

The Future of Advice

Helping advisers create improved client outcomes

Angie Staunton APFS MCSI

Business Development Manager Yorkshire & North East

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

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.



Vanguard

Agenda

- 01 Advice Landscape**
Importance of the adviser
- 02 UK Adviser Survey 2018 – Key Findings**
- 03 The areas advisers add value superior to a DIY outcome**
- 04 Behavioral Coaching – Key to unlocking client's success**
- 05 Q&A**
- 06 Further Support**

Vanguard Adviser's Alpha

What is the adviser's alpha concept?

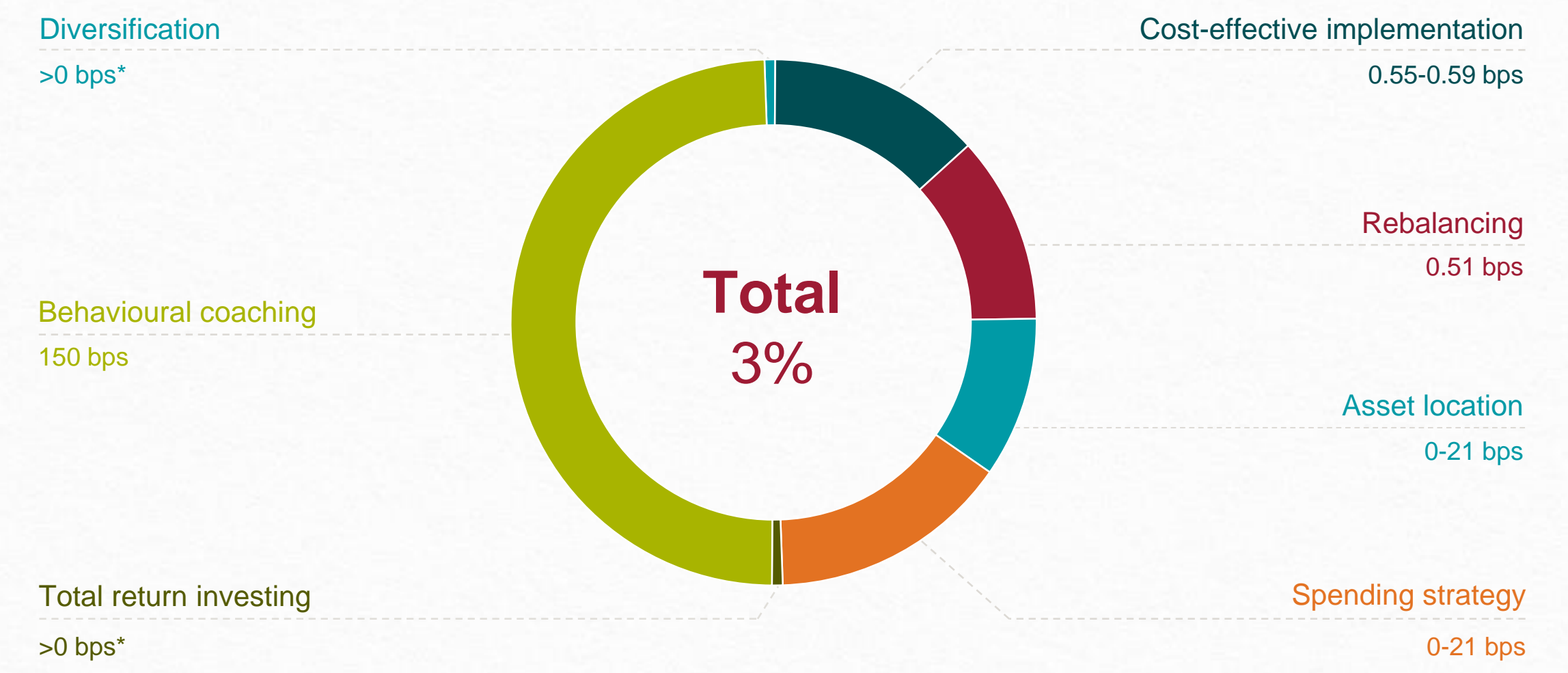
✓ Success not solely on outperforming a cost-free policy portfolio

✓ A service-centric model



✓ Reframes the benchmark for the value of advice

Adviser's Alpha framework



“The adviser’s job is to help their clients
avoid making costly mistakes”

John C Bogle

The Advantage of Advice

The benefits of combining Trust + Satisfaction

Demand for advice is rising...



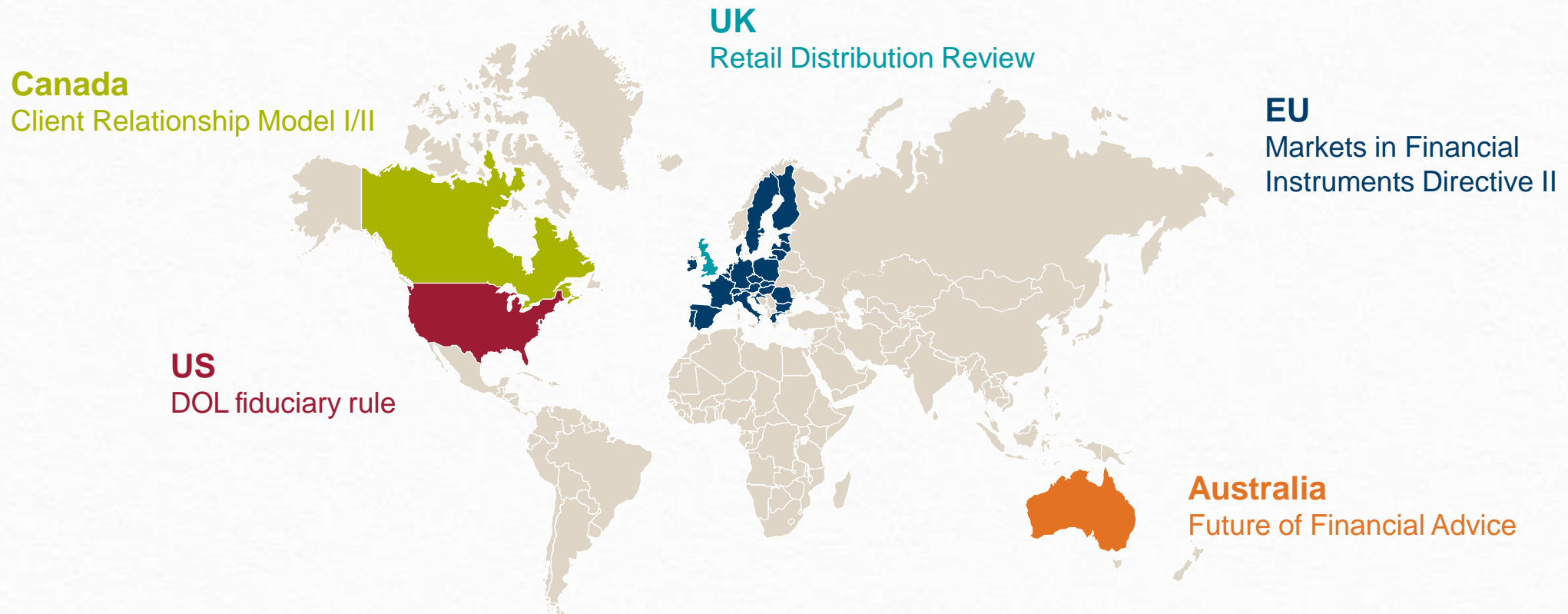
Sources: FCA, Platforum

Regulatory environment – global, not local, considerations

Emphasis on
**transparency and
disclosure**

Genie is out of the bottle:
“great awakening” of
investors

Global
phenomenon



But the landscape is evolving...

Manufacturing
Fund

Administration
Platform

Distribution
Advice

2010

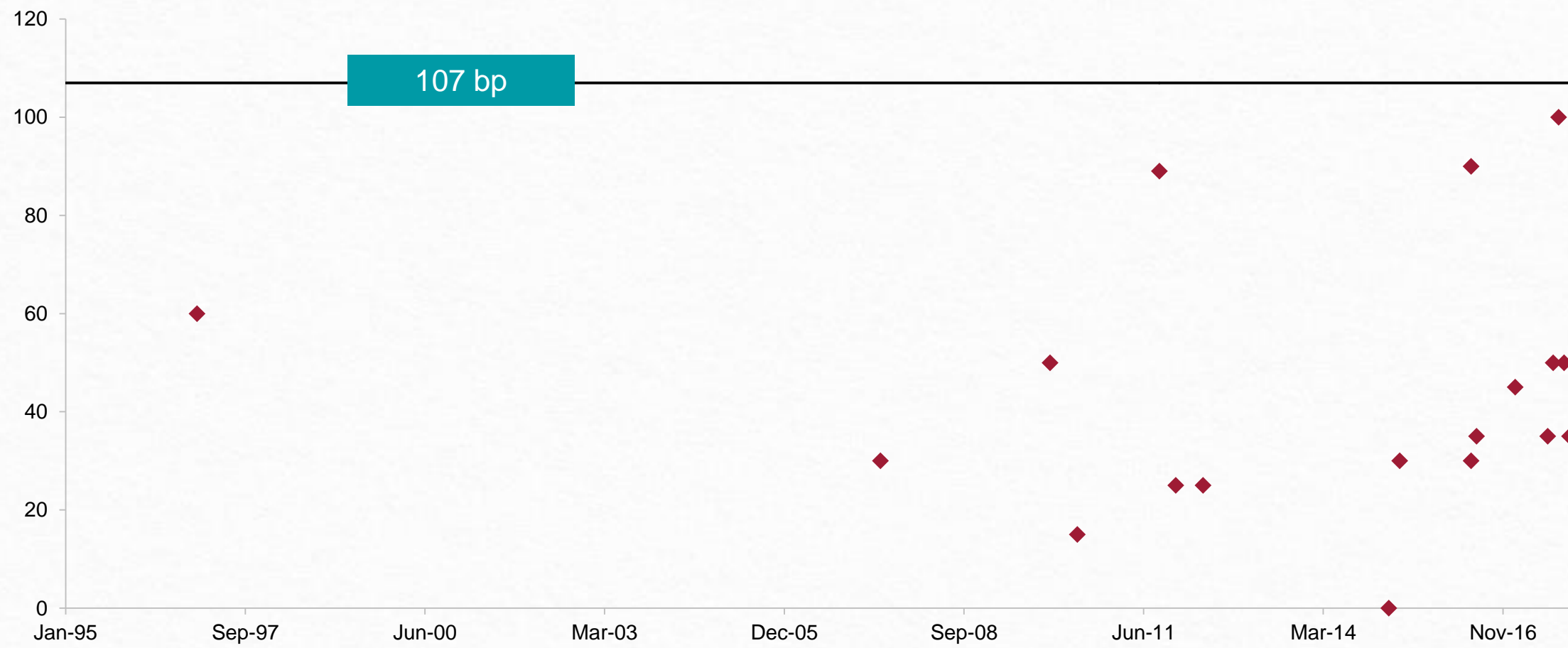
bps

2020

bps

Source: Vanguard

The march of tech-enabled advice



Note: Vanguard calculated the asset-weighted average advisory fee to be 107 bp, based on data from Cerulli. Data runs to 31 December 2017.
Source: Vanguard calculations using data from Cerulli and the advice firms' websites.

The four principles of success... **don't** change

Goals

Balance

Cost

Discipline

The four principles of success... **don't** change

Setting goals

Prioritising goals

Relationship with money

Intergenerational planning

Goals

Balance

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Intergenerational planning

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Portfolio management

Risk profiling

Reporting

Spending strategies

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Portfolio management

Risk profiling

Reporting

Spending strategies

Tax efficiency

Fund recommendations

Cost

Discipline

Behavioural coaching

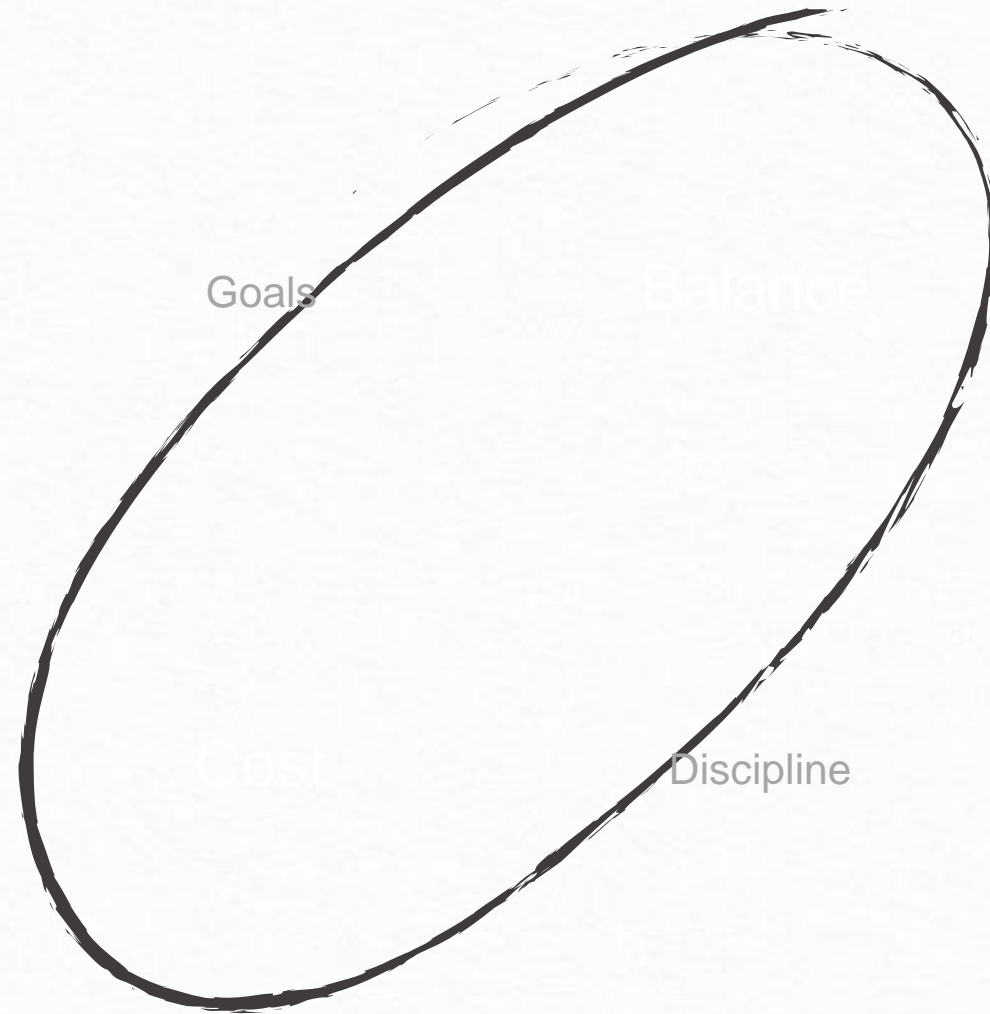
Peace of mind

Budgeting

Financial confidence

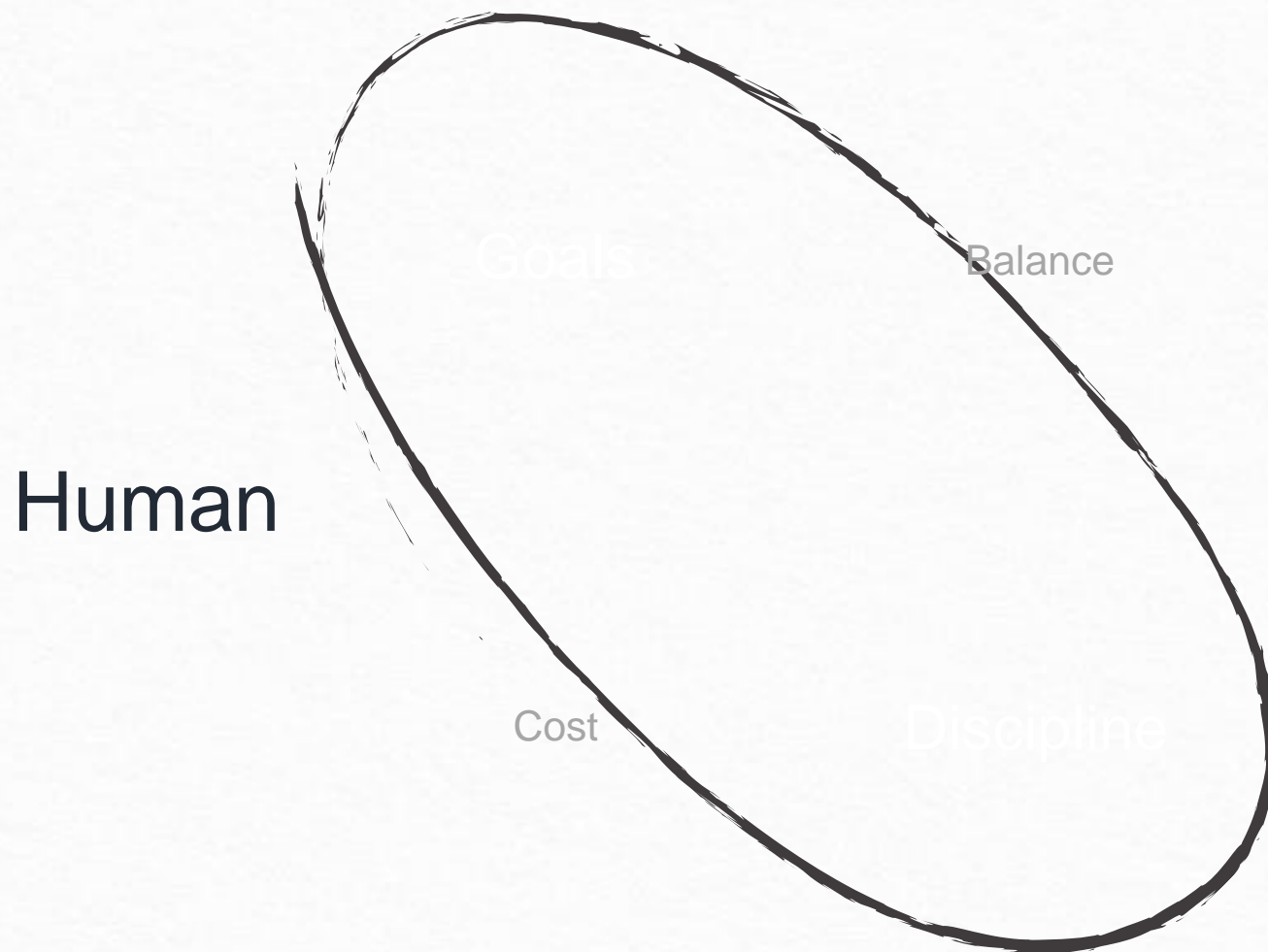
Financial knowledge

The delivery will change...



Algorithm

The adviser-client relationship remains key...



Evolution of the adviser

How can the adviser-client relationship be optimised?

The Vanguard 2018 UK Adviser-Client Survey set out to understand how **relationships can drive better outcomes** for advisers and their clients.



How many advisers & clients did we talk to?



300

Advisers



1,000

Advised clients



50

Multi-faceted
questions



230k

Individual
data-points

Who were they?



Advisers

100% FCA-licensed firms

14% Financial planners

73% Financial advisers

95% Advised on investments



Advised clients

Median age: **54**

Average tenure with adviser: **4 years**

75% Portfolios of shares and bonds

80% Clients who invest over £10k pa

What did we discover?

The **interplay between trust and satisfaction** is key to effective adviser-client relationships.






Trust



Satisfaction

Why does it matter?

		All assets with adviser	Very unlikely to switch	Unprompted referral	Comfortable sharing personal information
	High trust + high satisfaction	58%	61%	55%	71%
	High trust + medium satisfaction	31%	23%	41%	59%
	Medium trust + medium satisfaction	21%	9%	32%	46%

What attributes drive trust?

Attribute	Correlation to Trust
Shows awareness of trends in the financial markets	0.68
Demonstrates knowledge of investment tools and strategies	0.67
Knows how to conceive, execute and reassess a financial plan	0.63
Is articulate, a good communicator	0.61
Is able to make suggestions on the spot	0.60
Has clients with similar requirements/experiences to my own	0.59
Has relevant financial industry qualifications	0.59
Is compensated in a reasonable manner	0.58
Maintains eye contact when speaking with me	0.57
Will act in my best interests at all times	0.55
Has integrity; acts morally	0.50
Is my advocate, pursuing my goals (almost) as if they were his/her own	0.50

How are clients feeling trust?

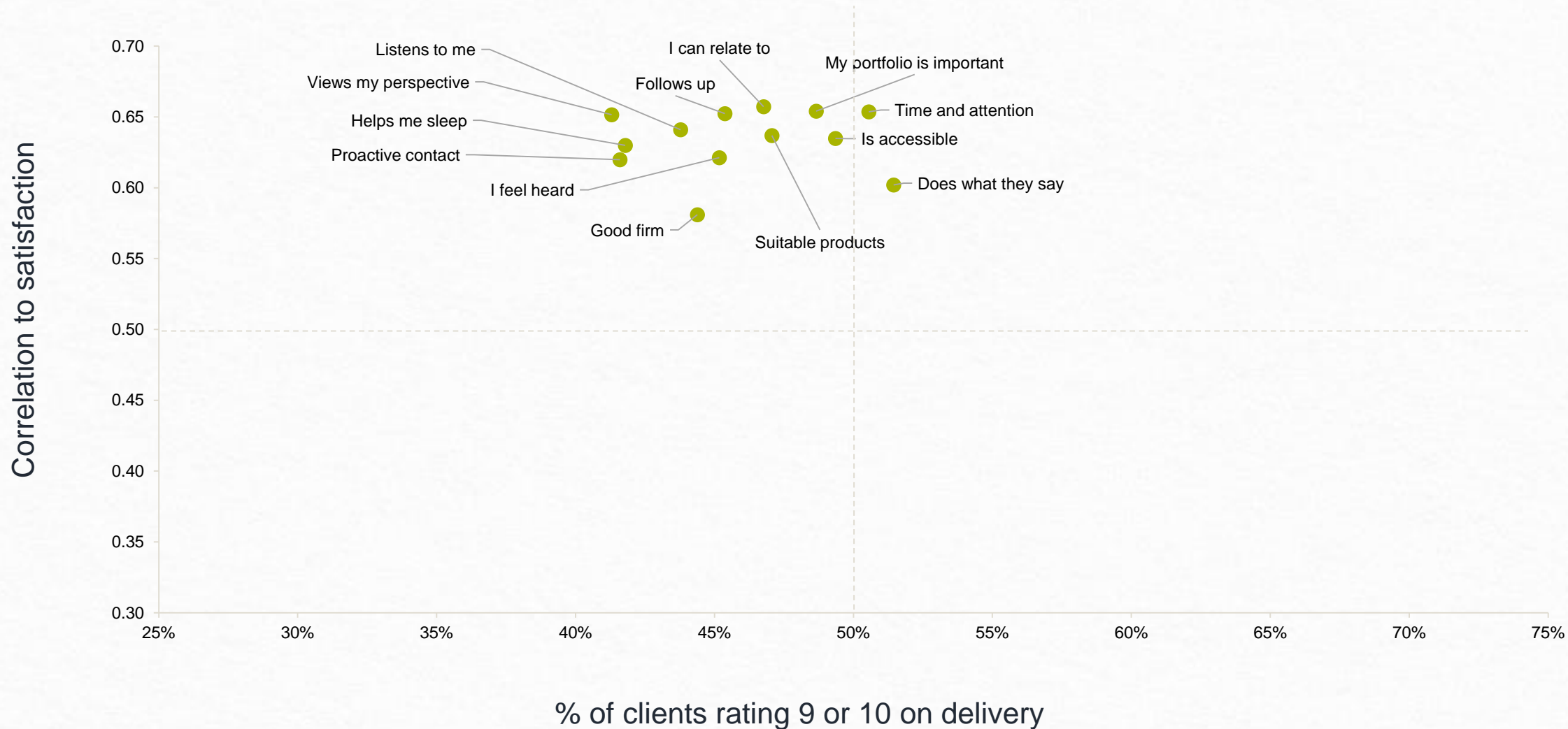


Source: Vanguard 2018 UK Adviser-Client Survey.

What attributes drive satisfaction?

Attribute	Correlation to satisfaction
Follows up when expected and without prompting	0.71
Is someone I can relate to or make a connection with	0.64
Does what he/she says he/she will	0.64
Proactively contacts me regarding my investments/portfolio	0.63
Listens to me closely (probing, following up) to truly understand me as a person	0.63
Is able to view the world from my perspective	0.61
Makes me feel that my portfolio is important, regardless of its size	0.6
Ensures that I feel 'heard'	0.59
Gives me time and attention without making me feel rushed	0.57
Offers me products or solutions that are in tune with my financial goals/risk tolerance	0.56
Provides me with a sense of relief/allows me to sleep better at night	0.55
Is accessible	0.53
Works for a firm whose brand values/reputation I want to be associated with	0.47

How are clients feeling satisfaction?

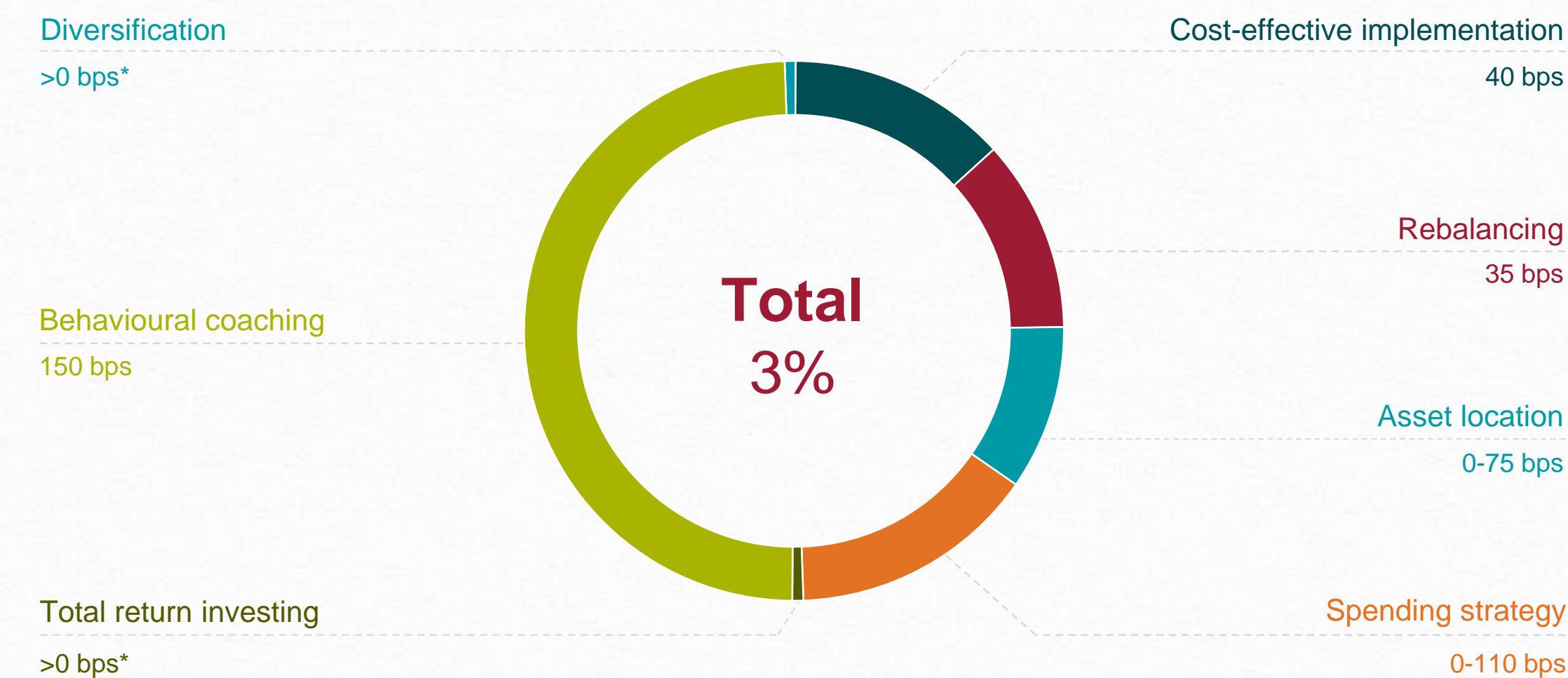


Source: Vanguard 2018 UK Adviser-Client Survey.

The Advantage of Advice

Putting a value on your value – quantifying the value of your advice

Adviser's Alpha framework



Source: Vanguard.

Caveats

Not an exhaustive list of tools

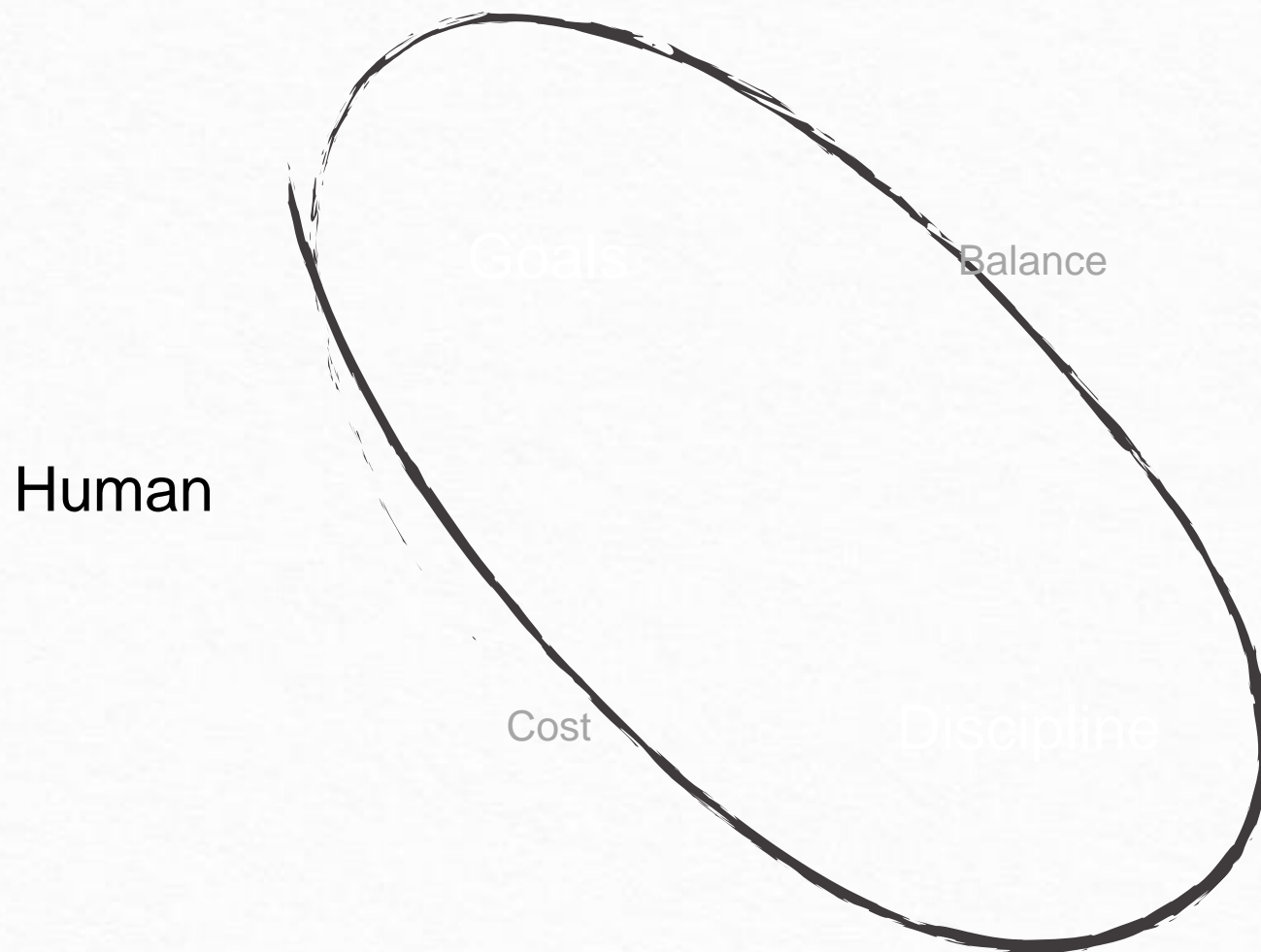
Each client is **different**

About 3% net per annum

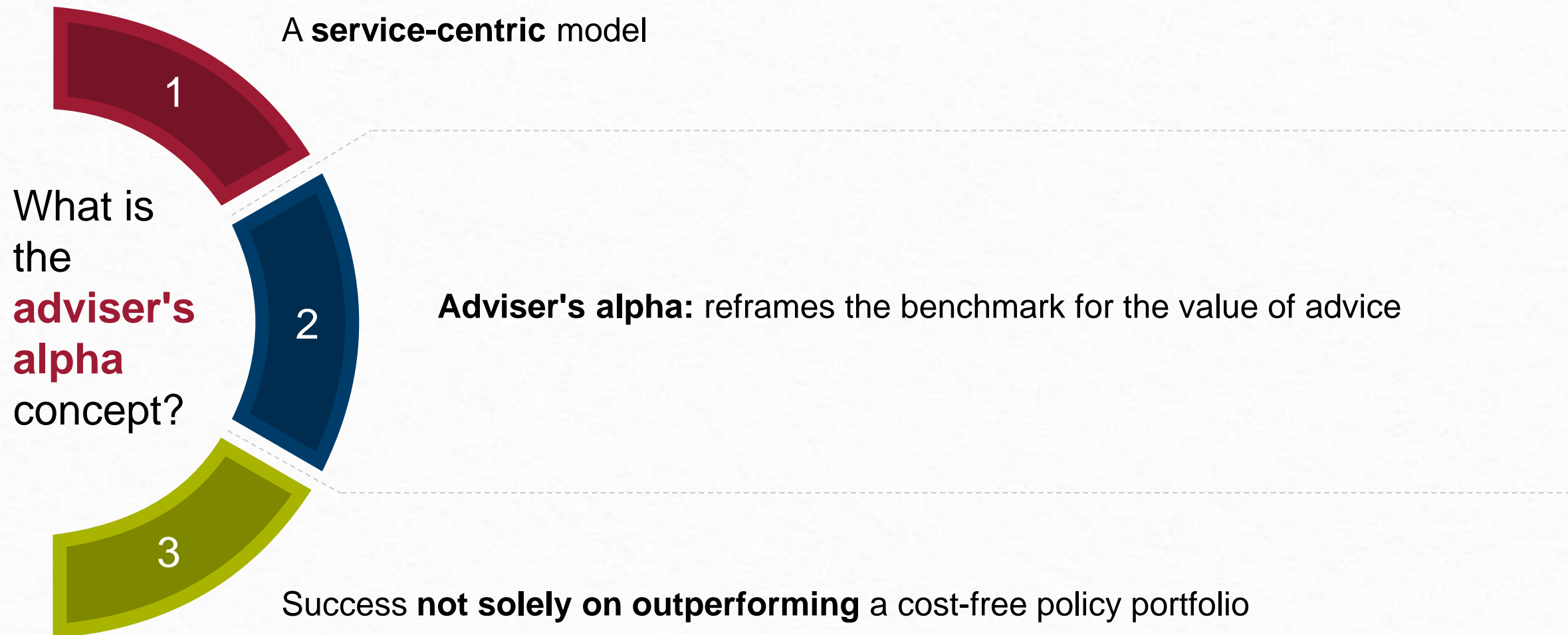
actual value based on **each
client's unique circumstances**

Difficult to value the **emotional benefits**

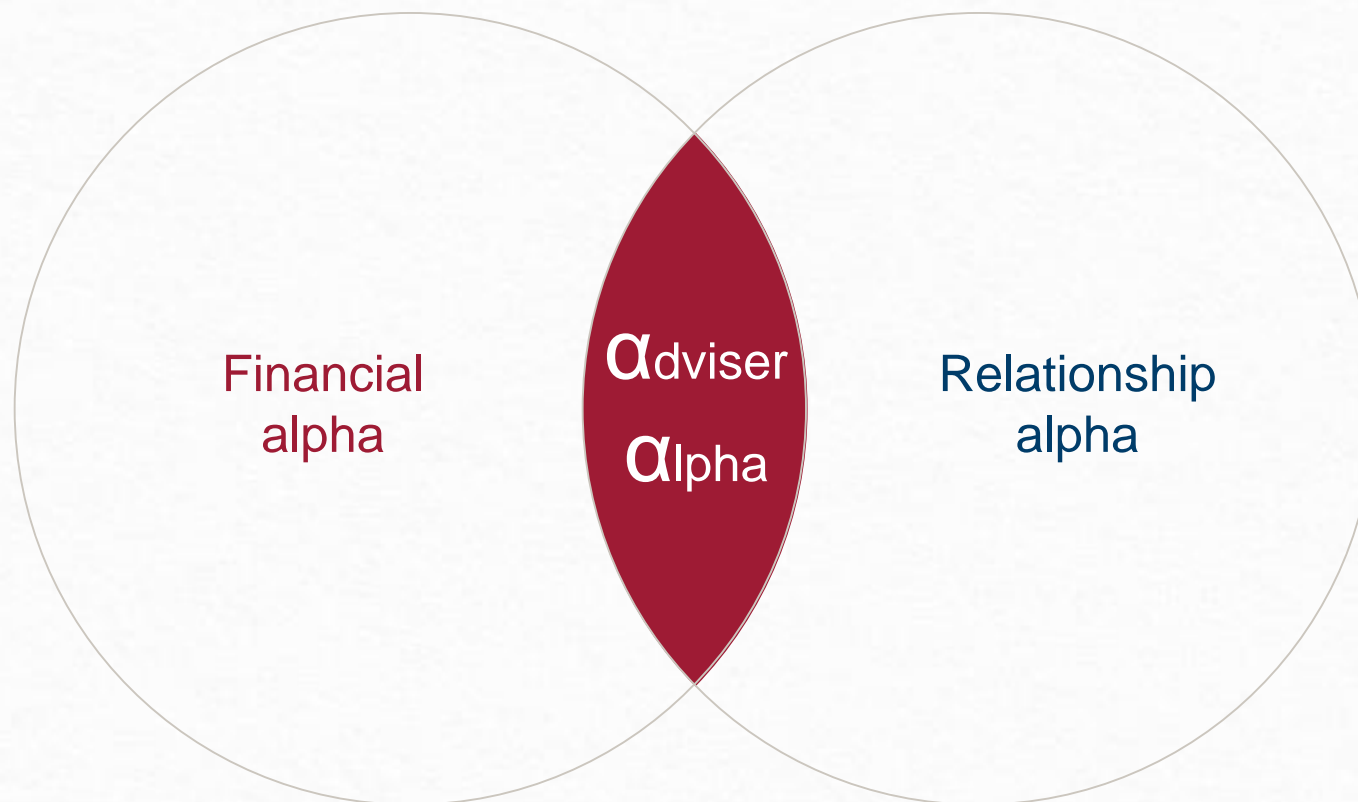
The adviser-client relationship remains key...



Vanguard Adviser's Alpha



The opportunity for advisers



Adviser Alpha value components

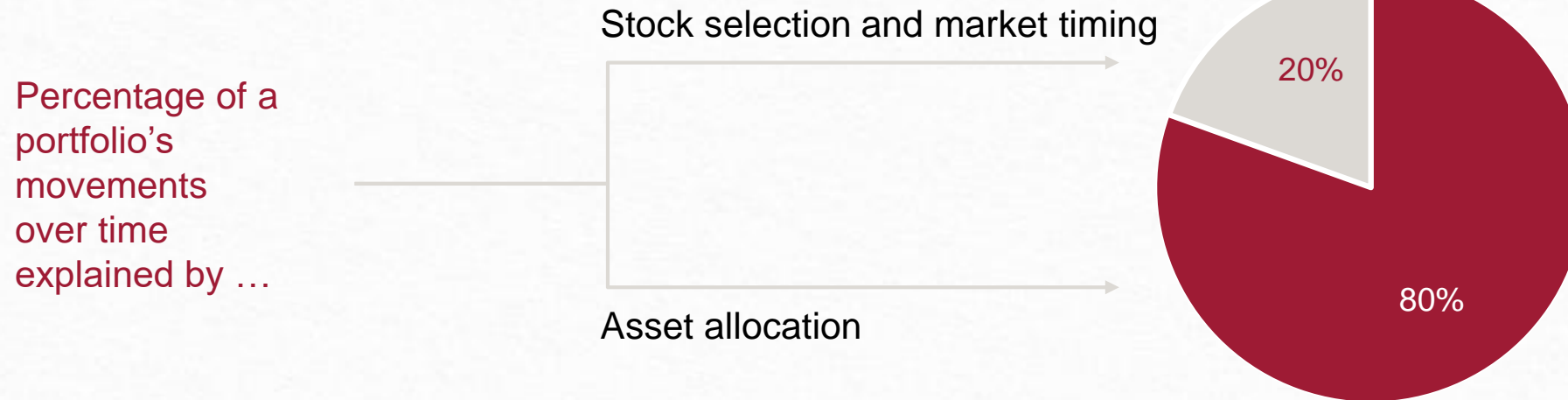
Vanguard's Adviser's Alpha strategy modules	Module number	Value-add relative to "average" client experience (in basis points of return)
Suitable asset allocation using broadly diversified funds/ETFs	I	> 0* bps
Rebalancing	II	0 - 51 bps
Cost-effective implementation (expense ratios)	III	55 - 59 bps
Behavioural coaching	IV	150 bps
Tax allowances and asset location	V	0 - 21 bps
Spending strategy (withdrawal order)	VI	0 - 21 bps
Total-return versus income investing	VII	> 0* bps
Potential value added		“About 3% in <i>net</i> returns”

Source: Vanguard

Notes: “About 3%” means 3 percentage points of additional net return over an unspecified period of time. * denotes that return value-add for modules I and VII 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.

Asset allocation

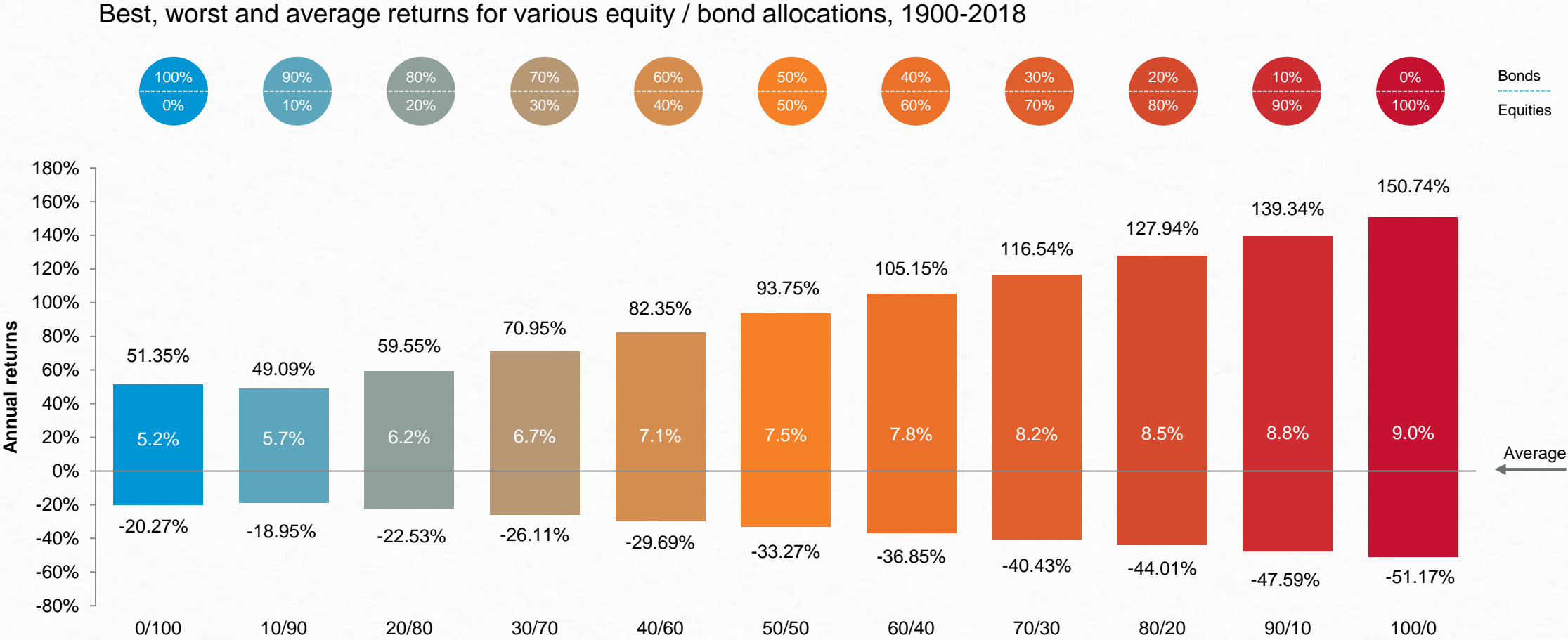
Investment outcomes are largely determined by the long-term mixture of assets in a portfolio



Source: Vanguard calculations using data from Morningstar.

Note: Past performance is not a reliable indicator of future results. Calculations are based on monthly returns for 743 UK balanced funds from January 1990 through September 2015. For details on the methodology, see the Vanguard research paper *The global case for strategic asset allocation and an examination of home bias* (Scott et al., 2017).

The mixture of assets defines the spectrum of returns



Source: Vanguard, based on Barclays UK Equity Gilt study, Thomson Reuters, FTSE, MSCI, Citigroup, Bloomberg Barclays and Macrobond.
Notes: Past performance is not a reliable indicator of future results. Reflects the maximum and minimum calendar year returns, along with the average annualised return, from 1900-2018, for various stock and bond allocations, rebalanced annually. From 1900 through 1984, stocks are represented by the Barclays Equity Gilt Study from 1900 to 1964, Thomson Reuter Datastream UK Market Index Jan.1965 – Dec.1969; MSCI UK Jan.1970 - Dec.1985; Thereafter, stocks are represented by MSCI All Country World Index. Bonds are UK as represented by Barclays Equity Gilt Study 1900-1976; FTSE UK Government Index Jan.1977-Dec 1984, Citigroup World Global Bond Index from 1985 through 1989, Barclays Global Aggregate Index thereafter. Returns are in GBP, with income reinvested, through 2018.

Delivering a smoother performance experience

Key index returns (%), ranked by performance

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
23.6	20.3	17.8	28.3	19.6	8.8	35.4	21.1	0.8	25.7
21.3	16.7	15.5	25.2	18.8	5.5	34.1	17.2	0.5	21.6
19.1	6.5	12.8	21.0	14.6	5.4	29.6	16.9	0.1	20.2
16.7	5.8	12.3	20.8	12.5	4.0	25.5	13.8	-0.4	19.2
14.5	2.1	12.0	13.6	11.3	2.5	25.4	13.1	-2.2	15.5
12.7	1.2	11.2	11.1	9.4	1.4	21.2	11.3	-3.1	15.2
8.9	-3.5	10.7	1.6	7.9	1.0	18.3	8.7	-3.4	13.7
8.7	-6.6	9.3	0.6	7.9	0.7	16.8	4.9	-7.6	9.3
7.5	-12.6	5.9	0.0	2.8	0.5	12.3	2.5	-8.0	7.6
5.8	-14.7	2.9	-4.2	1.2	-1.1	10.7	2.0	-9.1	6.9
4.8	-18.4	0.6	-5.3	-1.4	-10.3	3.7	1.9	-9.5	6.3

■ Global equities
■ North American equities (US/Canada)
■ Emerging market equities

■ Developed Asia equities
■ European ex UK equities
■ UK equities

■ UK government bonds (gilts)
■ UK index-linked gilts
■ UK investment grade corporate bonds

■ Hedged global bonds
□ Vanguard LifeStrategy 60% Equity Fund

Past performance is not a reliable indicator of future results.

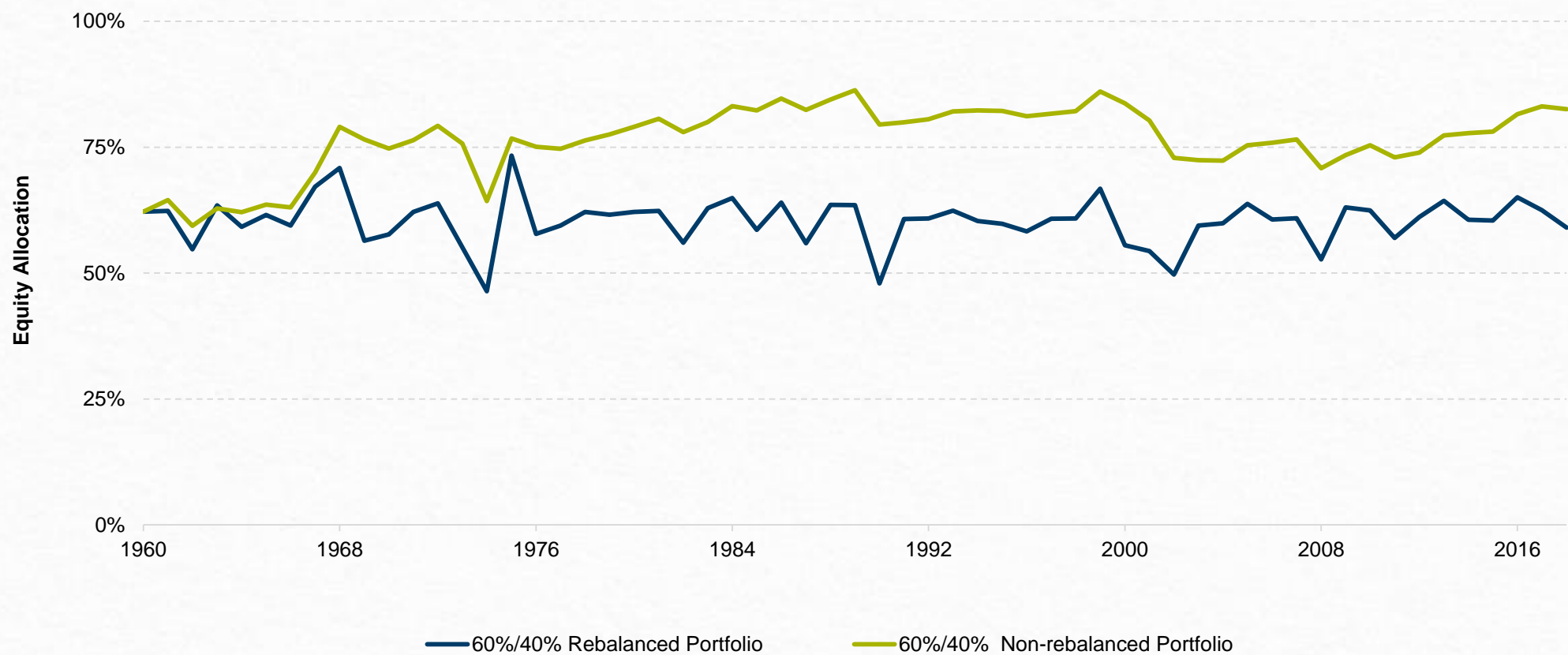
Source: Vanguard calculations, using data from Barclays Capital and Thompson Reuters Datastream. UK equity is defined as the FTSE All Share Index, European ex-UK equity as the FTSE All World Europe ex-UK Index, developed Asia equity as the FTSE All World Developed Asia Pacific Index, North America equity as the FTSE World North America Index, emerging market equity as the FTSE Emerging Index, global equity as the FTSE All World Index, UK government bonds as Bloomberg Barclays Sterling Gilt Index, UK index-linked gilts as Bloomberg Barclays Global Inflation-Linked UK Index, hedged global bonds as Bloomberg Barclays Global Aggregate Index (hedged in GBP), UK investment grade corporate bonds as Bloomberg Barclays Sterling Corporate Index. Returns are denominated in GBP and include reinvested dividends and interest.

LifeStrategy 60% Equity Fund performance shown is cumulative and includes 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. Please be advised that the performance of the LifeStrategy 60% Equity Fund from 1/1/2008 to 23/06/2011 is simulated. Simulated performance figures do not represent actual fund activity, and may not take account of relevant economic and market factors impacting actual fund performance. Simulated and actual past performance is not a reliable indicator of future results.

Rebalancing

Equity allocation of 60%/40% equity/bond portfolio rebalanced annually and non-rebalanced, 1960-2018

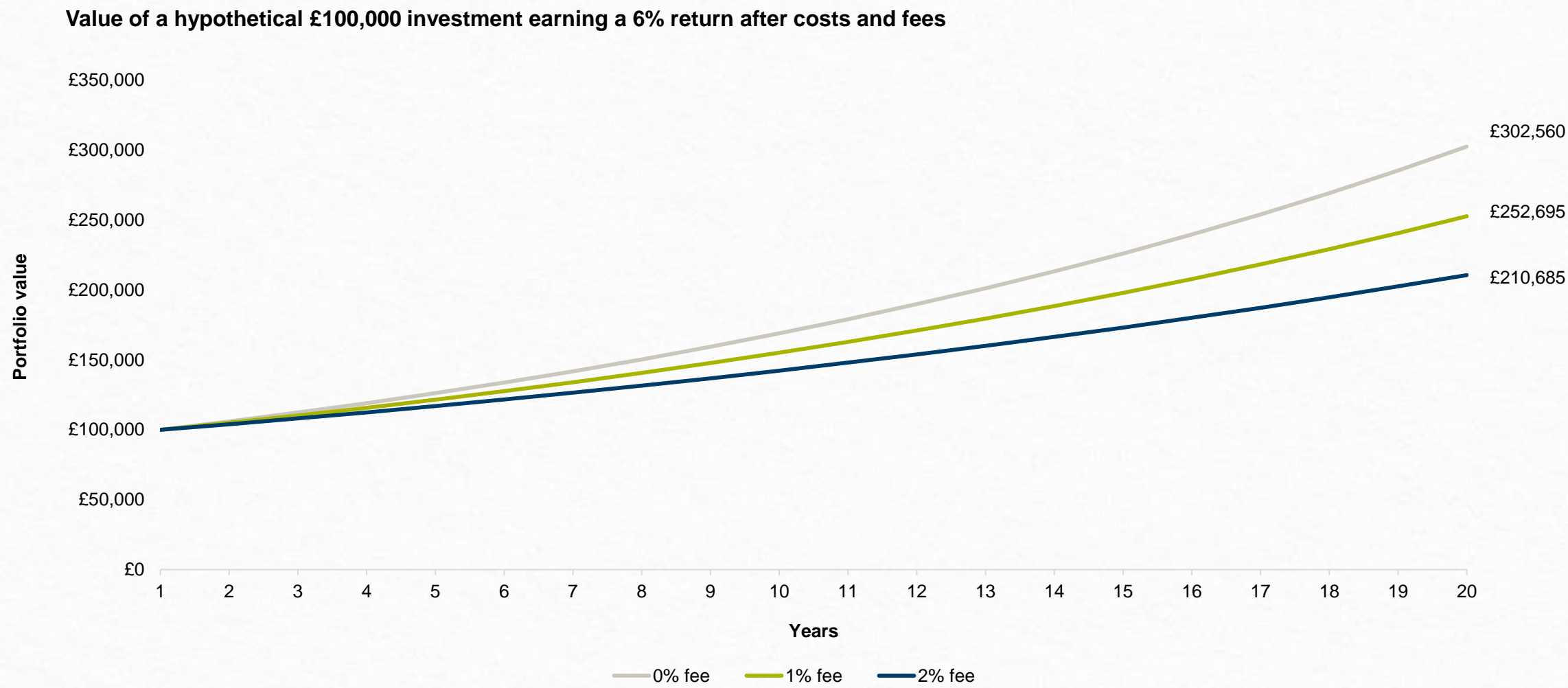
Adviser Alpha
value
0-51 bps



Source: Vanguard, based on Barclays UK Equity Gilt study, Thomson Reuters Datastream, FTSE, MSCI, Citigroup, Bloomberg Barclays and Factset.
Notes: Past performance is not a reliable indicator of future results. Equities are represented by the Barclays Equity Gilt Study from 1960 to 1964, the Thomson Reuters Datastream UK Market Index from Jan.1965 – Dec.1969; the MSCI UK from Jan.1970 – Dec.1985; thereafter, equities are represented by the MSCI All Country World Index. Bonds are represented by the Barclays Equity Gilt Study from 1960 – 1976; the FTSE UK Government Index from Jan.1977 – Dec 1984, the Citigroup World Global Bond Index from 1985 to 1989 and the Bloomberg Barclays Global Aggregate Index thereafter. Returns are in sterling, with income reinvested, to 31 December 2018.

Cost effective implementation

Costs, like interest, compound over time



Source: Vanguard
Notes: For illustrative purposes only. Shows the returns of a hypothetical £100,000 investment earning a 6% return after costs and fees of 0%, 1%, and 2% per year, respectively, over 20 years. Not representative of any actual investment.

Expense ratios

Adviser Alpha
value
55-59 bps

Asset-weighted expense ratios versus "low-cost" investing

Equity/bond mix:	100%/0%	80%/20%	60%/40%	50%/50%	40%/60%	20%/80%	0%/100%
Asset-weighted expense ratio (AWER)	0.80	0.81	0.81	0.81	0.81	0.81	0.82
Quartile 1 AWER (Q1)	0.25	0.25	0.24	0.24	0.24	0.23	0.23
Cost-effective implementation (AWER vs. Q1)	0.55	0.56	0.57	0.57	0.57	0.58	0.59

Sources: Vanguard calculations, based on data from Morningstar, Inc., as at 31 December 2018.
Notes: Fund universe includes funds available for sale in the UK, from the following Morningstar categories: UK equity – flex cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Europe equity – Europe OE: flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Euro zone equity – flex-cap, large-cap, mid-cap, small-cap; Global – flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; US equity – flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Emerging markets equity – emerging markets; Europe bond – EUR diversified; US bond – USD diversified; Global bond – global un-hedged bond; UK bonds – UK diversified, UK government.

Behavioural coaching

Behavioral coaching can add **percentage points** - rather than basis points – of value to the relationship



Investors commonly receive **much lower returns** from the funds in which they invest

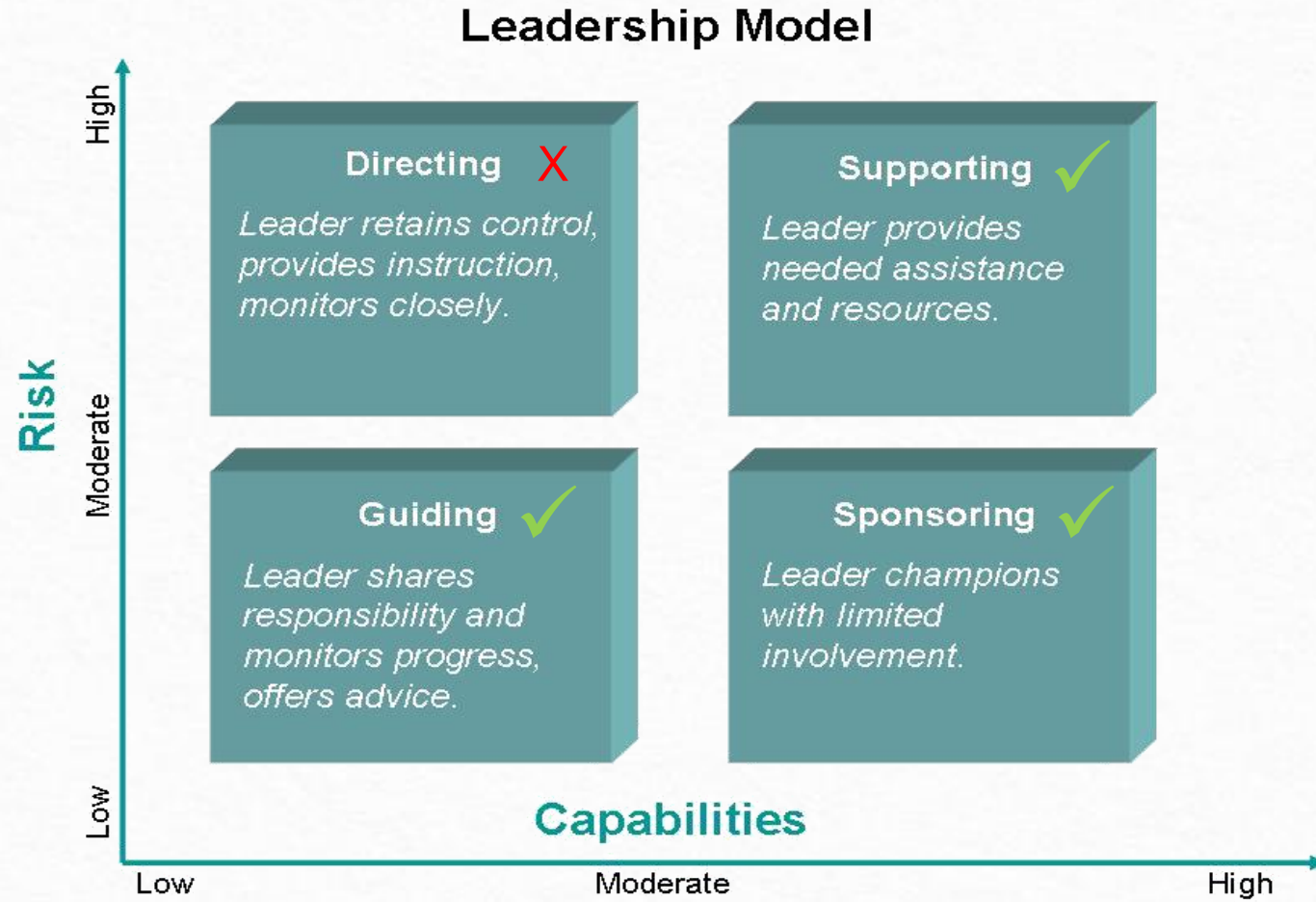
This drag is significantly **more pronounced for more concentrated or narrow funds**

This drag is much **lower for broad index funds**

Defining coaching: A leadership style

Coaching is a **leadership style** that helps **unlock people's potential** to maximise their performance

Defining coaching: When not to use it?



Defining client coaching: When to use it?

When a client...

- **asks for advice**, observations, feedback, support
- faces an **extremely challenging task**
- has **poor past experience** of financial services e.g. bank/previous adviser/been sold a product which is inconsistent with goals or does not meet their expectations
- demonstrates a **negative attitude**
- states a **need to improve** their understanding of life
- gets stuck and is **not able to make a decision** / e.g. investment decisions
- **needs clarity** in financial planning

Any more examples from your experiences?

What are behavioural biases?

There are two types:

Cognitive

Biases based on errors of perception, memory, judgment or reasoning.

- Based on errors of logic
- Therefore, relatively easier to correct

How broad is the subject?

Wikipedia lists 91 cognitive biases

Ambiguity effect	Contrast effect	Hindsight bias	Negativity effect	Reactive devaluation
Anchoring	Curse of knowledge	Hostile media effect	Negativity bias	Recency illusion
Attentional bias	Decoy effect	Hot-hand fallacy	Neglect of probability	Restraint bias
Availability heuristic	Denomination effect	Hyperbolic discounting	Normalcy bias	Rhyme as reason effect
Availability cascade	Distinction bias	Identifiable victim effect	Not invested here	Risk compensation
Backfire effect	Duration neglect	IKEA effect	Observer- expectancy bias	Selective perception
Bandwagon effect	Empathy gap	Illusion of control	Omission bias	Semmelweis reflex
Base rate fallacy	Endowment effect	Illusion of validity	Optimism bias	Social comparison bias
Belief bias	Essentialism	Illusory correlation	Ostrich effect	Social desirability bias
Bias blind spot	Exaggerated expectation	Impact bias	Outcome bias	Status quo bias
Cheerleader effect	Experimenter's bias	Information bias	Post-purchase rationalisation	Stereotyping
Choice-supportive bias	Focusing effect	Insensitivity to sample size	Overconfidence effect	Subadditivity effect
Clustering illusion	Forer / Barnum effect	Irrational escalation	Pareidolia	Subjective validation
Confirmation bias	Framing effect	Less-is-better effect	Pessimism bias	Survivorship bias
Congruence bias	Frequency illusion	Loss aversion	Planning fallacy	Time-saving bias
Conjunction fallacy	Functional fixedness	Mere exposure effect	Pro-innovation bias	Unit bias
Conservatism or regression bias	Gambler's fallacy	Money illusion	Pseudocertainty effect	Well travelled road effect
Conservatism (Bayesian)	Hard-easy effect	Moral credential effect	Reactance	Zero-risk bias
				Zero-sum heuristic

We don't have time to cover all of these

What are behavioural biases?

There are two types:

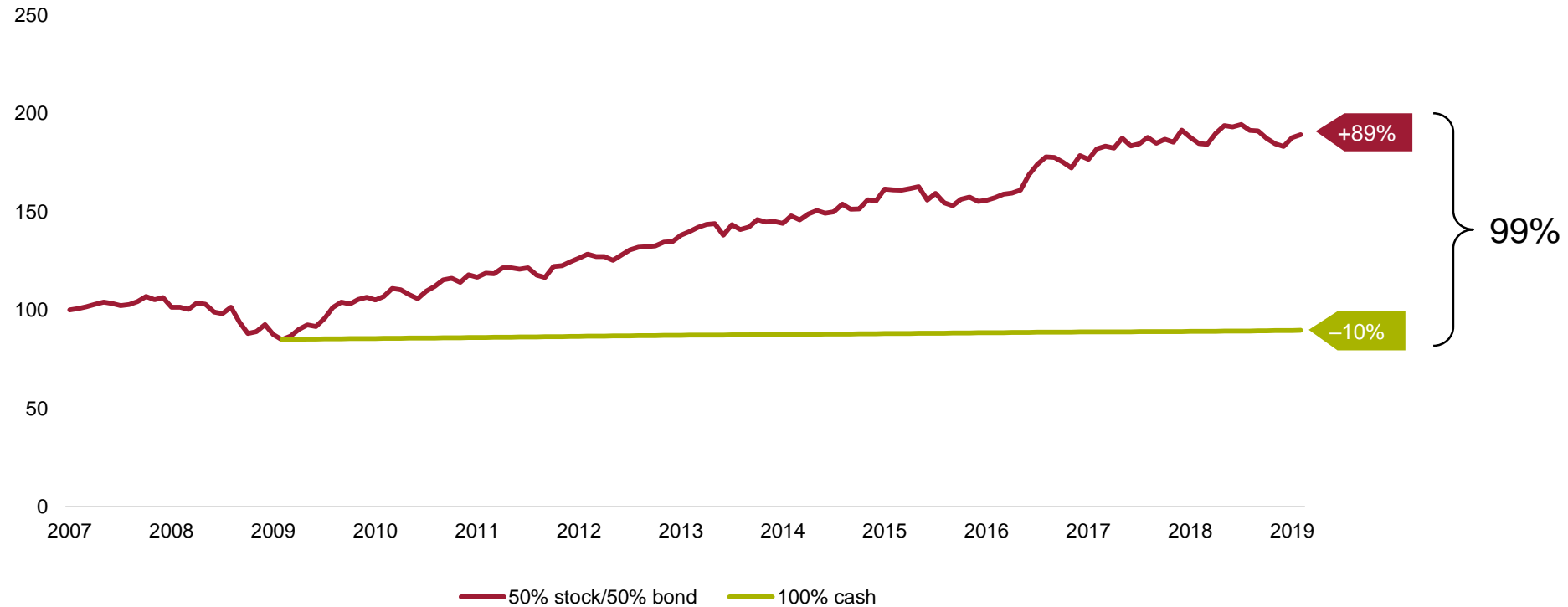
Emotional

The tendency to believe things that give us a good feeling and disbelieve things that make us feel uncomfortable.

- Based on emotional factors
- As a result, more difficult to change

4. Behavioural coaching: The importance of discipline

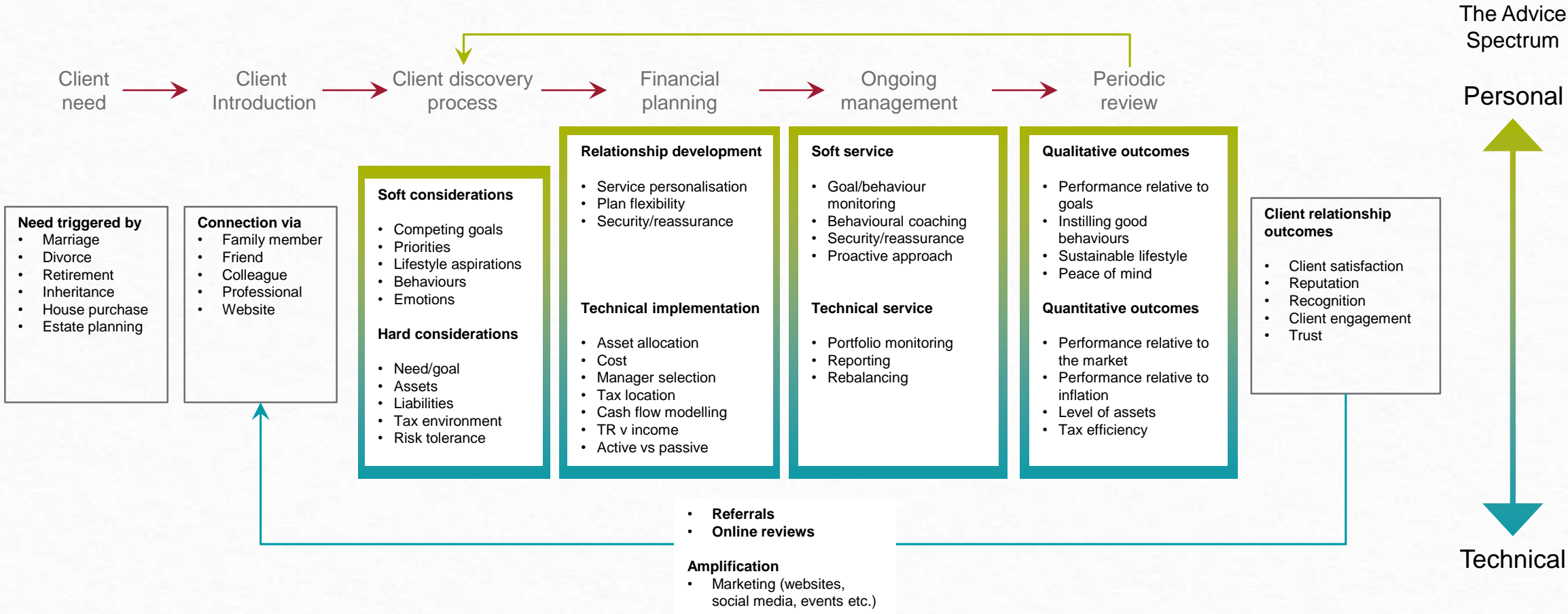
Value of a hypothetical £100 invested at the beginning of 2007



Past performance is not a reliable indicator of future results.

Source: 50% stock/50% bond portfolio represented by 50% FTSE 100 Index and 50% Bloomberg Barclays Sterling Aggregate Bond Index (rebalanced monthly). 100% cash represented by ICE LIBOR 1-month GBP. Data provided by Morningstar, Inc. and Vanguard calculations. Data as of December 31, 2018. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Map of client-adviser journey



Good for clients. Good for your business.

Clients who think that their adviser adds significant value are:

- ✓ More confident they will reach their goals
- ✓ More loyal
- ✓ More profitable
- ✓ More likely to provide referrals



Conclusion

1

Working with an advisor can **add “about 3%” in net returns** by following the Vanguard Adviser’s Alpha framework

2

While the value of this wealth creation is certainly real, it **does not show up on any client statement**

3

The Vanguard Adviser’s Alpha framework is not only good for your clients but **also good for your practice**

Supporting advice through research




A Crucial Decision

<https://vimeo.com/showcase/6002725/video/337318557>

Password: LeoVan01

Committed to advice | Committed to advisers



Vanguard

Resources for advisers

We've published a broad list of resources to help you and your business.


These include:

- **Educational guides** you can use straight forward and easy to use for passive and active investors
- **Adviser business support** to help current industry environment
- **Investment research** and analysis from Vanguard's extensive investment team
- **Detailed information** on Vanguard's investment decision making

You can find all of these materials in our support guides, research pdfs and in the section **Support for advisers**

People-based financial planning

August 2015



Vanguard

Vanguard LifeStrategy

October 2015

This quarterly newsletter is designed to give Vanguard LifeStrategy investors an insight into how the funds are constructed, how they're performing and what's been happening in the global economy and world markets.

The Vanguard LifeStrategy Funds are single-fund solutions designed to meet a range of investors' needs. Each of the five funds has a different target weighting of equities and bonds, with the aim of delivering a range of risk and return outcomes for investors.

Vanguard carefully selects

Important information

This document is directed at or relied upon by retail investors

Private Equity

People-based financial planning

August 2015

Vanguard

Vanguard LifeStrategy Funds

October 2015

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The Vanguard LifeStrategy funds are single-fund solutions designed to meet a range of investors' needs. Each of the five funds has a different target weighting of equities and bonds, with the aim of delivering a range of risk and return outcomes for investors.

Vanguard regularly rebalances the funds to their target allocations to ensure that they continue to meet investor needs. This means investors can focus on working with their advisers to review their goals and circumstances, confident in the knowledge that the target weightings will stay on track.

SFA

Sethurst Financial Advice

Before we start: are we right for you? 2

What you can expect 4

Setting your confidence 8

Quarterly Newsletter

Economic background

Data released in the third quarter (Q3) showed that the UK economy had grown by 2.4% over the year to the end of June. Unemployment fell to 5.5% and productivity rose at its fastest rate since 2011. However, inflation remained close to zero and this fact, together with a more uncertain global backdrop, led the Bank of England to leave interest rates unchanged at 0.5%.

Greece remained a focus of uncertainty in Europe, with prime minister Alexis Tsipras resigning and calling a snap election during the quarter. His subsequent re-election will allow the Greek government to continue negotiating with international creditors.

The economic recovery in the broad euro zone is struggling for traction, with year on year growth coming in at 1.5%. The European Central Bank is still a long way from raising interest rates, and its programme of economic stimulus is likely to continue beyond the September 2016 target.

The US economy remained resilient in Q3, with the labour market strengthening and gross domestic product (GDP) growth setting just above the 2% annualised mark. However, the Federal Reserve is cautious about the international backdrop and, as a result, interest rates remained at historic lows.

Data from China now suggests that economic growth is more likely to come in at 6-6.5% this year than the

government's 7% prediction. Given the lower estimate, government policy is likely to remain supportive. Finally, Japan continues to struggle with low growth and inflation, with further economic stimulus likely in order to ease off deflation.

Key takeaway

What should investors do in response to these developments?

Many investors change their portfolio in a bid to take advantage of the latest news. However, it's very difficult to time these changes effectively, especially when market uncertainty rises.

In practice, shifting your portfolio in response to short-term events may lead to little more than increased trading costs.

In many cases there is not even a clear link between economic news and market performance. For example, the UK economy is performing relatively well, but the UK stock market has ground during Q3.

This simple fact illustrates the importance of staying disciplined rather than reacting to any short-term developments. See the back page for more on Vanguard's principles for investing success.

Adviser's Alpha: Putting a value on your value

Adviser brief

The five greatest they are. This has value if launchers has been advised. The process returns it achieved before around. The price their own value that can still achieve. But both Adviser's Alpha "lumpy" will be worth. This unit for it is need of. For most Quantitative

Vanguard 2014 Index Chart

Putting market long-term perspective


Putting a value on your value: Quantifying Vanguard Adviser's Alpha in the UK

Vanguard Research November 2014

Peter Westaway, Ph.D., Todd Schlinger, CFA, Francis M. Kinniry Jr., CFA, Colleen M. Jaconetti, CPA, CFP®, Michael A. Dutschak, CFA

- The value proposition of advice is changing. The nature of what investors expect from advisers is changing. And, fortunately, the tools available to advisers are evolving as well.
- In creating the Vanguard Adviser's Alpha™ concept in 2001, we outlined how advisers could add value, or alpha, through relationship-oriented services such as providing cogent wealth management via financial planning, discipline and guidance, rather than by trying to outperform the market.
- Since then, our work in support of the concept has continued. This paper takes the Adviser's Alpha framework further by attempting to quantify the benefits that advisers can add relative to the results that their clients would have achieved without advice. Each of these benefits can be used individually or in combination, depending on the circumstances of individual clients.
- We believe implementing the Vanguard Adviser's Alpha framework can add around 2.5% in net returns for your clients and also allow you to differentiate your skills and practices.

This document is directed at professional investors. The value of investments can go up or down. You may get back less than you invested.


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Asset allocation: Making the big decisions

Learning objectives:

This module explains the basics of asset allocation, discussing the key types of financial asset, different types of return and the key elements of risk.


What will I get?

- Three video tutorials
- A one page topic guide
- A quiz to test your understanding
- CIPF certificate based on key learning objectives

To complete the module and obtain your CIPF certificate and points, work through the learning resources below, then take the quiz at the end.

1. Hear our experts explain

Peter Hennessey, chief economist and head of Vanguard's investment strategy group in Europe, discusses the main types of financial asset.




Asset Allocation: Making the big decisions

[View transcript](#)

2. Watch our video tutorial

An animated video explaining the different types of return investors should expect from different types of financial asset.




Different types of returns

[View transcript](#)

3. Watch our video tutorial

An animated video showing the risks of investing in financial assets, and some ideas on how risk can be managed.



Understanding risk


[View transcript](#)

Take the test

What will I learn?

- The major types of financial asset and what they represent
- The types of return you should expect from different assets
- Investment risk and how to manage it
- The relationship between short-term risk and long-term reward

[TAKE THE TEST](#)



"Three core investment assets are equities, bonds and cash..."

Three things to look for in a financial adviser

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Question Time.....

Q&A

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.

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