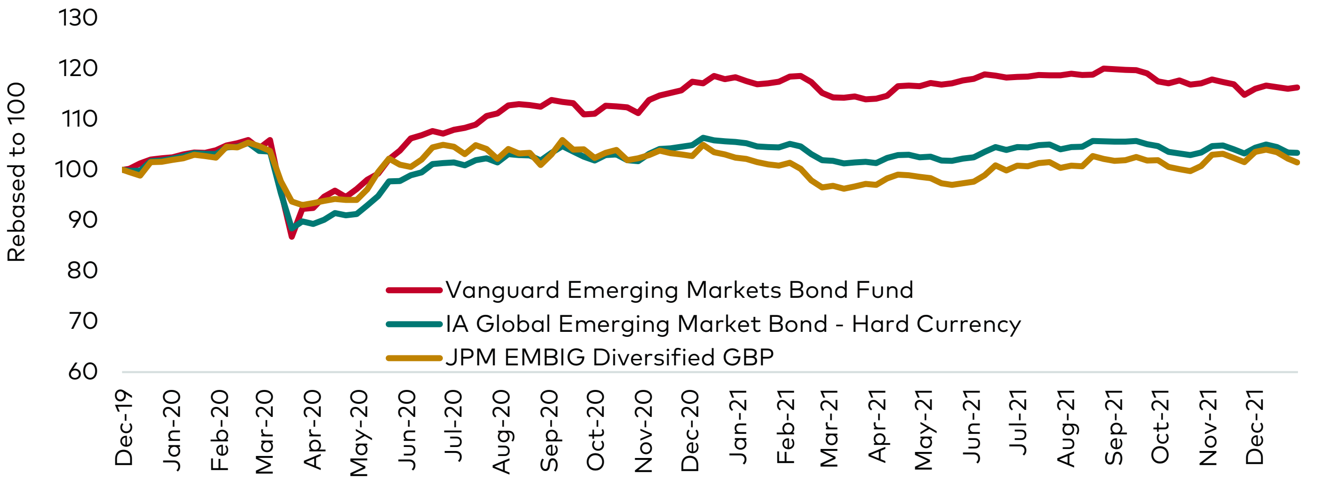
With cash levels rising across the EM investor base, we see merit in remaining defensive but opportunistic and alert for selective opportunities, notably in EM high-yield, but largely on a risk-neutral or self-funded basis.

Key fund facts (as at 31 December 2021)

Investment manager: Vanguard Fixed Income Group
Inception date: 03 December 2019
Domicile: Ireland
Benchmark: JPM EMBI Global Diversified Index
Ongoing charges figure[1]: 0.60%
Fund AUM: GBP 347m
Number of holdings: 214

Average coupon: 4.4%
Average maturity: 11.6 years
Average quality: BB+
Average duration: 7.0 years
Turnover rate: 400.4%
ISIN: IE00BKLWXP06

Fund performance (as at 31 December 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-1.70	-1.07	-1.70	--	--	7.55
Peer Group	-4.20	-2.46	-4.20	2.53	1.67	1.80
Benchmark	-2.10	-0.63	-2.10	4.71	3.32	1.84

Year on year (%)	1 Jan 2017 - 31 Dec 2017	1 Jan 2018 - 31 Dec 2018	1 Jan 2019 - 31 Dec 2019	1 Jan 2020 - 31 Dec 2020	1 Jan 2021 - 31 Dec 2021
Fund	--	--	--	15.60	-1.70
Peer Group	4.45	-2.70	7.30	5.34	-4.20
Benchmark	9.11	-6.02	12.95	3.83	-2.10

Past performance is not a reliable indicator of future results.
Source: Vanguard and Morningstar, as at 31 December 2021. Peer group is IA Global Emerging Market Bond - Hard Currency. 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.

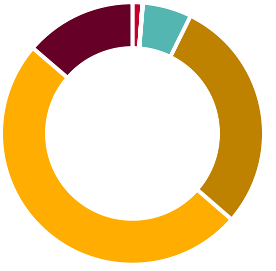
Fund breakdown (as at 31 December 2021)

Distribution by issuer (% of bonds)

Characteristics	Fund %
Sovereign	58.5
Agencies	20.4
Cash	13.7
Treasury/federal	5.9
Industrials	0.9
Financial institutions	0.7
Other	0.0
Utilities	0.0

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	1.2
AA	0.1
A	6.0
BBB	29.1
Less than BBB	49.9
NR	13.7

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.

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.

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.

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. For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). In Switzerland for professional investors only. Not to be distributed to the public.

The information contained in this document is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information in this document is general in nature and does not constitute legal, tax, or investment advice. Potential investors are urged to consult their professional advisers on the implications of making an investment in, holding or disposing of shares, and the receipt of distribution from any investment.

Vanguard Investment Series plc has been authorised by the Central Bank of Ireland as a UCITS and has been registered for public distribution in certain EEA countries and the UK. Prospective investors are referred to the Funds' prospectus for further information. Prospective investors are also urged to consult their own professional advisers on the implications of making an investment in, and holding or disposing shares of the Funds and the receipt of distributions with respect to such shares under the law of the countries in which they are liable to taxation.

The Manager of Vanguard Investment Series plc is Vanguard Group (Ireland) Limited. Vanguard Asset Management, Limited is a distributor of Vanguard Investment Series plc.

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/.

Vanguard

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index referenced herein is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval.

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.

For Swiss professional investors: The Manager of Vanguard Investment Series plc is Vanguard Group (Ireland) Limited. Vanguard Investments Switzerland GmbH is a financial services provider, providing services in the form of purchase and sales according to Art. 3 (c)(1) FinSA. Vanguard Investments Switzerland GmbH will not perform any appropriateness or suitability assessment. Furthermore, Vanguard Investments Switzerland GmbH does not provide any services in the form of advice. Vanguard Investment Series plc has been authorised by the Central Bank of Ireland as a UCITS. Prospective investors are referred to the Funds' prospectus for further information. Prospective investors are also urged to consult their own professional advisors on the implications of making an investment in, and holding or disposing shares of the Funds and the receipt of distributions with respect to such shares under the law of the countries in which they are liable to taxation.

Vanguard Investment Series plc has been approved for offer in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The information provided herein does not constitute an offer of Vanguard Investment Series plc in Switzerland pursuant to FinSA and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for Vanguard Investment Series plc. The Representative and the Paying Agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Copies of the Articles of Incorporation, KIID, Prospectus, Declaration of Trust, By-Laws, Annual Report and Semiannual Report for these funds can be obtained free of charge from the Swiss Representative or from Vanguard Investments Switzerland GmbH via our website https://global.vanguard.com/.

Issued in EEA by Vanguard Group (Ireland) Limited which is regulated in Ireland by the Central Bank of Ireland.

Issued in Switzerland by Vanguard Investments Switzerland GmbH.

Issued by Vanguard Asset Management, Limited which is authorised and regulated in the UK by the Financial Conduct Authority.