Vanguard's Adviser's Alpha: The Value of Your Value

Wim van Zwol
Frits de Rek

Mei 2024

Introductie Vanguard

Total assets worldwide: USD 8,6 trillion

1975
The Vanguard Group was launched

17
global offices with
20,000
Employees

USD 7 trillion
under management in index funds

USD 1.6
trillion
under management in active funds

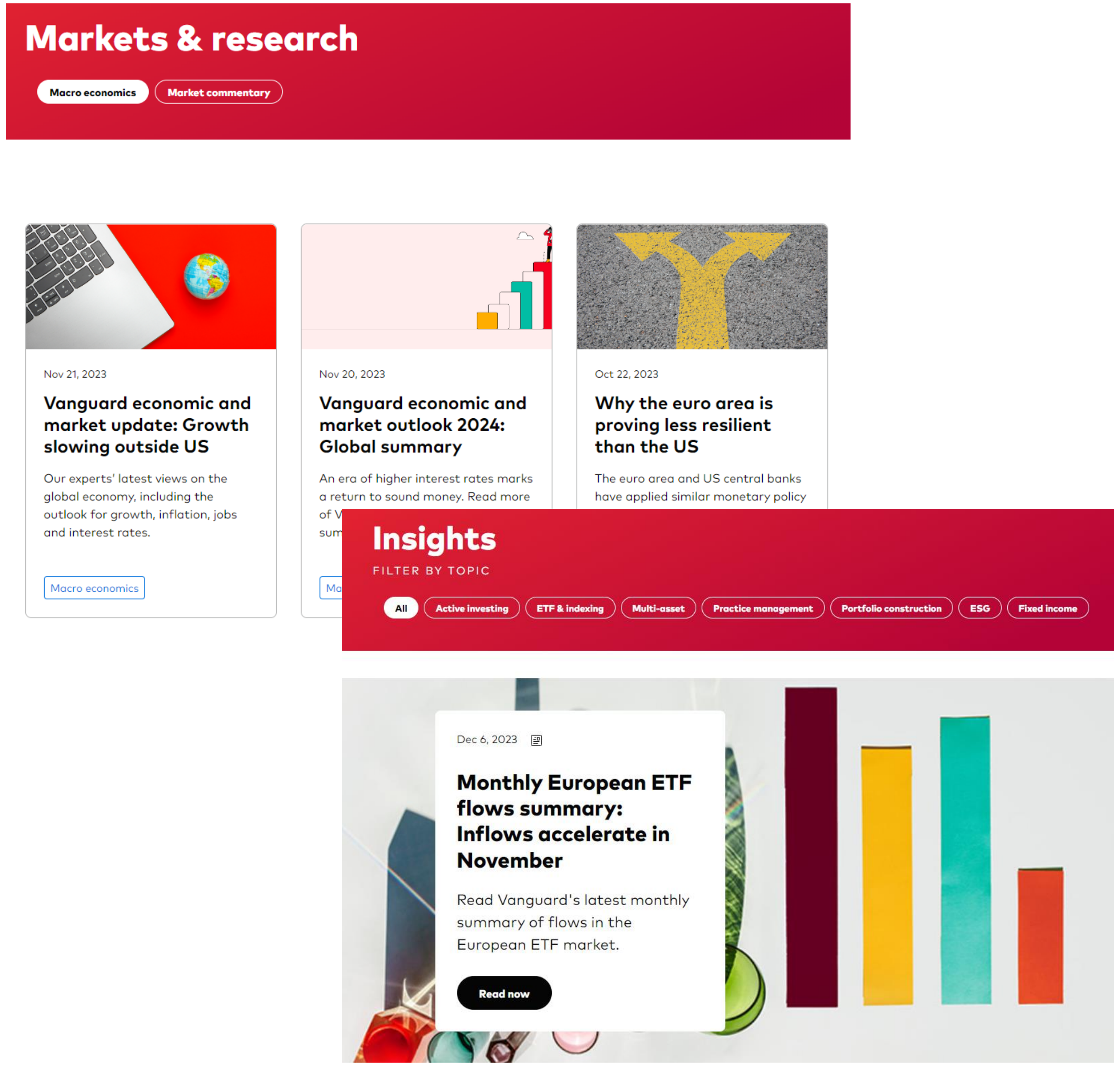
- Unieke eigendomsstructuur ("client-owned")
- Focus op lage kosten
- Transparante, eenvoudige maar effektieve produkten
- Opkomen voor de belegger
- Informatie en educatie over beleggen

Source: Vanguard. Data as at 31 December 2023.

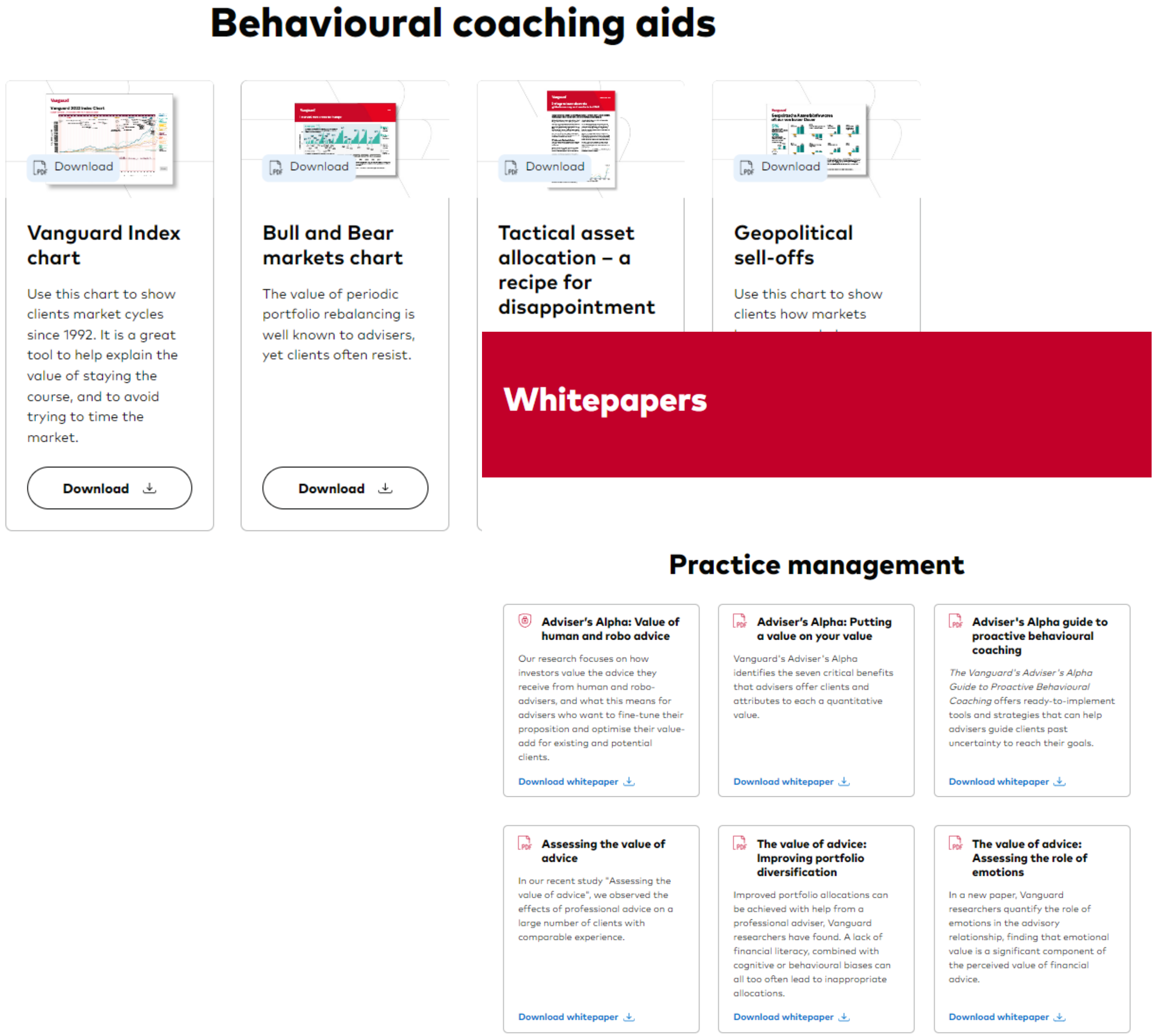
De toegevoegde waarde van de adviseur

Here at Vanguard, we have a very clear aim, to bring value to investors. It is a goal we have always shared with advisers. Investment success, in our view, depends on clearly identified goals, good investment behaviours, and low costs. This is why we are a great advocate for good quality financial advice.

Macroeconomic and market insights from Vanguard

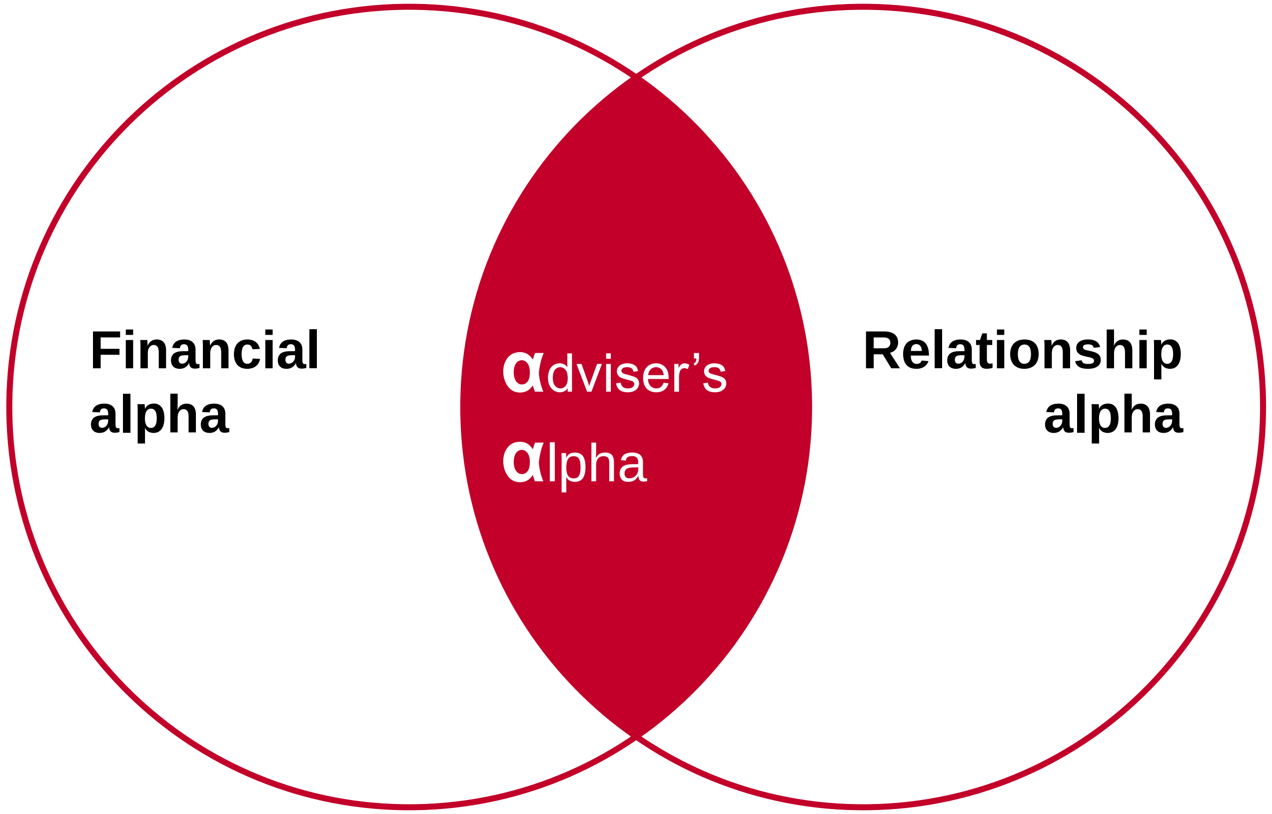


Adviser support and research



Adviser’s Alpha

Door het vrijmaken van de tijd die nodig is voor het bouwen en onderhouden van beleggingsportefeuilles, kunnen adviseurs hun inspanningen richten op waar het meerwaarde toevoegt voor hun klanten.



Waar kunnen adviseurs echt waarde toevoegen in het beleggingsproces van hun klanten?

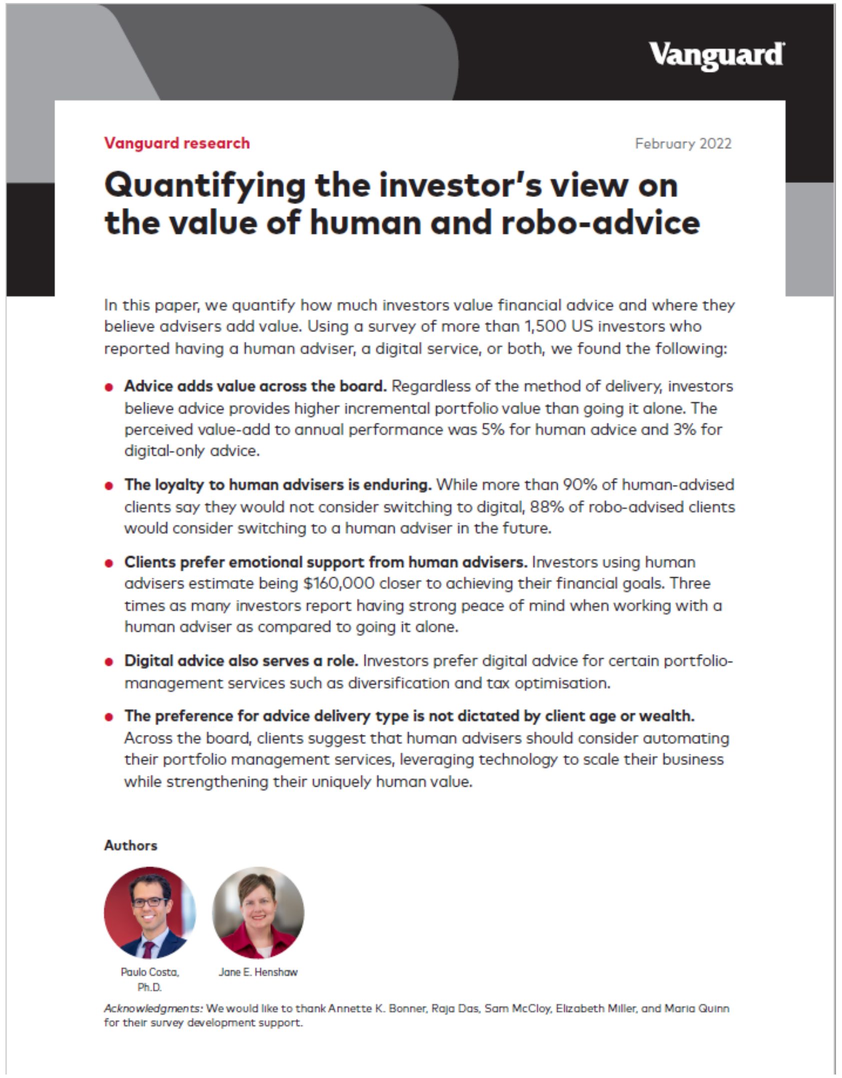
	Potential value added
Suitable asset allocation using broadly diversified funds/ETFs	> 0* bps
Cost-effective implementation (expense ratios)	29 - 44 bps
Rebalancing	0 - 48 bps
Behavioural coaching	150 bps
Tax allowances and asset location	0 - 32 bps
Withdrawal order for client spending	0 - 153 bps
Total-return versus income investing	> 0* bps

Becoming a trusted guide is likely to add most value

Good financial planning

Source: Vanguard, as at June 2020.
Notes: Value-add relative to "average" client experience (in basis points of return). * denotes that return value-add for modules was deemed significant, but too unique for each investor to quantify.
For “Potential value added,” we did not sum the values because there can be interactions between the strategies. Bps = basis points.

Quantifying the investor’s view on the value of human and robo-advice



Vanguard

Vanguard research

February 2022

Quantifying the investor’s view on the value of human and robo-advice

In this paper, we quantify how much investors value financial advice and where they believe advisers add value. Using a survey of more than 1,500 US investors who reported having a human adviser, a digital service, or both, we found the following:

- **Advice adds value across the board.** Regardless of the method of delivery, investors believe advice provides higher incremental portfolio value than going it alone. The perceived value-add to annual performance was 5% for human advice and 3% for digital-only advice.
- **The loyalty to human advisers is enduring.** While more than 90% of human-advised clients say they would not consider switching to digital, 88% of robo-advised clients would consider switching to a human adviser in the future.
- **Clients prefer emotional support from human advisers.** Investors using human advisers estimate being $160,000 closer to achieving their financial goals. Three times as many investors report having strong peace of mind when working with a human adviser as compared to going it alone.
- **Digital advice also serves a role.** Investors prefer digital advice for certain portfolio-management services such as diversification and tax optimisation.
- **The preference for advice delivery type is not dictated by client age or wealth.** Across the board, clients suggest that human advisers should consider automating their portfolio management services, leveraging technology to scale their business while strengthening their uniquely human value.

Authors

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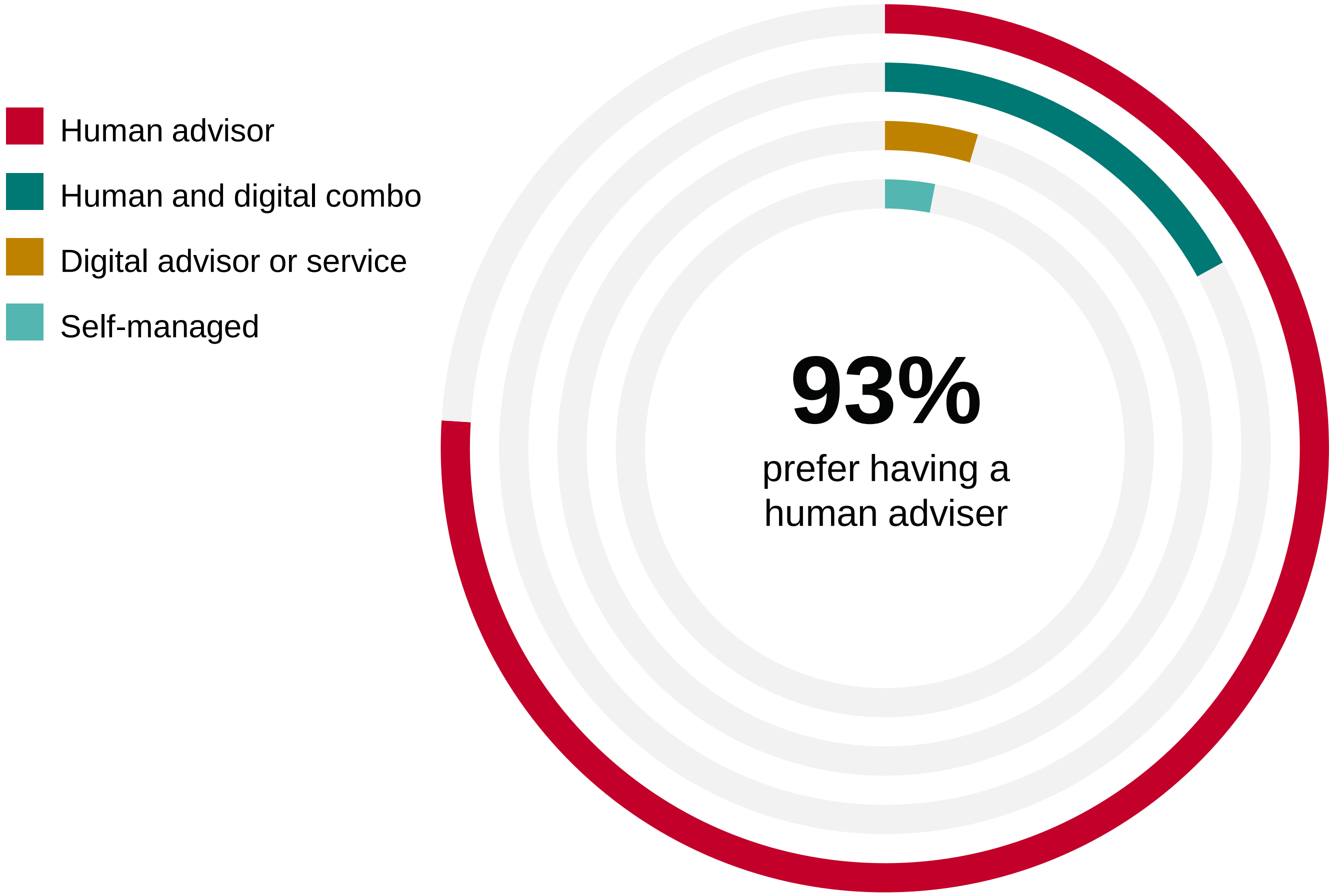
Acknowledgments: We would like to thank Annette K. Bonner, Raja Das, Sam McCloy, Elizabeth Miller, and Maria Quinn for their survey development support.

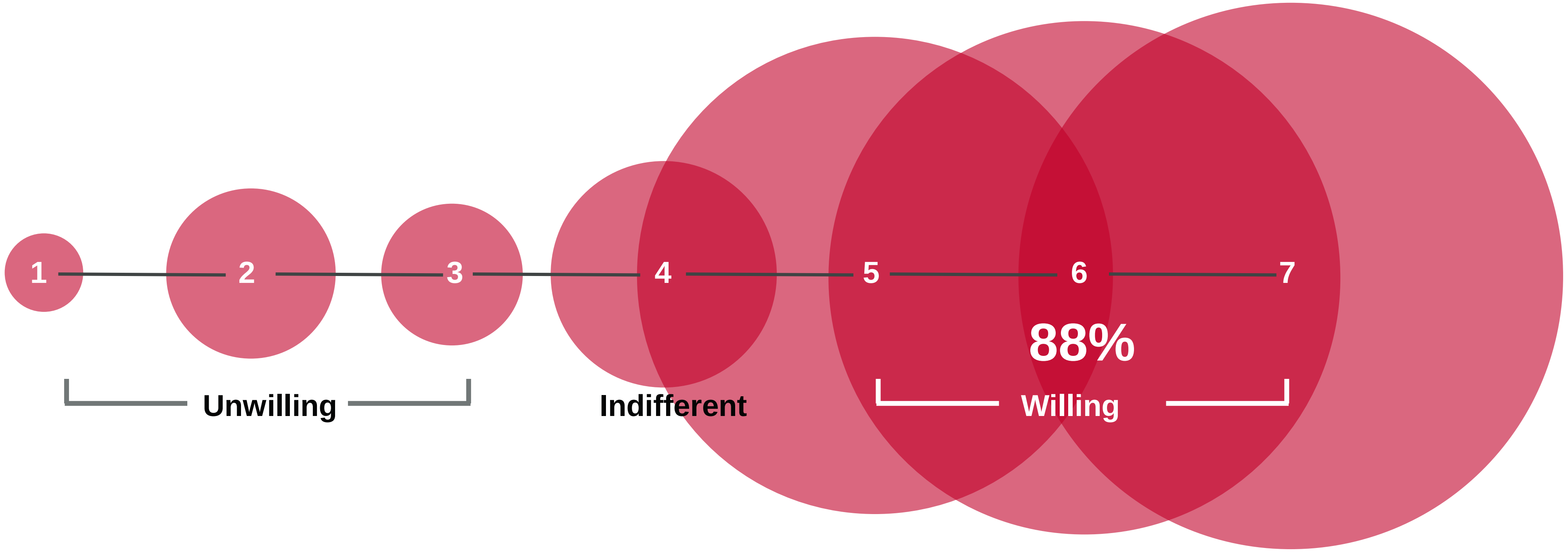


Sources: Vanguard and Escalent, 2021 Note: The sample in this figure includes all clients who only have human advisors (1,175 in total).

Investors with digital advisors are willing to switch to human advisors

Respondents were asked:

"On a scale of one to seven, how willing would you be to work with a human financial advisor in the future?"



Note: The sample in this figure includes all clients who only have digital advisors (135 in total).

Sources: Vanguard and Escalent, 2021.

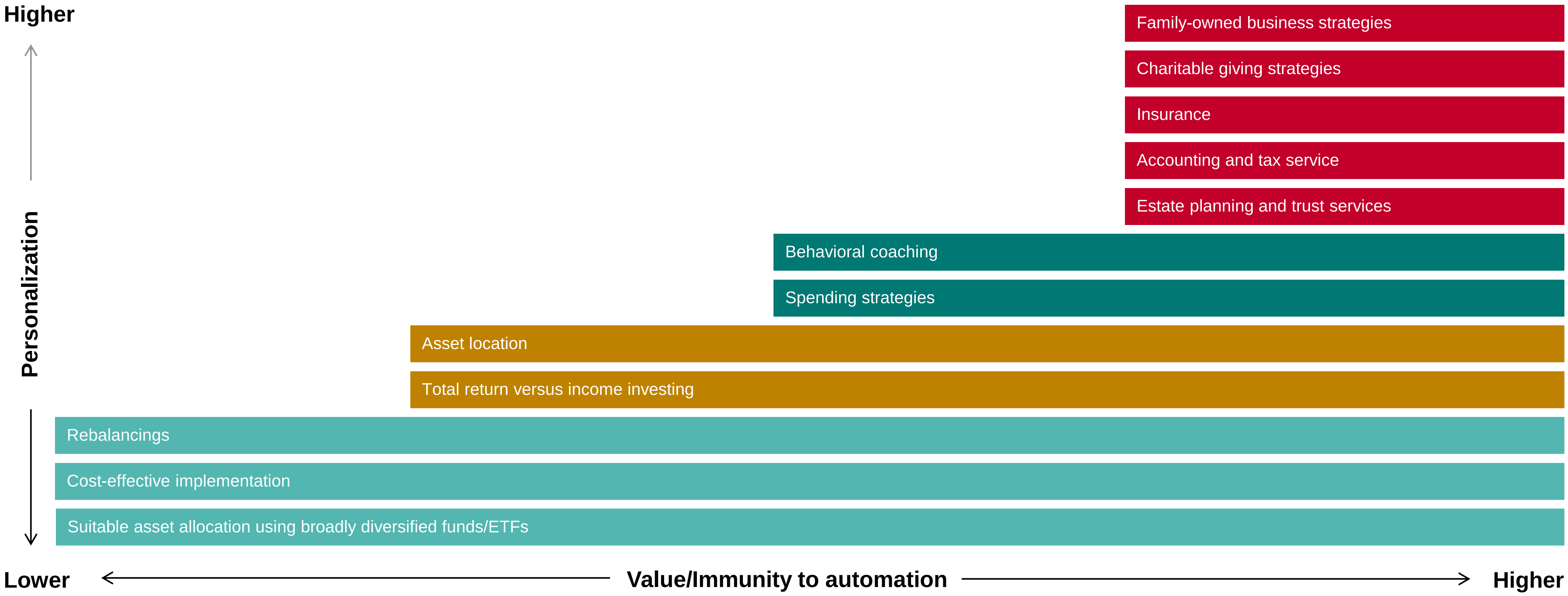
Human and digital—finding the right balance

Focus on delivering emotional and financial outcomes as you automate portfolio construction and functional tasks

PREFERENCE	RANK	MICRO-INTERACTION
Human	1	Know clients—feel that they and their retirement goals are understood
	2	Develop a connection/relationship with clients
	3	Work in clients' best interests—take good care of them
	4	Make clients feel listened to and understood
	5	Are empathetic to clients' personal situation and needs
Digital	38	Gather accurate inputs for clients by helping them understand how to answer
	39	Account for scenarios of different market conditions or life events (what-if)
	40	Prevent details, or entire accounts, from being overlooked
	41	Diversify investments
	42	Simplify for organized, cohesive management

Notes: In this figure, all 1,518 clients answered the question. They were presented with four micro-interactions at a time, 12 times in different screens, and asked which they most preferred to be delivered by a human or digital service so that we could rank each micro-interaction as well as relative preferences. Please see Appendix for additional microtransaction rankings and investors' relative preference.
Sources: Vanguard and Escalent, 2021.

Use technology so you can focus on providing higher-value services

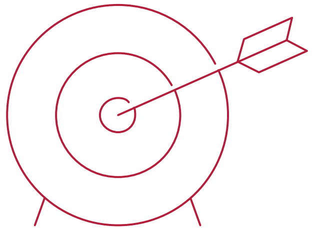


Source: Vanguard.

Portefeuille constructie

Vanguard

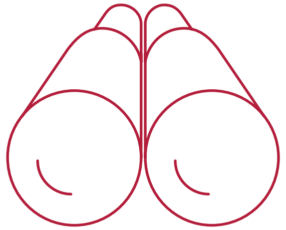
Beleggingsprincipes



Goals
Create clear, appropriate investment goals

Balance
Develop a suitable asset allocation using broadly diversified funds

Cost
Minimise cost



Discipline
Maintain perspective and long-term discipline

Balance: "Don't look for the needle, buy the haystack!"

Returns of major indices (in %)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
28.21	6.03	29.36	26.15	28.20	11.60	16.93	16.56	0.98	33.96	10.23	36.60	-6.65
28.14	3.83	22.40	25.08	19.32	10.93	15.80	16.41	-0.33	29.56	9.00	27.91	-10.20
23.46	3.35	20.77	23.29	15.65	10.23	12.12	13.89	-1.04	27.65	6.95	25.34	-11.47
21.05	1.49	18.33	17.99	13.13	9.55	11.87	12.71	-1.25	24.60	5.95	13.77	-12.28
17.10	-2.00	16.13	2.37	10.23	2.59	6.66	9.47	-1.44	22.77	4.99	9.14	-12.46
9.56	-4.15	15.34	2.24	9.13	2.49	4.73	7.00	-4.51	19.55	4.24	7.68	-13.27
4.75	-9.99	14.03	-0.06	8.39	1.65	3.81	2.41	-8.65	7.13	3.76	6.52	-13.65
4.70	-12.20	13.59	-0.14	7.57	0.68	3.33	1.62	-9.68	6.77	3.46	-0.97	-13.68
1.14	-15.30	11.00	-0.33	7.25	-0.56	3.23	1.06	-10.09	6.24	3.05	-2.23	-16.63
-2.35	-16.25	5.53	-7.67	2.91	-5.57	2.44	0.17	-17.49	5.10	2.77	-3.46	-18.46

Highest Returns Lower Returns

- Equities Germany
- Equities Emerging Markets
- Government bonds Europe
- Equities Europe (excl. UK)
- Equities Global
- Treasury Bond Index and corporate bonds Europe
- Equities Developed Asia
- Inflation-linked bonds Europe
- Equities North America
- Global Bonds

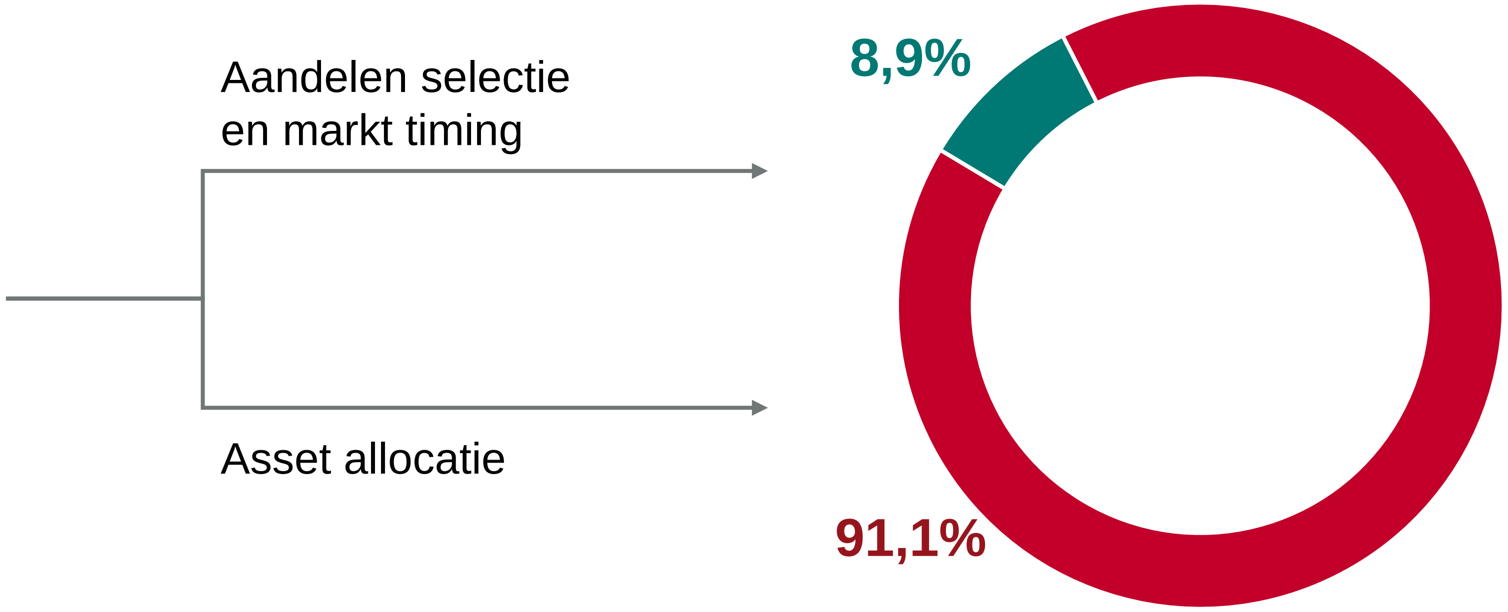
Past performance is not a reliable indicator of future returns.

Source: Vanguard calculations in EUR based on data from Refinitiv (as of December 31, 2022).Notes: Equities Germany are defined as the FTSE Germany Index, equities Europe (excluding United Kingdom) as the FTSE Developed Europe Excluding United Kingdom Index, equities developed Asia (excluding Japan) as the FTSE Developed Asia Pacific Excluding Japan Index, equities North America as the FTSE North America Index, equities emerging markets as the FTSE Emerging Index, and equities global as the FTSE All World Index. Inflation-linked bonds Europe are defined as the Bloomberg Global Inflation-Linked : Eurozone - Euro Consumer Price Index, bonds global as the Bloomberg Global Aggregate Bond Index Euro Hedged, government bonds Europe as the Bloomberg Euro-Aggregate : Treasury Bond Index and corporate bonds Europe (investment grade) as the Bloomberg Euro-Aggregate : Corporates Bond Index. Returns include reinvested income and capital gains, but do not include management fees and expenses or tax effects. Indices are not managed, therefore investors cannot invest directly in an index.

Strategische asset allocatie bepaalt het risico- rendements spectrum

Beleggingsresultaten worden grotendeels bepaald door de lange termijn mix van assets in een portefeuille

Welk percentage van het rendement wordt bepaald door….



Source: Vanguard calculations, using data from Morningstar, Inc.
Note: Calculations are based on monthly returns for 709 U.S. balanced funds from January 1990 to September 2015. For details on methodology, see Brian Scott, James Balsamo, Kelly N. McShane, and Christos Tasopoulos, 2017. The global case for strategic asset allocation and an examination of home bias. Valley Forge, Pa.: Vanguard Group

De beleggingsmix bepaalt de spreiding van rendementen

Beste, slechtste en gemiddelde rendementen voor verschillende aandelen- en obligatieallocaties, 1901-2021

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.

The performance of an index is not an accurate representation of a particular investment as you cannot invest directly in an index.

Source: Vanguard. Data: Bloomberg, bond returns are represented by the DMS World Bond Total Return Index from 1901 to 1999 and thereafter by the Bloomberg Barclays Global Aggregate Index (hedged in euros). Equity returns are represented by the DMS World Equity Total Return Index from 1901 to 1969 and thereafter by the MSCI World Index. The returns are net returns in euros (Deutsche Mark before 2002), fees and taxes are not taken into account. As at December 2021.

Sub-asset allocatie: Welke keuzes zijn er?

The way equity and fixed income exposure is structured can express many different views

Equity

Region
- Domestic
- Global
- Emerging
- Developed

Style and factors
- Growth
- Value
- Quality
- Momentum

Capitalisation
- Large
- Mid
- Small
- Micro

Sector
- Technology
- Healthcare
- Real Estate
- Financial Services

Portfolio

Fixed income

Region
- Domestic
- Global
- Emerging
- Developed

Credit quality
- BBB and above *(investment grade)*
- BB and below *(high yield)*

Term and duration
- Short
- Intermediate
- Long
- Zero duration

Sector
- Government
- Corporate
- Asset-backed
- Inflation-linked

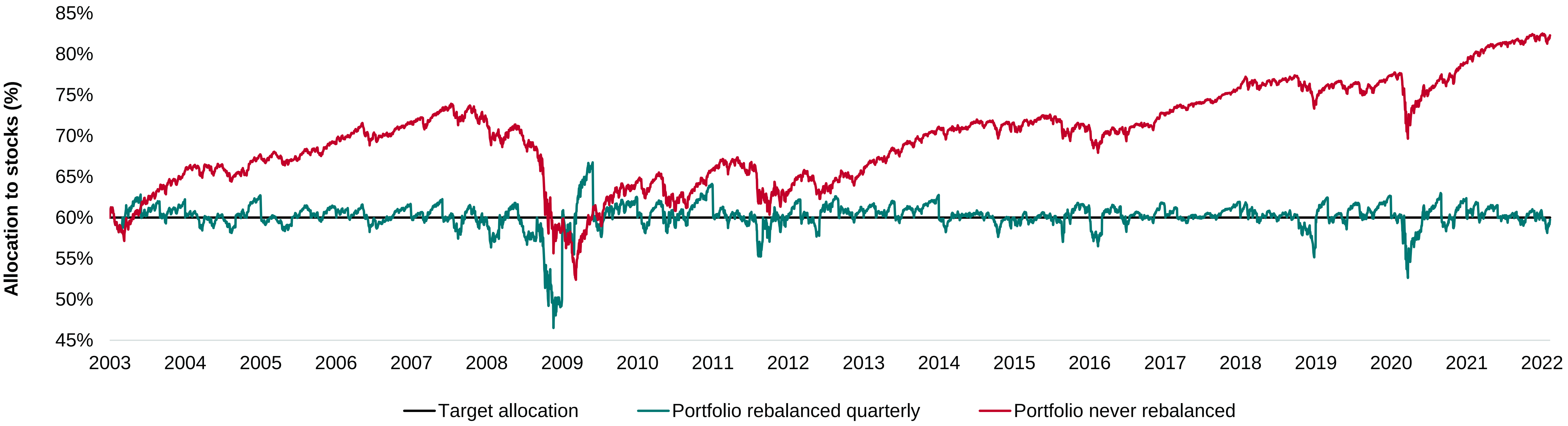
Alternatives

Commodities | Real assets | Infrastructure | Private equity | Hedge funds

Het belang van herbalanceren

Changes in stock exposure for a rebalanced portfolio and a “drifting portfolio”

Failure to rebalance can increase an investor’s exposure to risk



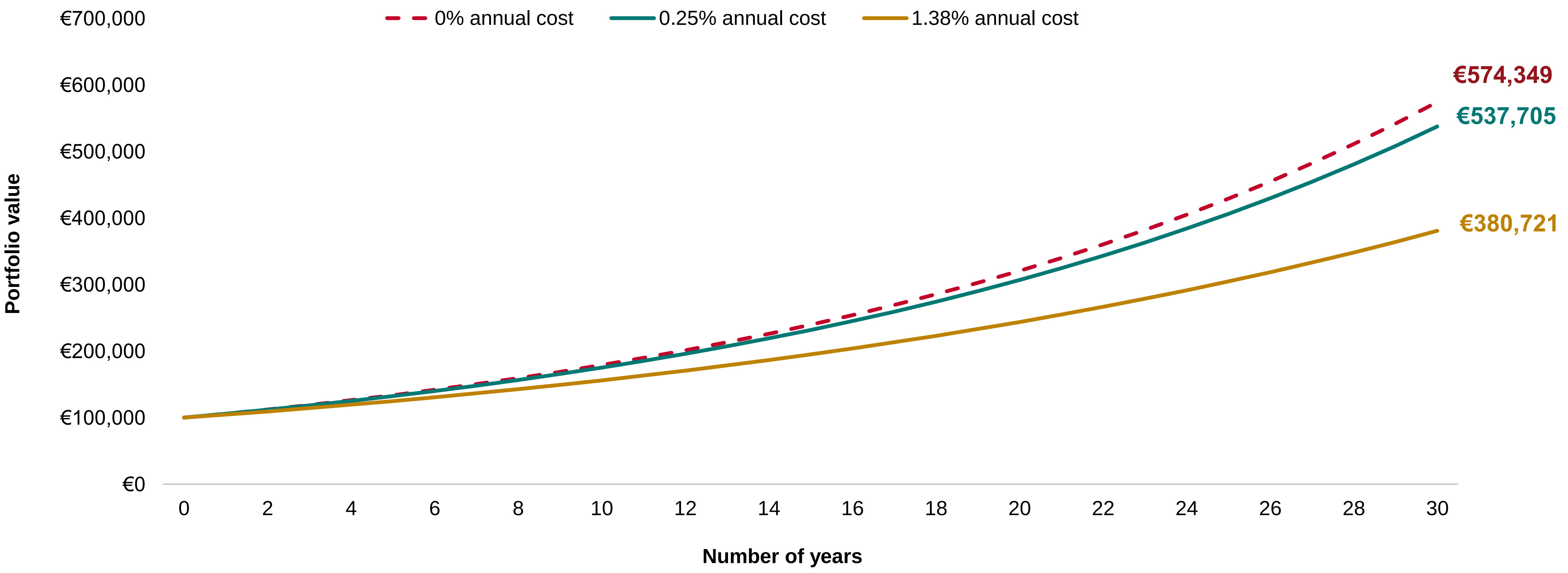
Past performance is not a reliable indicator of future results

Sources: Vanguard, using data from Bloomberg.

Notes: Daily returns data from 1 January 2003 to 10 February 2022. The initial allocation for both portfolios is 42% US stocks, 18% international stocks, and 40% US bonds. The rebalanced portfolio is returned to this allocation at the start of each quarter. Returns for the US stock allocation are based on the Dow Jones US Total Stock Market Index until April 2005 and on the MSCI US Broad Market Index thereafter. Returns for the international stock allocation are based on the MSCI All Country World Index ex USA and returns for the bond allocation are based on the Bloomberg US Aggregate Bond Index. All returns calculated in USD.

Kosten: De enorme impact op de lange termijn

Assuming a starting balance of €100,000 and a yearly return of 6%, which is reinvested



Source: Vanguard.
Note: The portfolio balances shown are hypothetical and do not reflect any particular investment.
The final account balances do not reflect any taxes or penalties that might be due upon distribution.

Verschillende manieren om te beleggen

Indexfondsen

Indexbeheerders streven ernaar de prestaties van een markt te volgen door in een index te beleggen.

Actieve fondsen

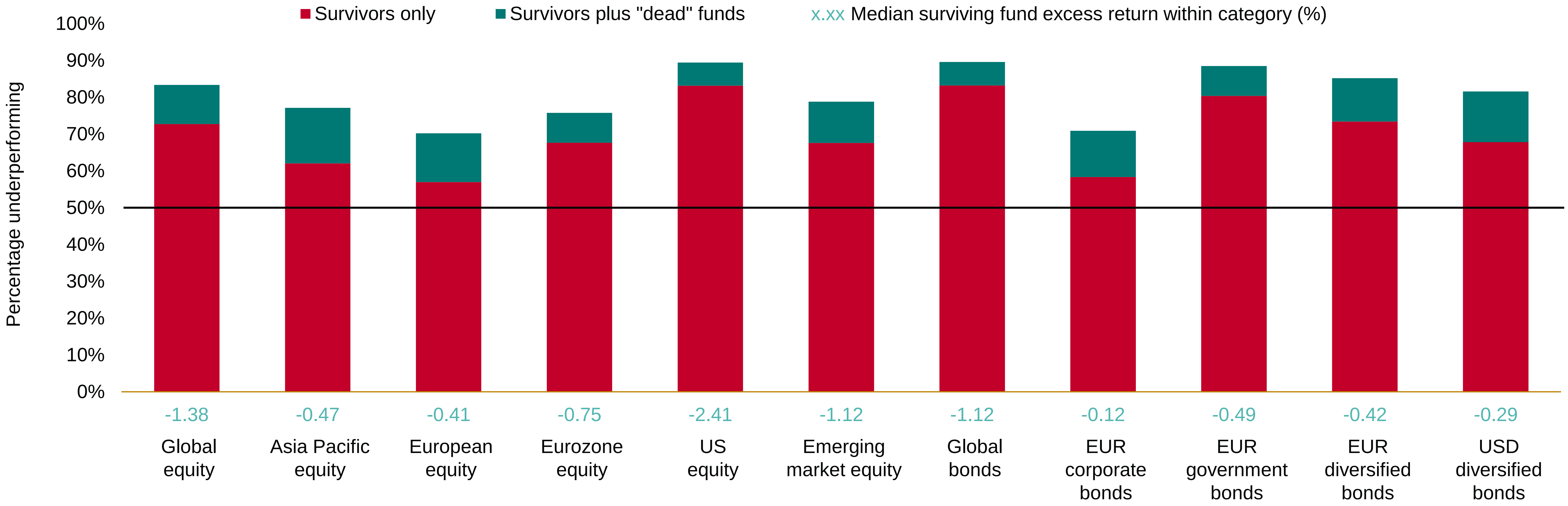
Actieve beheerders proberen beter te presteren dan de marktindex door een selectie van aandelen te kiezen. Ze hebben hogere kosten door onderzoeksanalisten, en hogere transactiekosten door het vaker verhandelen van effecten.

Exchange traded funds (ETF’s)

ETF's worden verhandeld op de beurs. Net als bij een indexfonds bestaat een index-ETF uit beleggingen in verschillende bedrijven die gezamenlijk een index repliceren.

Active tends to underperform on average

The percentage of underperforming actively managed funds (using prospectus benchmark) over 5 years



Past performance is not a reliable indicator of future results.
Source: Vanguard calculations, using data from Morningstar, Inc.
Note: Fund universe includes funds available for sale and filtered according to the descriptions in the charts in Belgium, Netherlands, Luxembourg, Sweden, Denmark, Norway, Finland, Germany and France. The following Morningstar categories with corresponding benchmarks are used: Global equity - MSCI WORLD IMI; European equity - MSCI EUROPE IMI; Eurozone equity - MSCI EMU IMI; US equity - MSCI USA IMI; Asia Pacific equity - MSCI Pacific IMI; Emerging market equity - MSCI EM IMI; Global bonds - Barclays Global Aggregate Index (EUR); EUR government bonds - Barclays Euro Aggregate Index Treasuries (EUR); EUR corporate bonds - Barclays Euro Aggregate Index Corporate (EUR); EUR diversified bonds - Barclays Euro Aggregate Index (EUR); USD diversified bonds - Barclays US Aggregate Index (EUR). Performance is shown in euro terms, net of fees, gross of tax withholding, with income reinvested to 31 December

Vier profielen voor verschillende doelstellingen

- Low-cost, broadly diversified core portfolio solution
- ETF-of-ETFs structure
- Ongoing Charges Figure for each fund of 0.25%
- EUR based currency

Vanguard LifeStrategy 20% Equity UCITS ETF

20% Equities
80% Bonds

Vanguard LifeStrategy 40% Equity UCITS ETF

40% Equities
60% Bonds

Vanguard LifeStrategy 60% Equity UCITS ETF

60% Equities
40% Bonds

Vanguard LifeStrategy 80% Equity UCITS ETF

80% Equities
20% Bonds

More than 20,000 underlying investments
Over 8,000 unique holdings*

Objective: provide a combination of income and some long-term capital appreciation by investing in fixed income and equity securities

Objective: provide a combination of income and moderate long-term capital appreciation by investing in fixed income and equity securities

Objective: provide a combination long-term capital appreciation with a moderate level of income by investing in fixed income and equity securities

Objective: provide a combination of long-term capital appreciation with some income by investing by investing in fixed income and equity securities

LOWER RISK — Client risk profile — HIGHER RISK

Source: Vanguard, as at 31 December 2020.

*The number of underlying investments and unique holdings increase as underlying ETFs increase in size.

Vanguard economic and market outlook 2024

- In 2023, there has been strong progress in 'beating back' inflation. **But the last mile will be hard.**

- **Monetary policy will bare its teeth in 2024**. In the US, we expect a mild recession as interest rates become increasingly restrictive in real terms and offsetting forces wane. We expect anaemic growth in Europe too.

- **Zero rates are yesterday's news.** Even after policy rates recede from their cyclical peaks, rates will settle at a higher level than we've grown accustomed to.

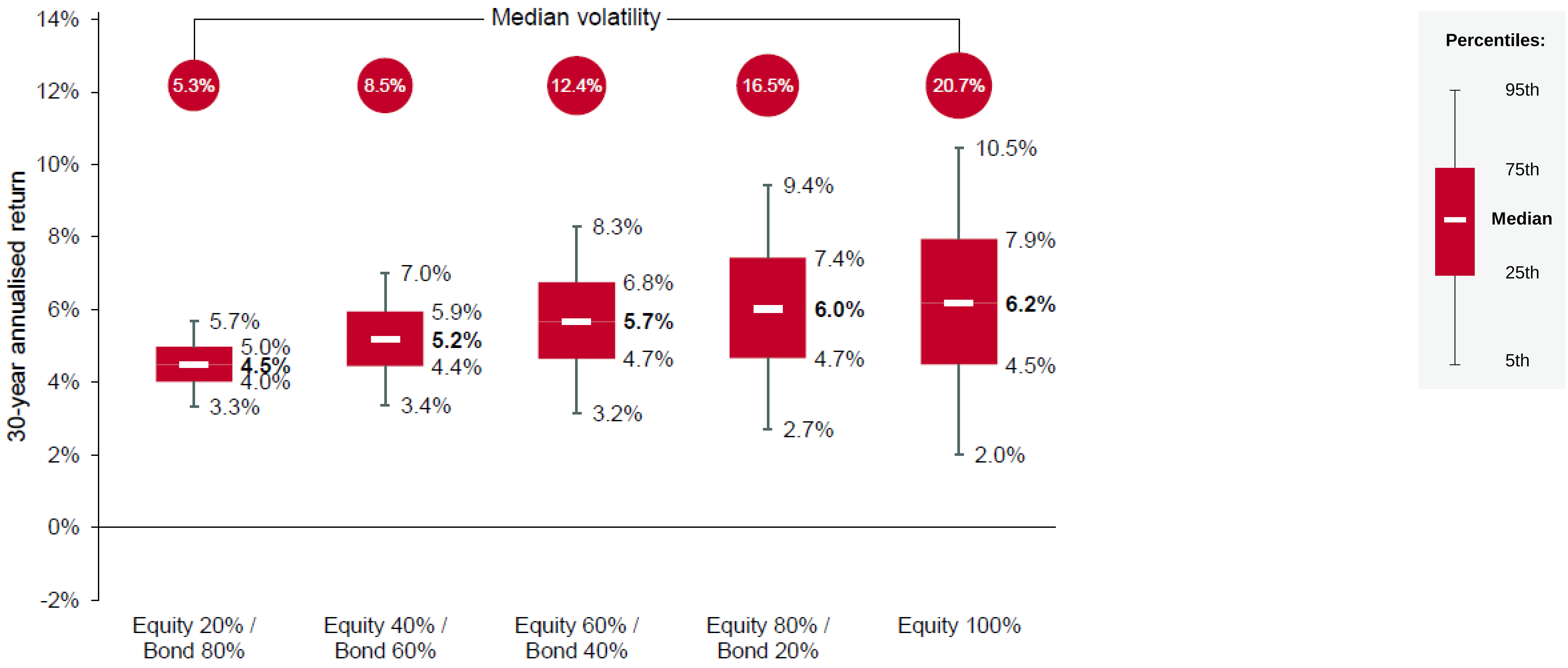
- This higher interest rate environment will usher in **a return to sound money**, and the implications for the global economy and financial markets will be profound.

- **Bonds are back**. We expect strong returns in the next decade amid higher starting yields. **But higher rates leave equities overvalued**, especially in the US. The equity risk premium is thin.

Source: Vanguard, as at 14 December 2023.

Portfolio return expectations for the next 30 years (nominal)

Distribution of annualised expected returns over the next 30 years



Any projections should be regarded as hypothetical in nature and do not reflect or guarantee future results.
Notes: Distribution of 30-year annualised return outcomes in EUR from the VCMM are derived from 10,000 simulations for each modelled asset class. See appendix section for further details on the VCMM and asset classes.
Source: Vanguard calculations, as at 31 March 2024.

Q&A

IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time. The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include US and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, US money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

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.

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

The Vanguard LifeStrategy® Funds may invest in Exchange Traded Fund (ETF) shares.

ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid- offer spread which should be considered fully before investing.

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 Funds may use derivatives in order 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 Fund's 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.

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 directed at professional investors and should not be distributed to, or relied upon by retail investors.

For further information on the fund's investment policies and risks, please refer to the prospectus of the UCITS and to the KID before making any final investment decisions. The KID for this fund is available in local languages, alongside the prospectus via Vanguard's website https://global.vanguard.com/.

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For Dutch investors only: The fund(s) referred to herein 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, please see the fact sheet(s) which are available from Vanguard via our website https://www.nl.vanguard/professional/product.

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