



# Notice

April 2017

## Vanguard Diversified Funds Revising strategic asset allocation and reducing costs

Vanguard's low-cost, high-quality diversified funds represent a distillation of our investment principles—goals, balance, cost and discipline—across multiple asset classes through a transparent and tax-efficient portfolio.

Vanguard's diversified funds have performed in the top quartile of their respective peer groups over three, five and 10 year periods, according to Morningstar Australia.<sup>1</sup> This performance captures Vanguard's core traits of low costs and disciplined investment processes, which contribute to superior outcomes for investors.

We periodically review asset allocation and pricing to ensure our diversified funds continue to deliver on their investment objectives.

As a result of our latest review, we are changing the asset allocation and reducing costs for our wholesale diversified funds.

### **Driving returns and risk**

We believe adopting a risk-controlled approach to investing and portfolio construction is the best way for investors to maximise returns within their tolerance for risk. Recent Vanguard analysis<sup>2</sup> of 580 Australian managed investment funds showed that 89.1 per cent of fund return variations could be attributed to asset allocation decisions.

### **Reviewing allocation**

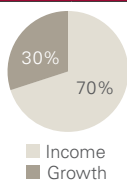
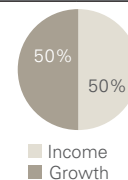
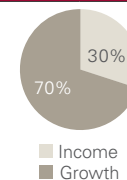
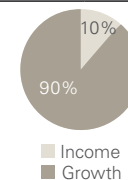
A global team of investment experts analyses portfolio construction issues such as concentration risk and currency exposure, and incorporates output from comprehensive modelling generated by Vanguard's proprietary forecasting engine, Vanguard Capital Markets Model (VCMM). The findings are ultimately subject to approval by Vanguard's global strategic asset allocation committee. This disciplined and sophisticated analysis, underpinned by Vanguard's core investment principles, provides a robust framework for sustainable multi-asset funds that align to investor risk profiles.

## Changing strategic asset allocation—July 2017

Our global team of investment experts have analysed our diversified fund portfolios and determined asset allocation changes aimed at reducing concentration risk and optimising currency exposure.

- We're **reducing the allocation to Australian shares in favour of international shares** to reduce risk resulting from the high concentration of banks and mining companies in the Australian sharemarket.
- We're **removing the allocation to listed property securities** to reduce home bias and concentration risk to property, leaving investors with exposure to listed property through Australian and international shares.
- We're **reducing the allocation to Australian fixed interest in favour of international fixed income** to improve diversification and reduce costs.
- We're **introducing currency hedging, comprising 30% of the allocation to international shares** to manage the additional currency risk resulting from the reduction in equity home bias.
- We're **increasing the allocation to international small companies and emerging markets** to maintain their relative market capitalisation weights for an international shares portfolio.
- We're **increasing diversification for international fixed interest\*** by offering a fund that will track the Bloomberg Barclays Global Aggregate Bond Index Fund (hedged to the Australian dollar) before fees, expenses and taxes.

### The changes to the four Vanguard Diversified Funds options are:

	Conservative		Balanced		Growth		High Growth	
								
	Income 30% Growth 70%		Income 50% Growth 50%		Income 70% Growth 30%		Income 90% Growth 10%	
<b>New asset allocations will be effective from July 2017</b>	Asset Allocation (%)		Asset Allocation (%)		Asset Allocation (%)		Asset Allocation (%)	
<b>Asset Class</b>	<b>Current</b>	<b>New</b>	<b>Current</b>	<b>New</b>	<b>Current</b>	<b>New</b>	<b>Current</b>	<b>New</b>
Vanguard Cash Plus Fund	10.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00
Vanguard Australian Fixed Interest Index Fund	24.00	18.00	20.00	15.00	12.00	9.00	4.00	3.00
Vanguard International Fixed Interest Index Fund (Hedged)	23.00	0.00	19.00	0.00	12.00	0.00	4.00	0.00
Vanguard International Credit Securities Index Fund (Hedged)	13.00	0.00	11.00	0.00	6.00	0.00	2.00	0.00
Vanguard Global Aggregate Bond Index Fund (Hedged)*	0.00	42.00	0.00	35.00	0.00	21.00	0.00	7.00
<b>Total Income</b>	<b>70.00</b>	<b>70.00</b>	<b>50.00</b>	<b>50.00</b>	<b>30.00</b>	<b>30.00</b>	<b>10.00</b>	<b>10.00</b>
Vanguard Australian Property Securities Index Fund	2.00	0.00	3.00	0.00	4.00	0.00	5.00	0.00
Vanguard International Property Securities Index Fund (Hedged)	2.00	0.00	3.00	0.00	4.00	0.00	5.00	0.00
Vanguard Australian Shares Index Fund	13.00	12.00	22.00	20.00	31.00	28.00	40.00	36.00
Vanguard International Shares Index Fund	10.00	8.50	17.00	14.50	24.00	20.50	31.00	26.50
Vanguard International Shares Index Fund (Hedged)	0.00	5.50	0.00	9.00	0.00	12.50	0.00	16.00
Vanguard International Small Companies Index Fund	1.50	2.00	2.50	3.50	3.50	5.00	4.50	6.50
Vanguard Emerging Markets Shares Index Fund	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
<b>Total Growth</b>	<b>30.00</b>	<b>30.00</b>	<b>50.00</b>	<b>50.00</b>	<b>70.00</b>	<b>70.00</b>	<b>90.00</b>	<b>90.00</b>

\* See page 3

## Lowering the cost of investing

In Australia, Vanguard regularly reviews its suite of funds to identify opportunities where management costs can be reduced.

Vanguard is structured to consistently lower costs over time as funds under management grow. Vanguard's goal is to ensure investors benefit directly when economies of scale bring down the costs of running our funds sustainably.

We are reducing the management expense ratios for our wholesale diversified funds as part of our continuing mission to reduce the cost of investing.

	Management Expense Ratio (%)	
	Current	from 1 July 2017
Vanguard Conservative Index Fund	0.33	0.29
Vanguard Balanced Index Fund	0.34	0.29
Vanguard Growth Index Fund	0.36	0.29
Vanguard High Growth Index Fund	0.37	0.29

The three criteria used to evaluate opportunities for cost reduction are growth in funds under management, ability to scale management capabilities and ability to drive efficiency gains. This mirrors the central goal of Vanguard Australia's parent in the US, which operates under a mutual structure, with the core goal of returning the benefits of scale back to clients by lowering management expenses.

### \*New Vanguard Global Aggregate Bond Index Fund (Hedged)

#### Investment objective

To track the return of the Bloomberg Barclays Global Aggregate Bond Index Fund (hedged into Australian dollars), before taking into account fees, expenses and tax.

#### Fund overview

The Fund invests in high quality, income generating securities issued by governments, government-owned entities, government-guaranteed entities, investment grade corporate issues and securitised assets from around the world. The investments in the Fund are predominantly rated BBB- or higher by Standard & Poor's or equivalent ratings agency. The Fund is hedged to Australian dollars so the value of the Fund is relatively unaffected by currency fluctuations.

**If you have any questions, please contact Vanguard Client Services  
on 1300 655 102 (8:00 am to 6:00 pm Melbourne time, Monday to Friday).**

**Connect with Vanguard™** > [vanguard.com.au](http://vanguard.com.au) > 1300 655 102



1. Source: Vanguard calculations, using data from Morningstar, Inc. as at 31 December 2016.

2. Source: Vanguard calculations, using data from Morningstar, Inc.. Vanguard research. The global case for strategic asset allocation and an examination of home bias, January 2017.

IMPORTANT: The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modelled asset class. Simulations as of April 2017. Results from the model may vary with each use and over time.

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