

**Vanguard**

# Timeless lessons of investing



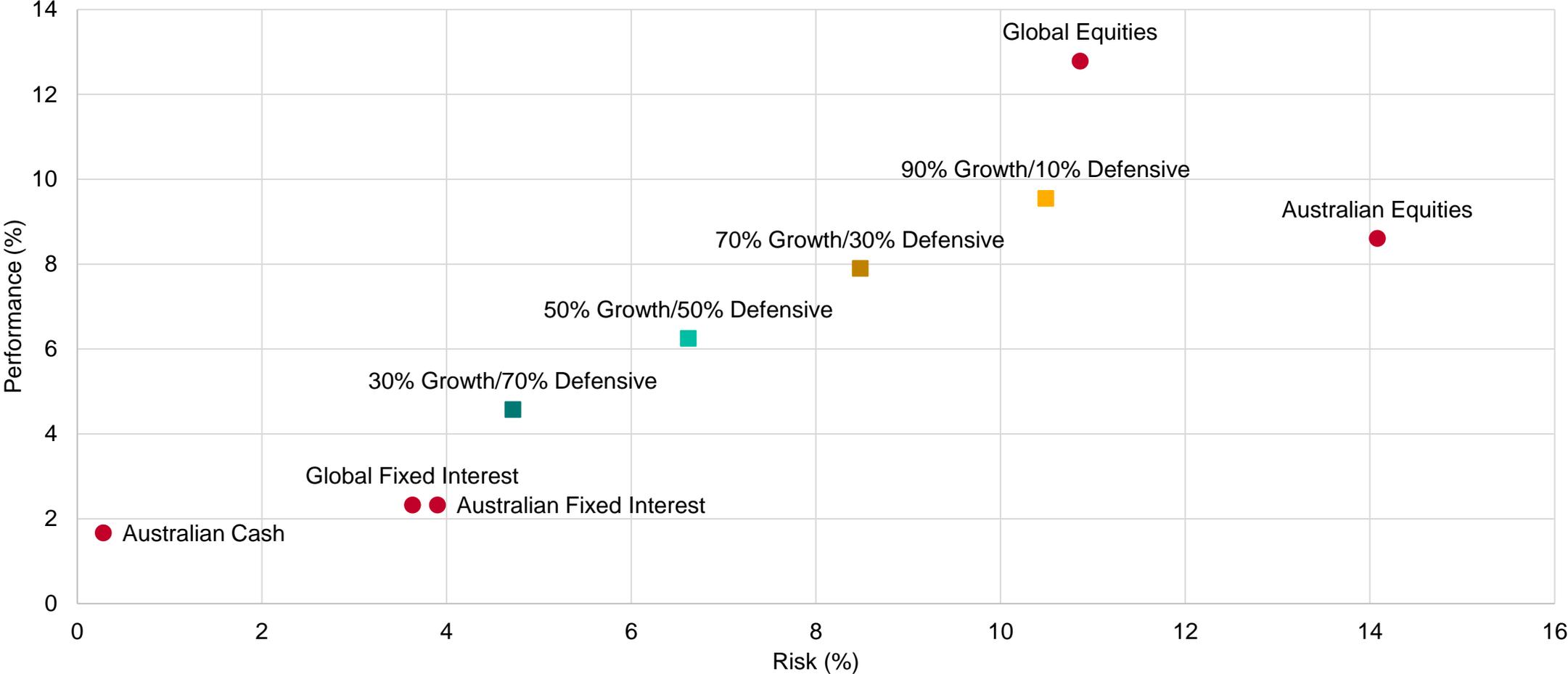
# Lesson 1

Find the right blend to meet your goals

**Vanguard**<sup>®</sup>

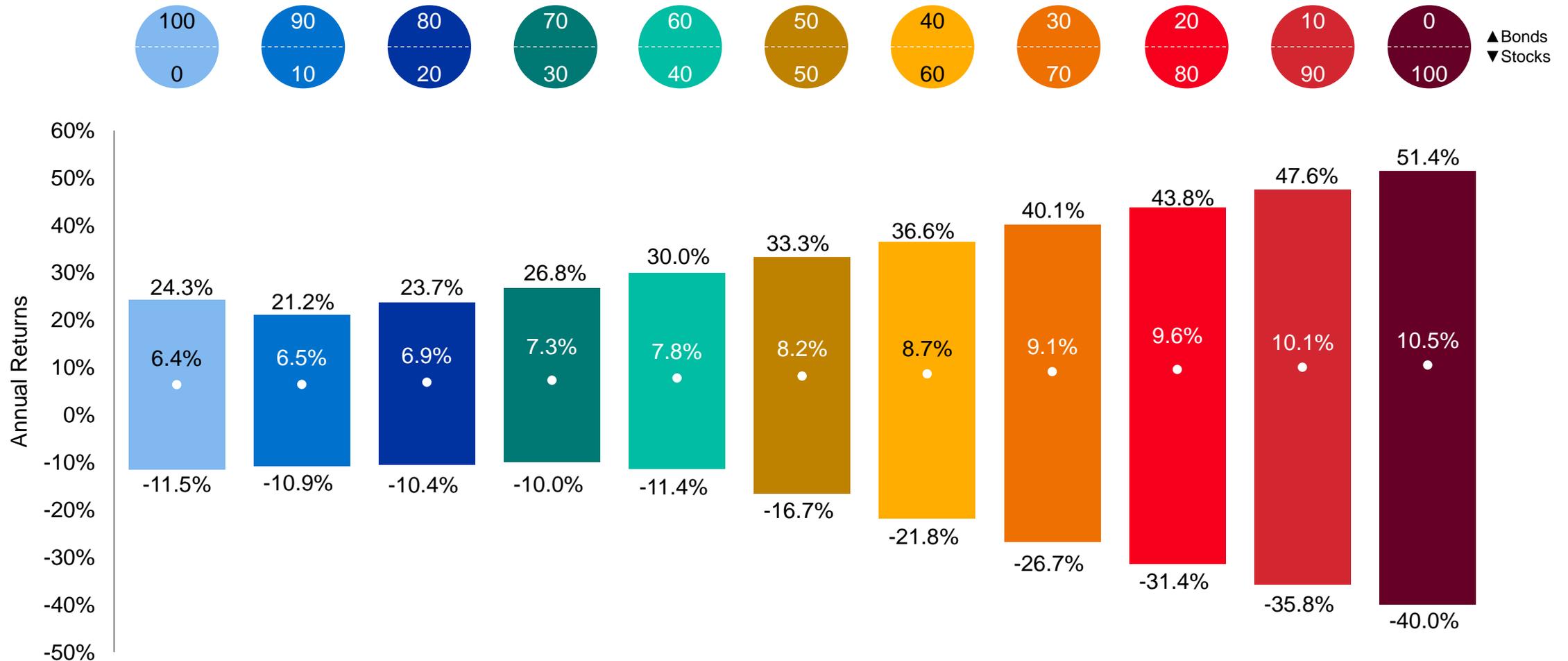


# Blending high risk and low risk investments can reduce overall portfolio risk



Source: Lonsec irate, historical 10 year risk/return run on 4 January 2023. Australian Cash: Bloomberg AusBond Bank Bill Index AUD, Australian Fixed Interest: Bloomberg AusBond Composite 0+ Year Index AUD, Global Fixed Interest: Bloomberg Global Aggregate TR Index (AUD Hedged), Global Equities: MSCI AC World ex Australia NR Index AUD, Australian Equities: S&P/ASX 300 TR Index AUD. 30% Growth 70% Defensive; Vanguard Diversified Conservative Index Fund, 50% Growth 50% Defensive; Vanguard Diversified Balanced Index Fund, 70% Growth 30% Defensive; Vanguard Diversified Growth Index Fund, 30% Growth 70% Defensive; Vanguard Diversified High Growth Index Fund.

# Larger allocation to equities can deliver higher returns, with a wider range of outcomes

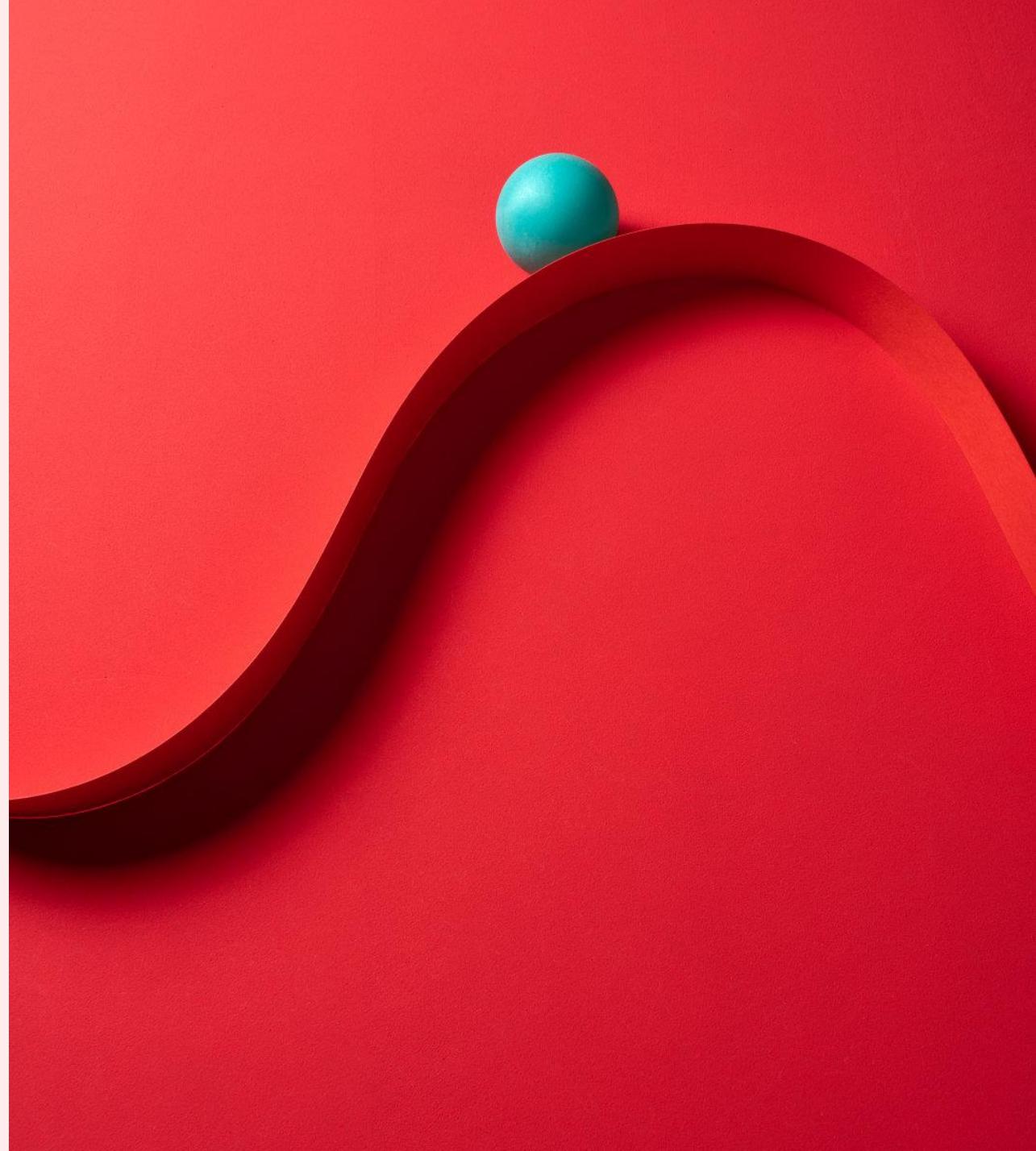


Source: Lonsec iRate. Run 4 January 2023. Rolling 1 year returns commencing May 1993 ending December 2022.  
Notes: Bonds: Bloomberg AusBond Composite 0+ Year Index AUD, Stocks: S&P/ASX 200 TR Index AUD

# Lesson 2

Compounding works for you over time

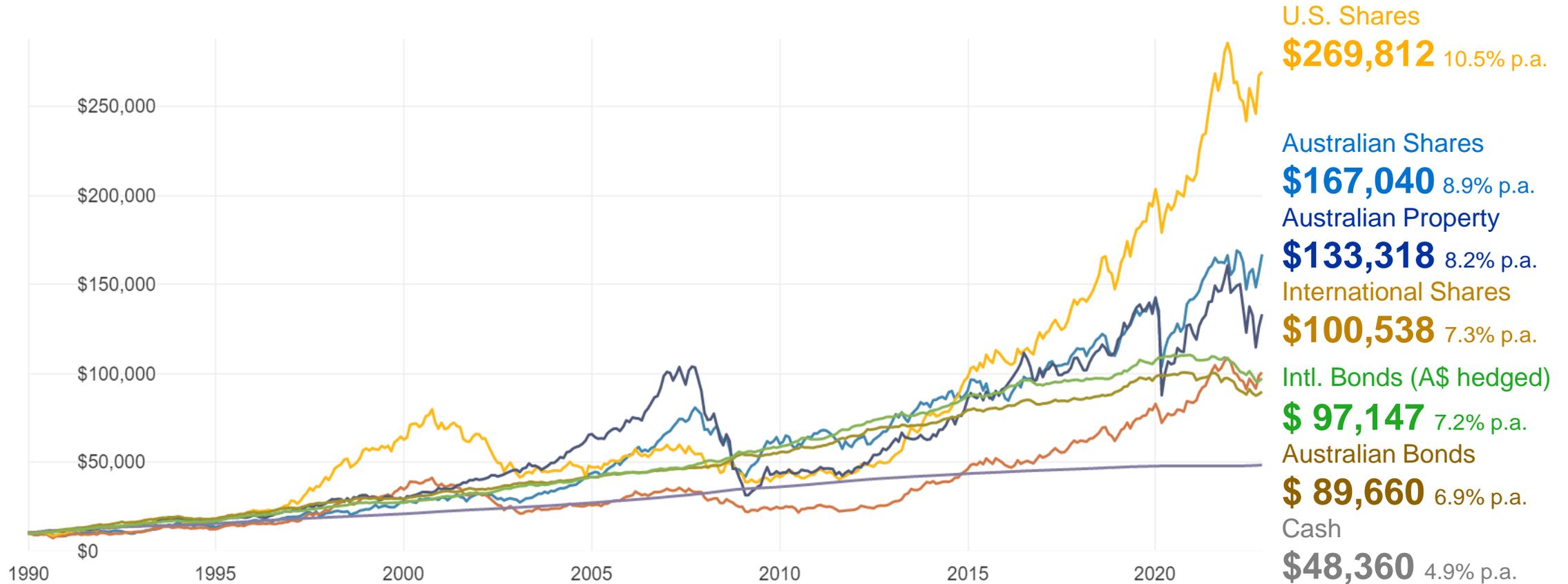
**Vanguard**<sup>®</sup>



Time is your friend;  
impulse is your enemy.

— John Bogle

# The power of compounding over time

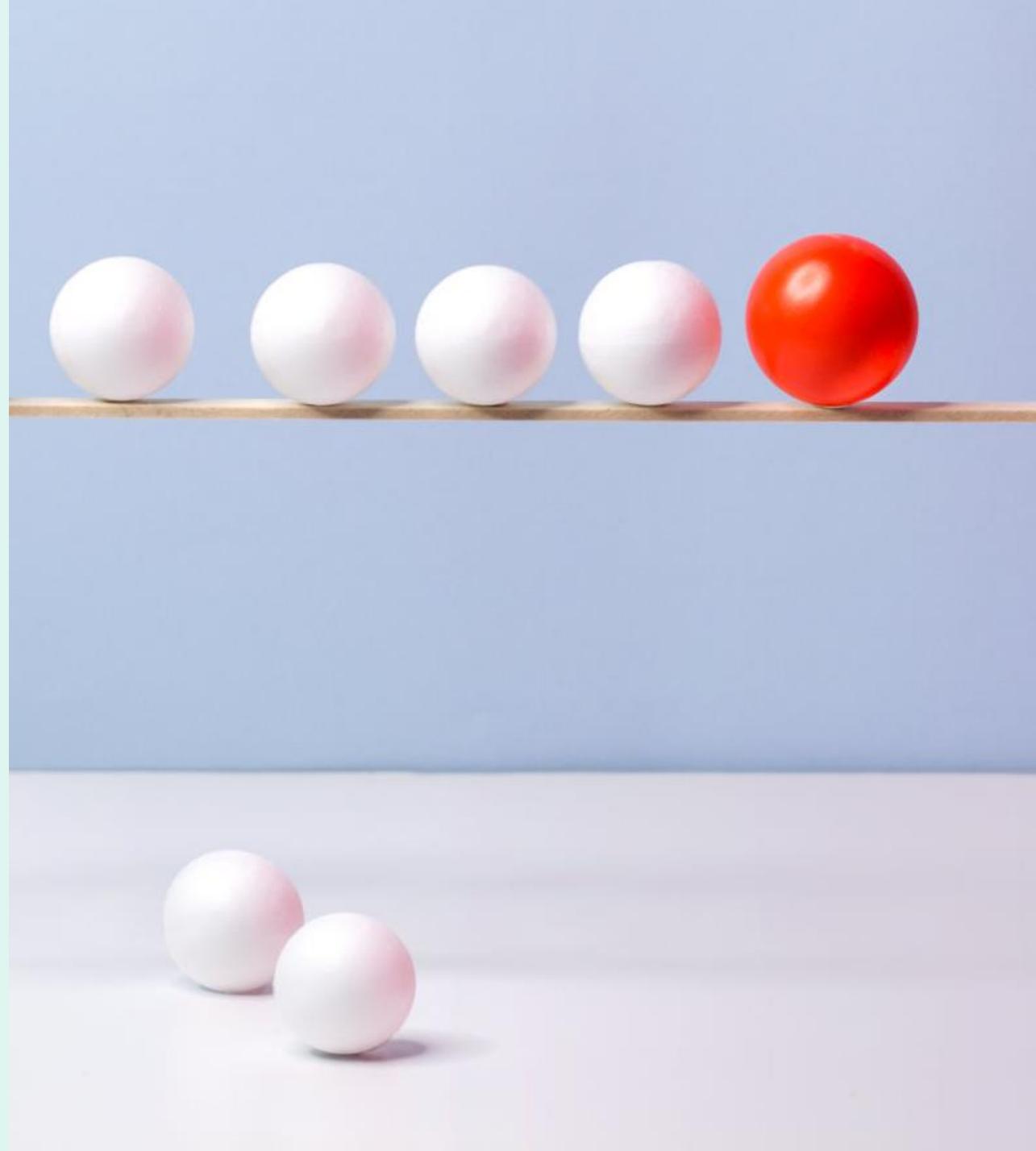


Fees, transaction costs and tax have not been taken into account in the calculations. All results are displayed in nominal dollars i.e. inflation has not been taken into account. All returns are quoted in Australian dollars. US and International Share returns are affected by exchange rate movements. The chart shows the growth of \$10,000 invested at the start of the selected period in each index. It assumes that the \$10,000 is fully invested (and remains fully invested) in the relevant index for the asset class and that all income is reinvested. Data for this calculator has been supplied by Andex Charts Pty Ltd and is believed to be correct. No responsibility is accepted for inaccuracies or omissions. Month-end data has been used. The data is current to 30 November 2022. Australian Shares: S&P/ASX All Ordinaries Accumulation Index. International Shares: MSCI World ex-Australia Net Total Return Index, Australian Bonds: Bloomberg Ausbond Index 0+ Years, Cash: Bloomberg Ausbond Bank Bill Index, US Shares: S&P 500 Total Return Index, International Bonds (AUD hedged): Bloomberg Global Treasury Index (AUD hedged), Australian Property: S&P/ASX Listed Property Trust Accumulation Index. Only periods of a whole number of months are considered. Returns for periods less than 12 months are simply the percentage difference between the index value at the end of the period and the index value at the start of the period. Returns for periods greater than 12 months are expressed as an annual return (as signified by "p.a." next to the relevant percentage figure). The annual return shown is the effective annual compound rate of return, assuming all months are of equal length.

# Lesson 3

Stay the course

**Vanguard**<sup>®</sup>

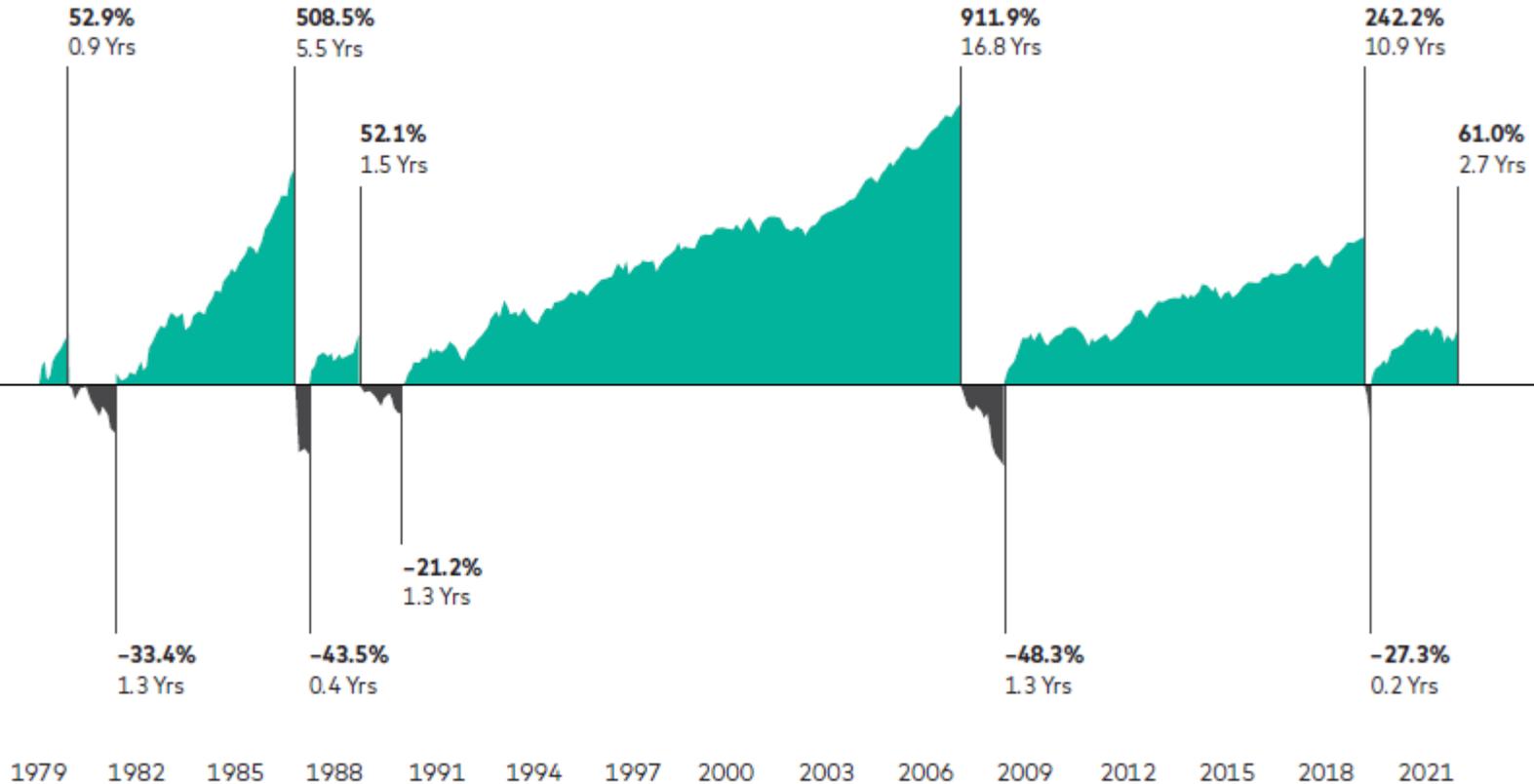


# Reflecting on the past

A timeline of bull and bear markets: How bull and bear markets have impacted returns over the past 40 years.

## Bull years

A bull market is defined as a price increase of more than 20% from trough to peak. Values show the maximum % gain that occurred relative to the previous trough.



**6.4**

Years average bull period

**38.3**

Total bull years

## Bear years

A bear market is defined as a price decrease of more than 20% from peak to trough. Values show the maximum % loss that occurred relative to the previous peak.

**0.9**

Years average bear period

**4.6**

Total bear years

Notes: 1. The latest bull run is still ongoing. The calculations represent the price increase and period up to 30 November 2022.

Calculations are based on the S&P All Ordinaries Index for the period 1/1/1980 to 30/11/2022. The plotted areas depict the losses/gains ranging from the minimum following a 20% loss to the respective maximum following a 20% appreciation in the underlying index. Calculations based on monthly data. Logarithmic scales are used for the illustration. All distributions are reinvested. Values in the figure reflect rounding. Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance. Sources: Morningstar data and Vanguard.

# Lesson 4

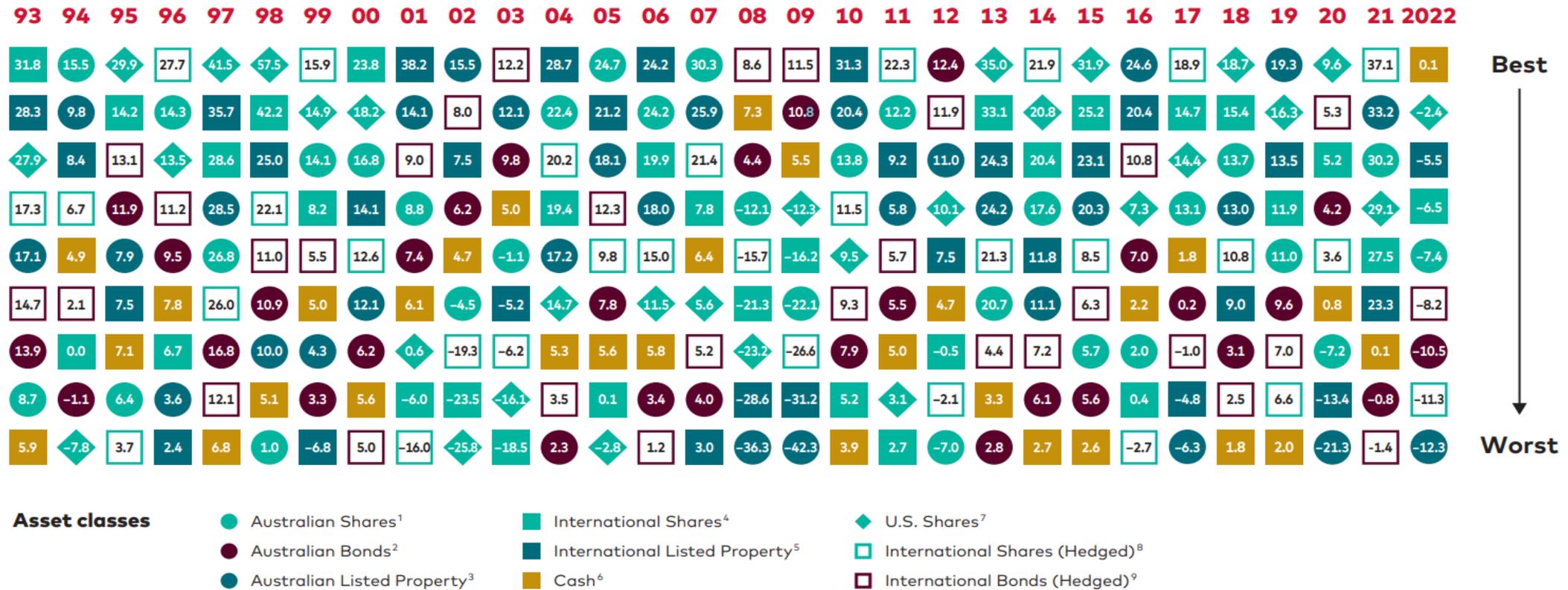
Diversify, diversify, diversify.



# It's hard to pick next year's winner

## Total returns (%) for the major asset classes for financial years ending between 1993 and 2022.

The illustration below shows the performance of various asset classes over the past 30 years ranked from best to worst. When deciding where to invest, it is important investors understand that the best and worst performing asset classes will often vary from one year to the next. Having a diversified mix of investments across multiple asset classes can help smooth out returns over time.

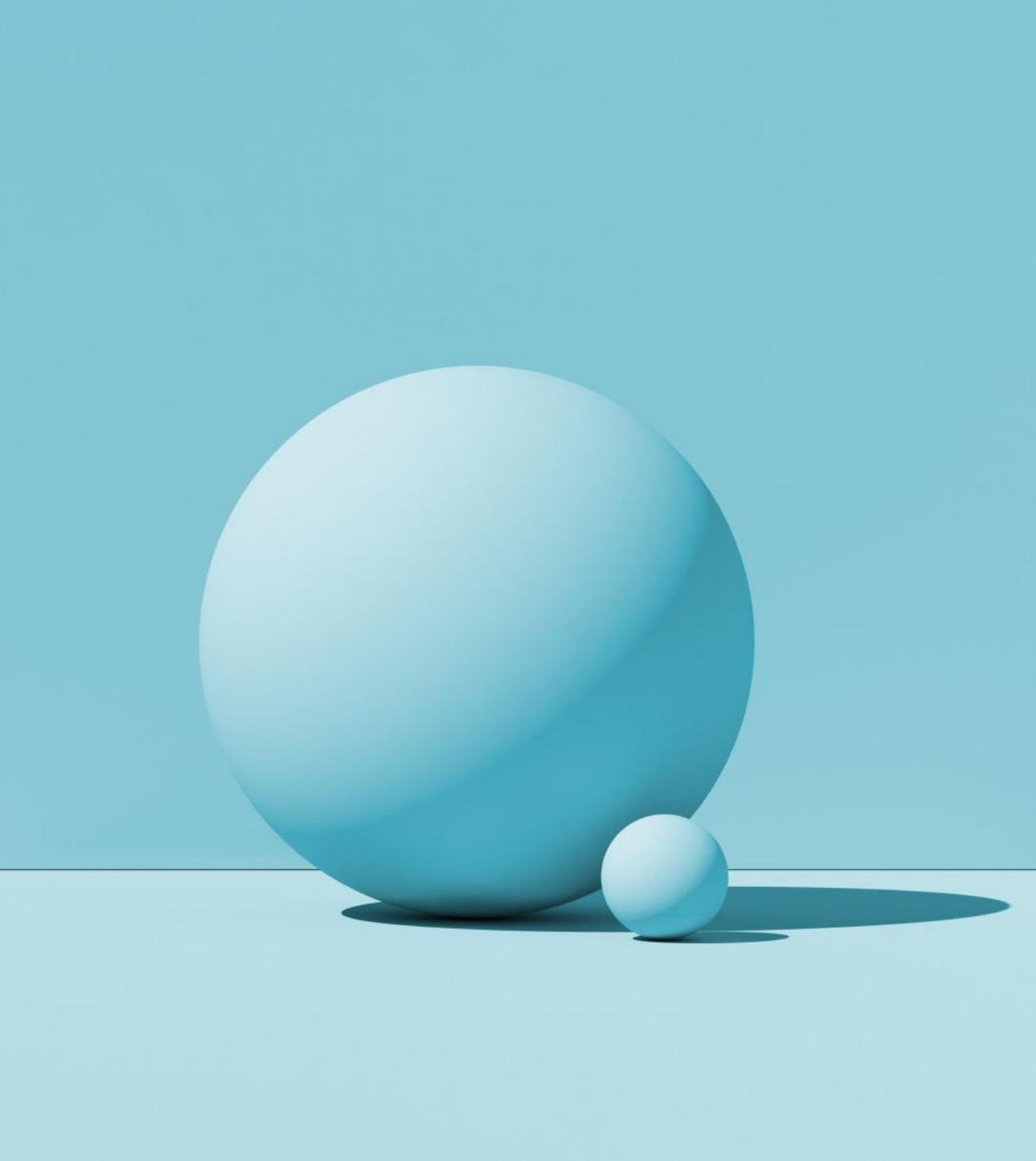


Source: Andex Charts Pty Ltd, June 2022. Notes: 1. S&P/ASX All Ordinaries Total Return Index. 2. Bloomberg AusBond Composite 0+ Yr Index. 3. S&P/ASX 200 A-REIT Total Return Index. 4. MSCI World ex-Australia Net Total Return Index. 5. Prior to 1 May 2013, index is the UBS Global Real Estate Investors Index ex-Australia with net dividends reinvested. From May 2013 the index is the FTSE EPRA/NAREIT Developed ex-Australia Rental Index with net dividends reinvested. 6. Bloomberg AusBond Bank Bill Index. 7. S&P 500 Total Return Index. 8. MSCI World ex-Australia Net Total Return Index (local currency) - represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. 9. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Bloomberg Global Treasury Index in AUD (Hedged).

# Lesson 5

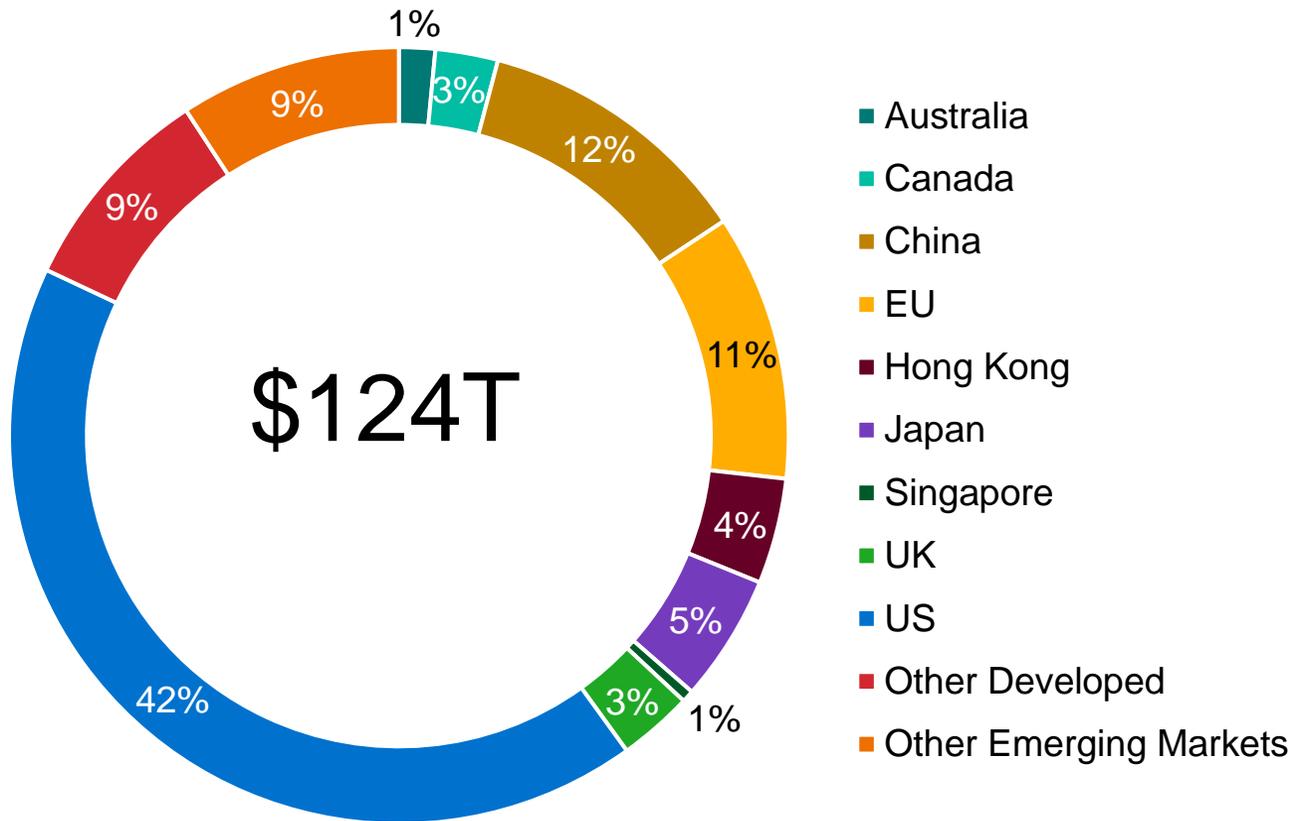
Go global

**Vanguard**<sup>®</sup>



# Add exposure to different economies and sectors

## Global Equity Markets



## Top sectors

### Australia

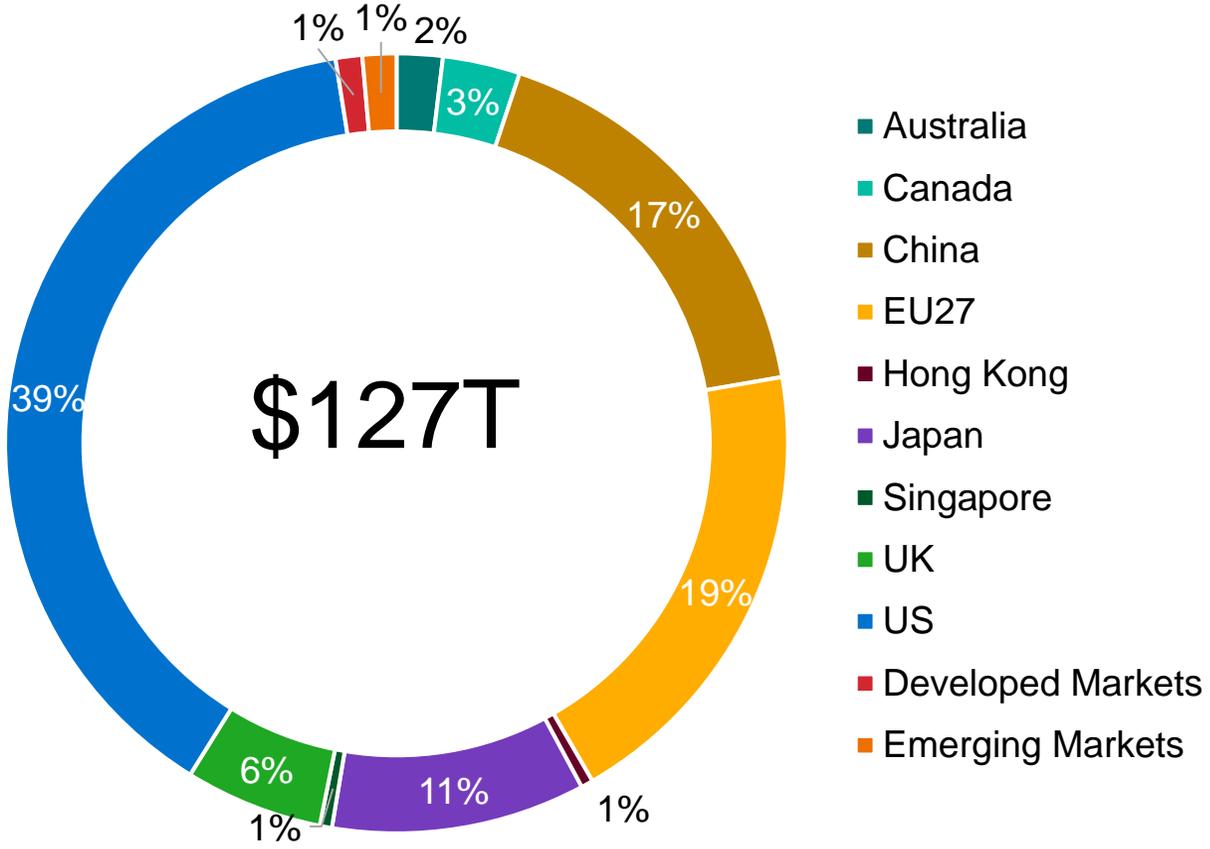
Financials	28.3%
Materials	24.1%
Health Care	10.0%
Consumer Discretionary	6.5%
Energy	6.2%

### Global

Information Technology	21.4%
Health Care	14.2%
Financials	13.6%
Consumer Discretionary	10.6%
Industrials	10.6%

# Add exposure to different economies and larger, deeper, more diversified bond markets

Global Bond Markets



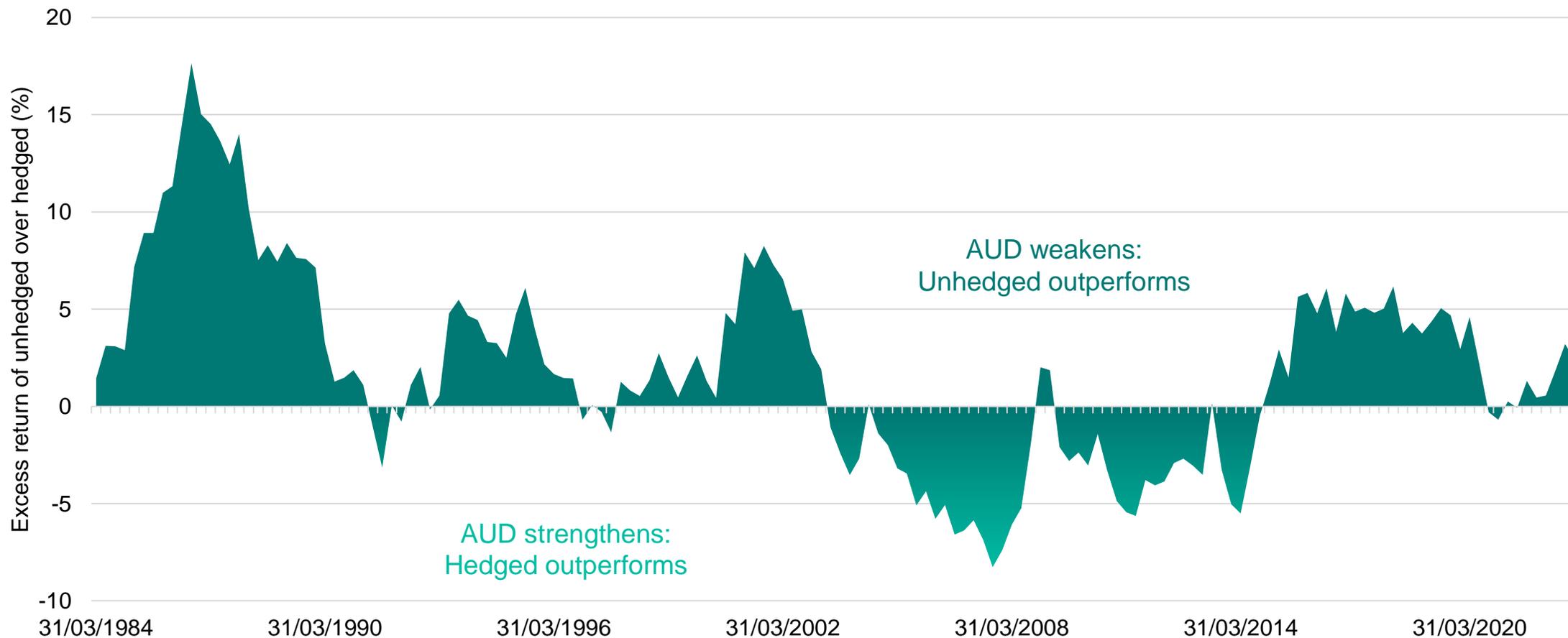
Source: 2022 SIFMA Capital Markets Fact Book, Global Bond Markets– share of total, source Bank of International Settlements, World Federation of Exchanges. All figures in USD.

# Lesson 6

Hedging can create a more consistent experience

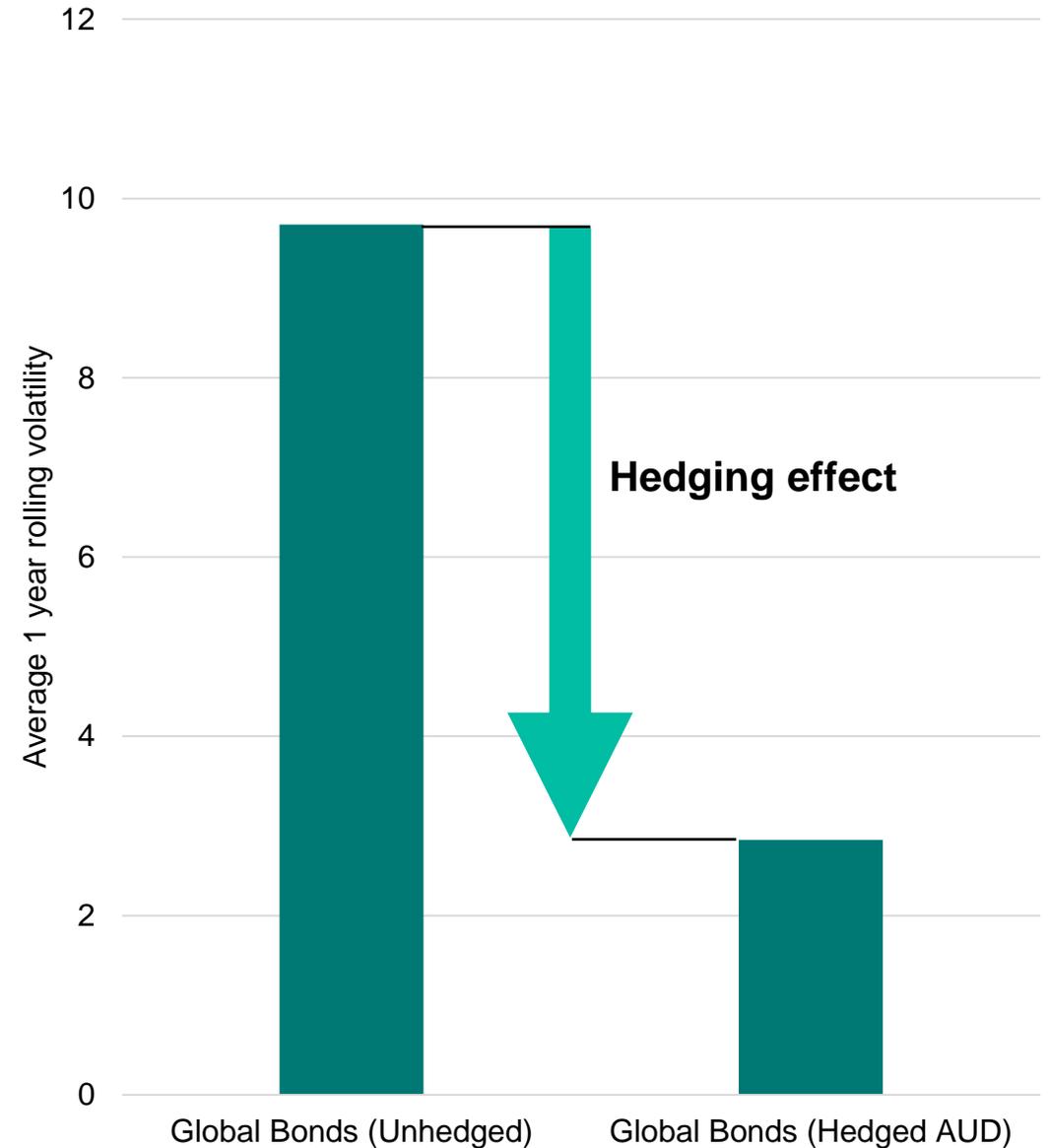


# Returns from currency vary: hedging can create a more consistent experience



Notes: MSCI World Ex Aus NR Index AUD represents the hedged Benchmark while the MSCI World Ex Aus NR index LCL is unhedged. Data is over a rolling five-year period with a 3-month step to 31 December 2022.  
Source: Morningstar Direct.

# Lower risk assets like bonds are normally better hedged

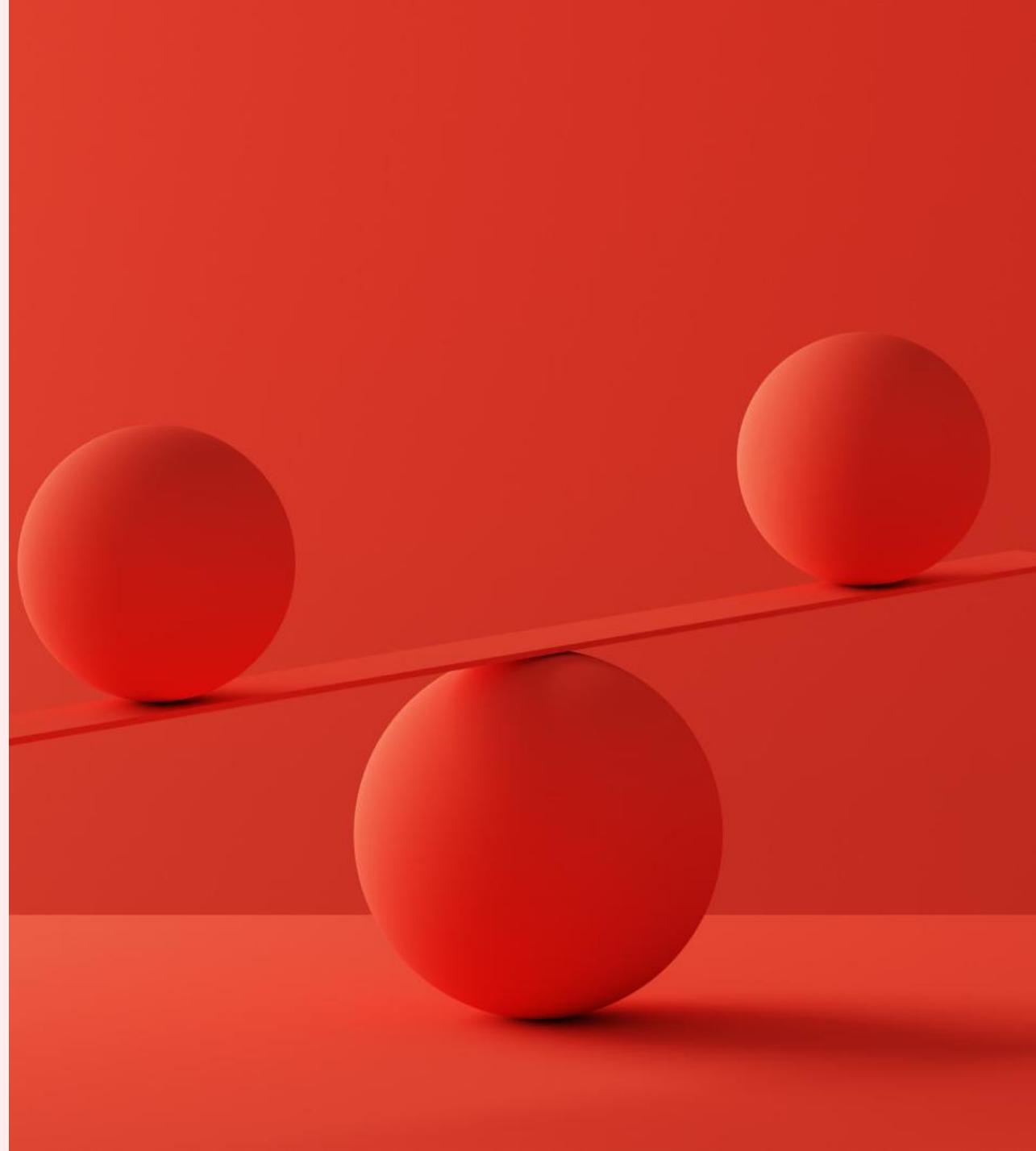


Notes: Average rolling 1 year volatility from January 1991 to December 2022. Global Bonds (Unhedged): Bloomberg Global Aggregate TR Index AUD, Global Bonds (Hedged AUD) Bloomberg Global Aggregate TR Index (AUD Hedged)  
Source: Lonsec irate, report run 5 January 2023.

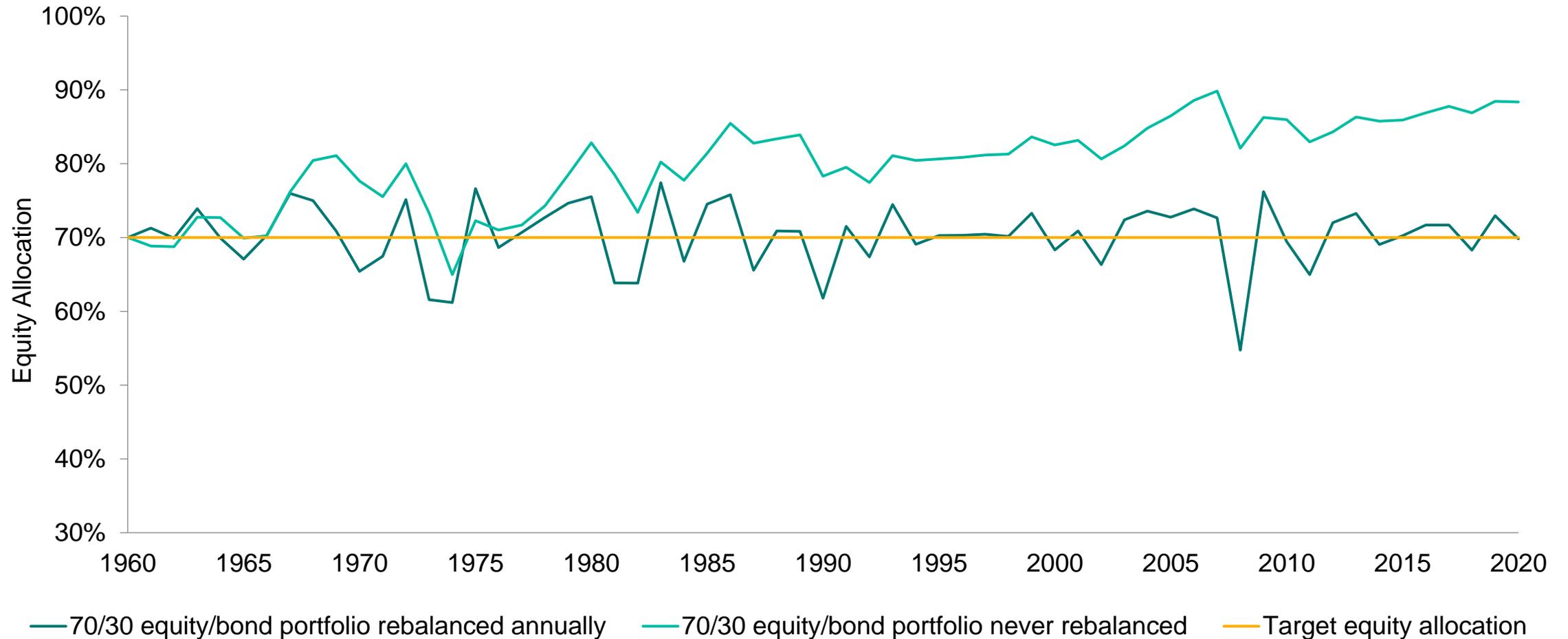
# Lesson 7

Rebalance regularly for a smoother journey

**Vanguard**<sup>®</sup>



# Changes in equity exposure for a rebalanced portfolio and a “drifting portfolio”



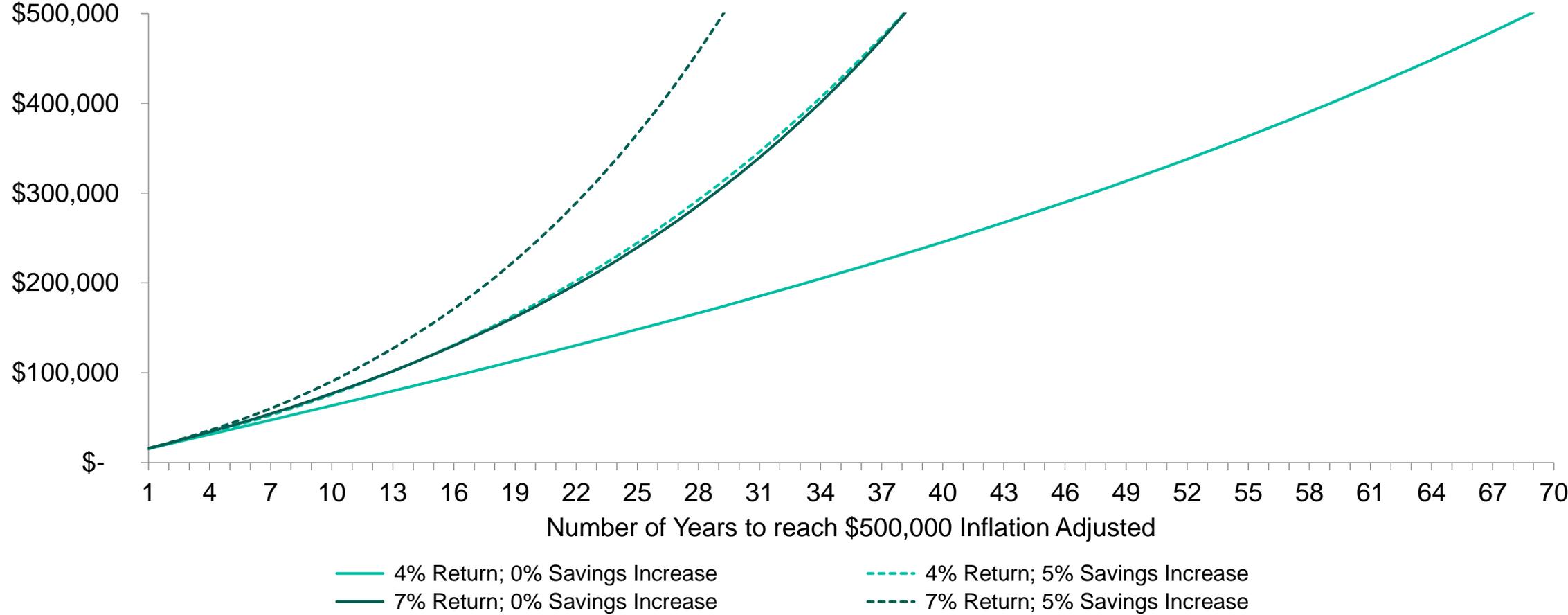
# Lesson 8

Contribute regularly to build wealth



# A regular contribution makes a big difference

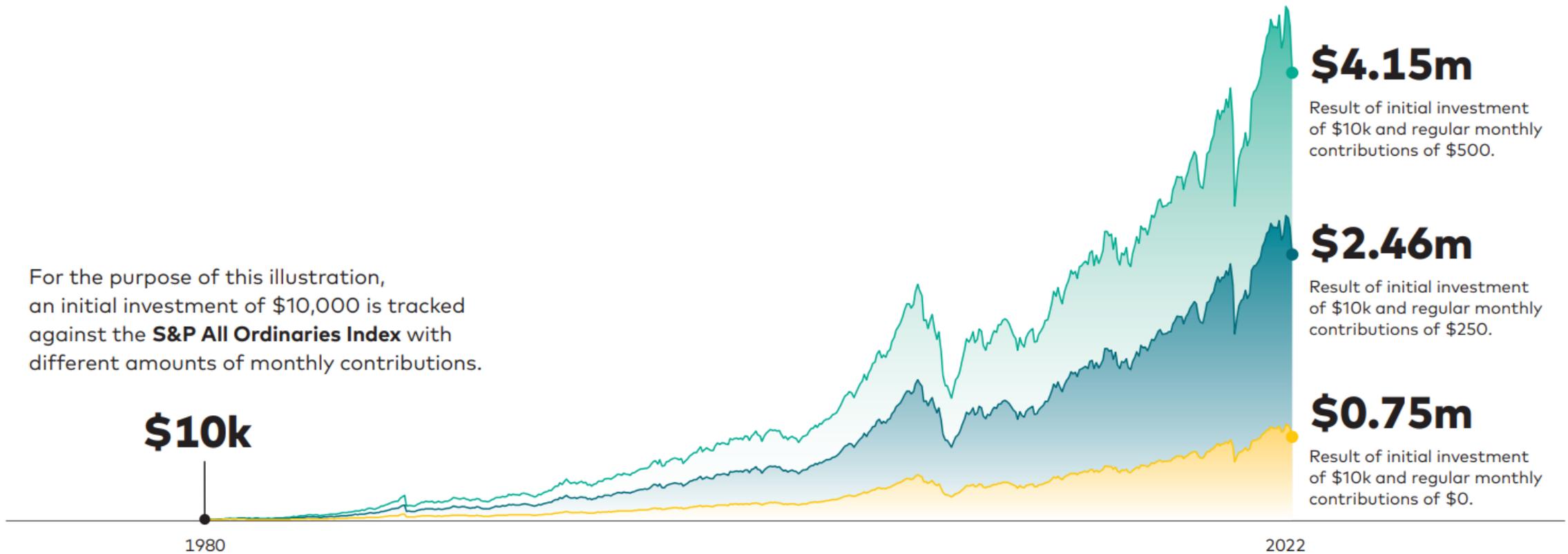
Saving is a lever that's always available



Note: hypothetical data and scenarios used for illustrative purposes only.  
 Source: Vanguard. Assumptions: \$10,000 starting balance; \$500,000 objective adjusted for inflation; \$5,000 annual contribution made at beginning of year; Annual inflation of 2%; Return assumptions of 4% or 7% adjusted for inflation.  
 For scenarios where we increase savings, we assume an annual increase of 5%.

# The power of regular contributions

Illustrating the growth of investments with regular contributions over the past 40+ years



Notes: Calculations are based on the S&P All Ordinaries Index for the period 1/1/1980 to 30/6/2022. Calculations based on monthly data. All distributions are reinvested. Sources: Morningstar data and Vanguard.

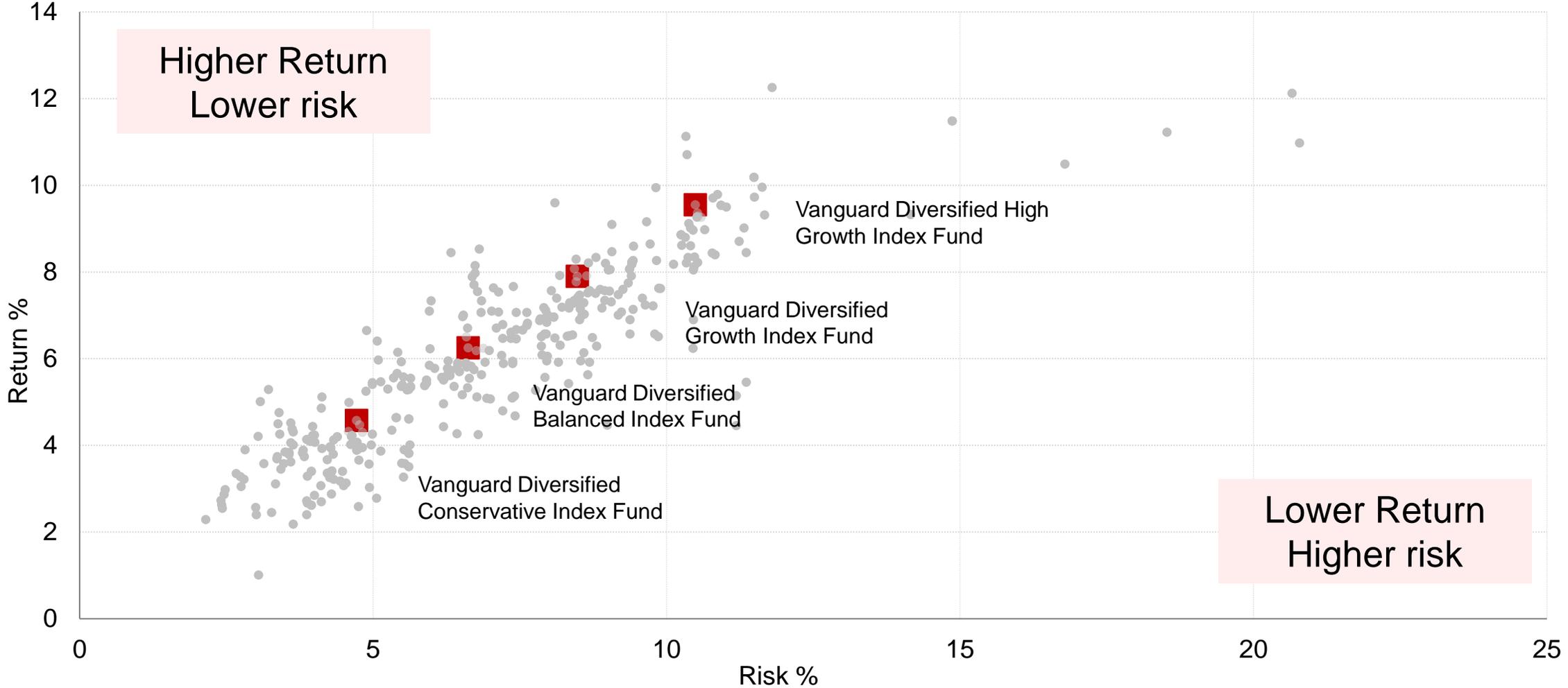
# Lesson 9

Control what you can

**Vanguard**<sup>®</sup>



# Diversification, discipline and cost minimisation at every layer of the investment process



Source: Lonsec iRate. Report run 5 January 2023. There are 373 funds within the universe of Multi-Asset, Wholesale sectors, all of which are available via a PDS. Open funds only.

Most investors, both institutional and individual, will find that the best way to own common stocks is through an **index fund** that charges **minimal fees**.

Those following this path are **sure to beat the net results** (after fees and expenses) of the great majority of investment professionals.

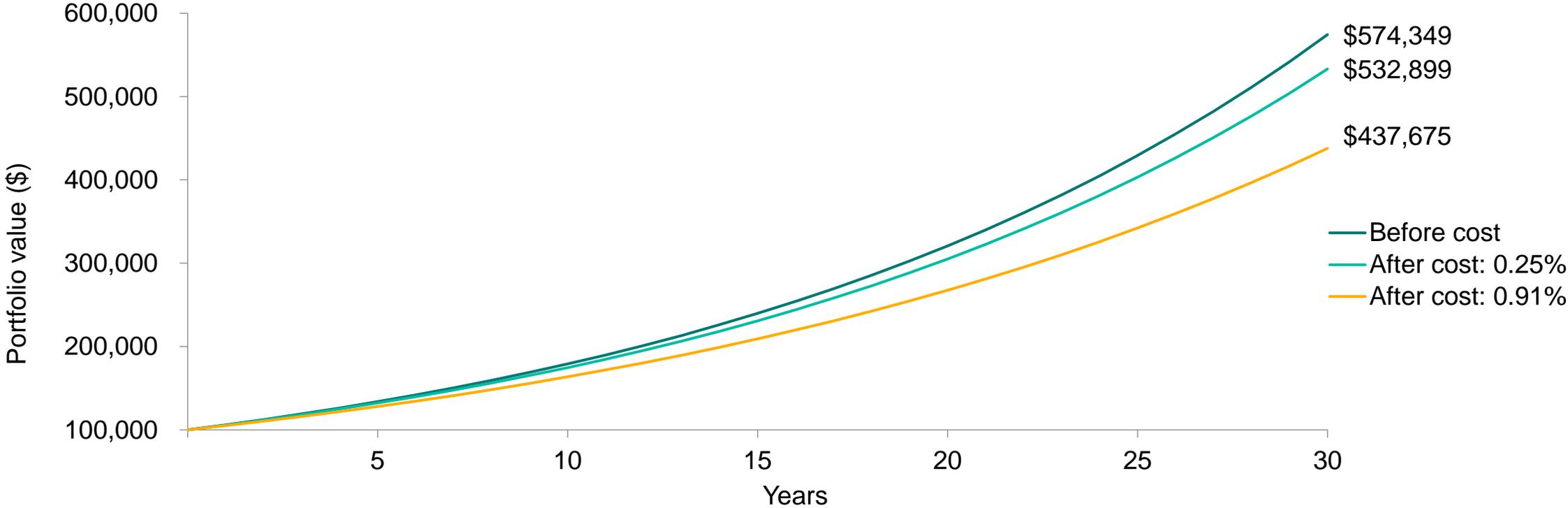
- **Warren Buffett**

**Vanguard**



# Fees and tax matter

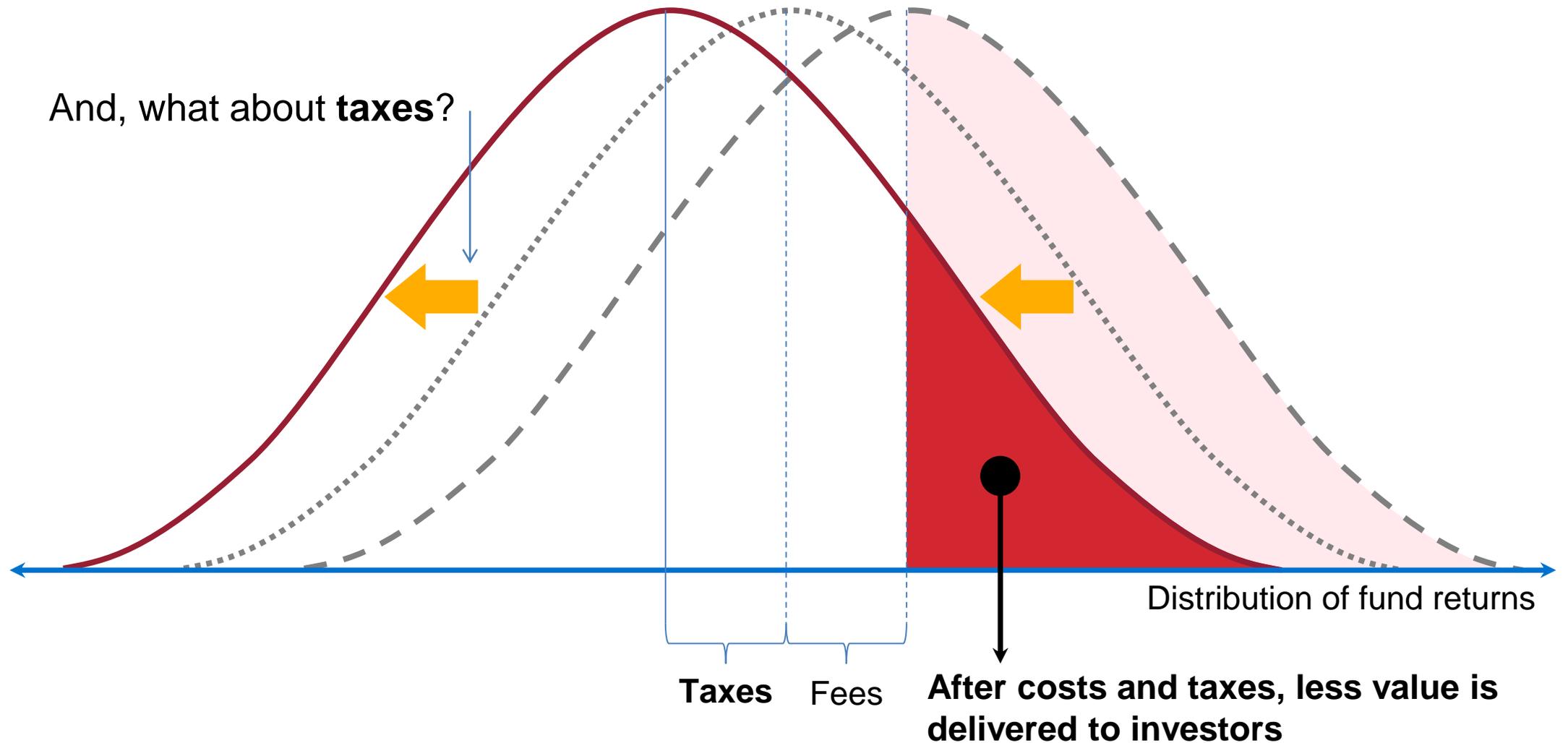
The long-term impact of investment costs on portfolio balances.  
Assumes a starting balance of \$100,000 with a yearly return of 6%, which is reinvested.



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. Indirect Cost Ratio (ICR) is used for the expense ratio. ICR is the sum of the expenses incurred by the fund expressed as a percentage of the average net assets throughout the year. The ICR includes management and performance fees, as well as other operational fees. The ICR includes management and performance fees, as well as other operational fees.  
Source: Vanguard calculations using data from Morningstar.

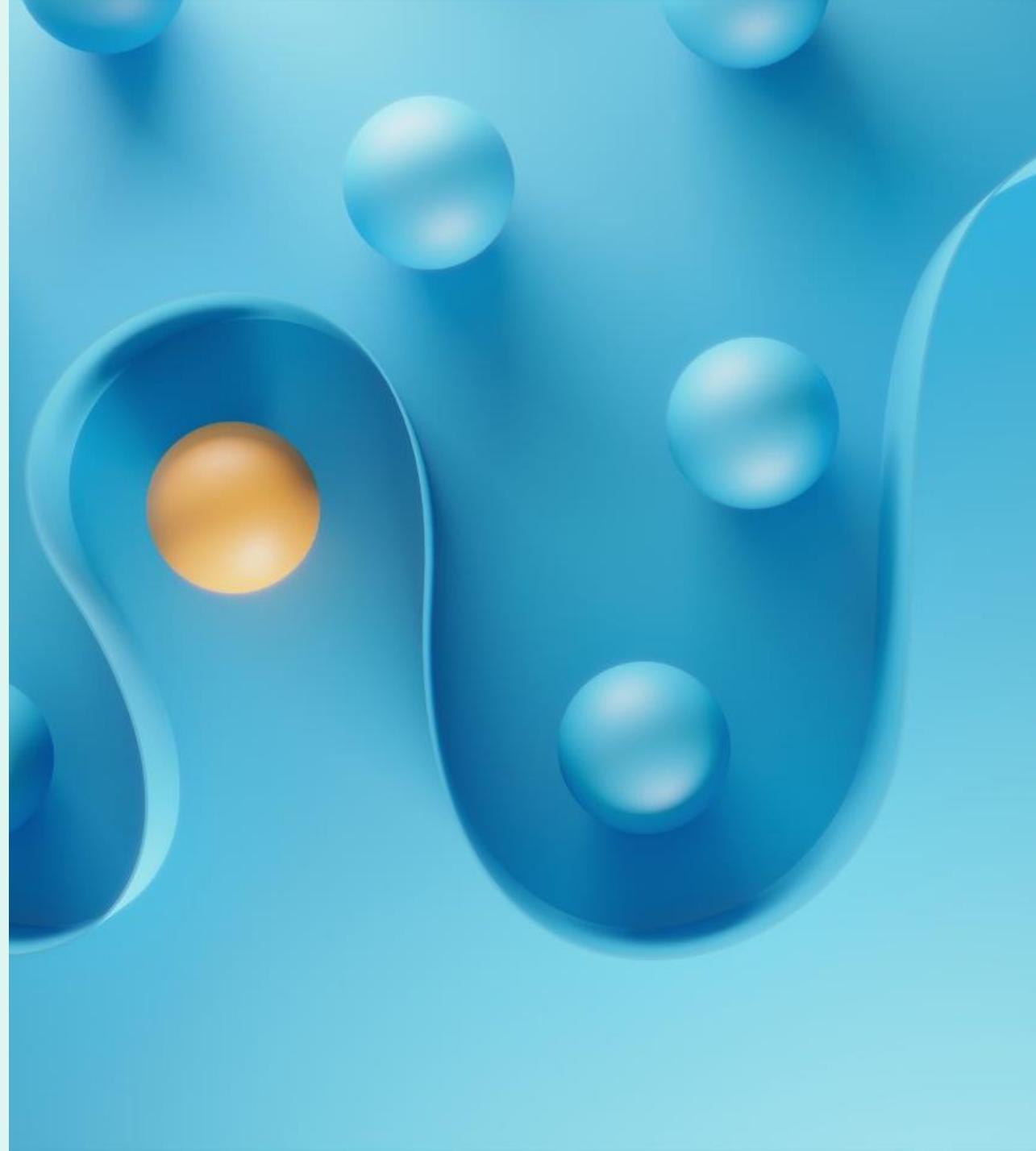
# An investment reality...

## Consider all real-world impacts

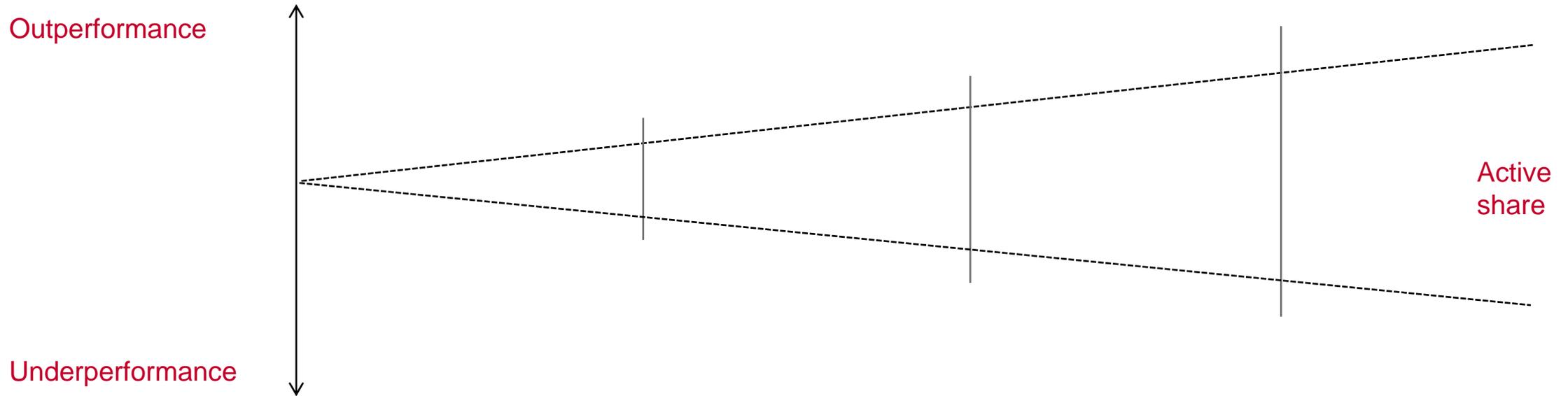


# Lesson 10

What's your investment style?



# What's your investment style?



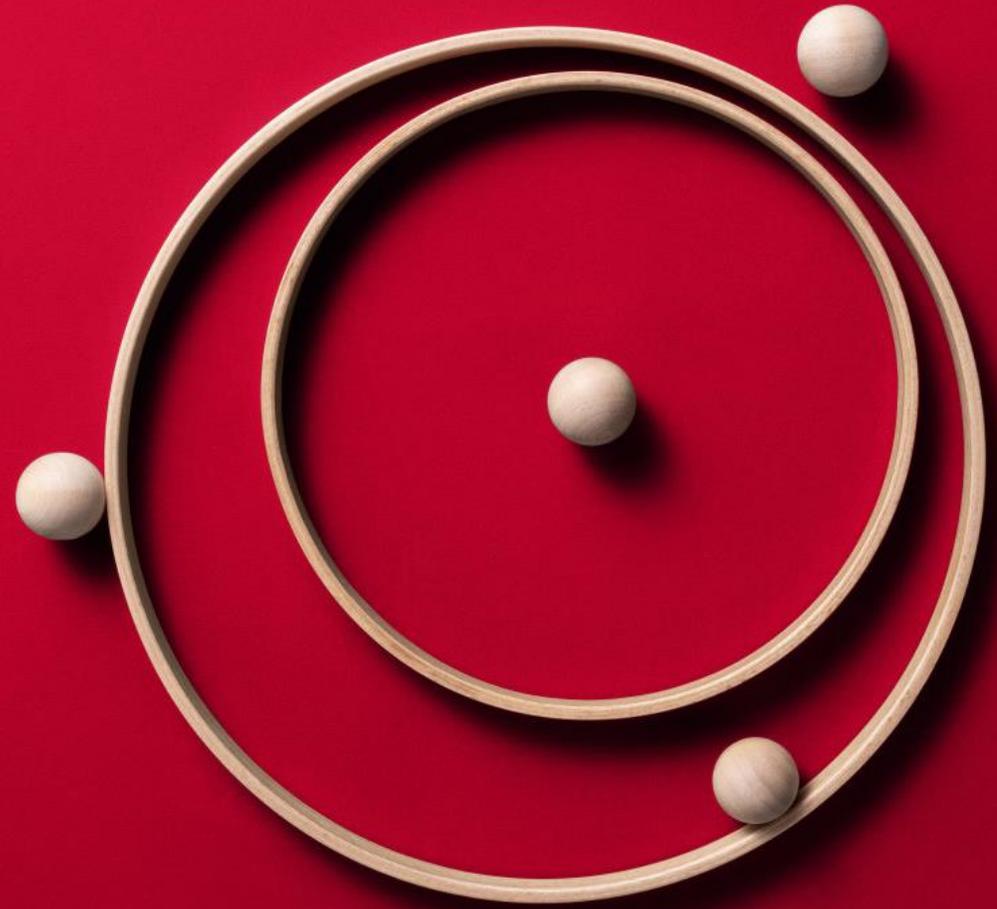
	Index Funds & ETFs	Quantitative Equity/ Factors	Traditional Active Equity	Hedge Funds/ Alternatives
<b>Cost</b>	\$	\$\$	\$\$\$	\$\$\$\$
<b>Weighting</b>	Market Capitalisation	Rules Based (varies)	Proprietary	Proprietary
<b>Transparency</b>	High	Moderate - High	Low	Very Low
<b>Opportunity for alpha</b>	No	Yes	Yes	Yes
<b>Level of PM discretion</b>	Low	Moderate	High	High

The example is illustrative only and is based on the factors stated.

# Lesson 11

Core + Satellite

**Vanguard**<sup>®</sup>

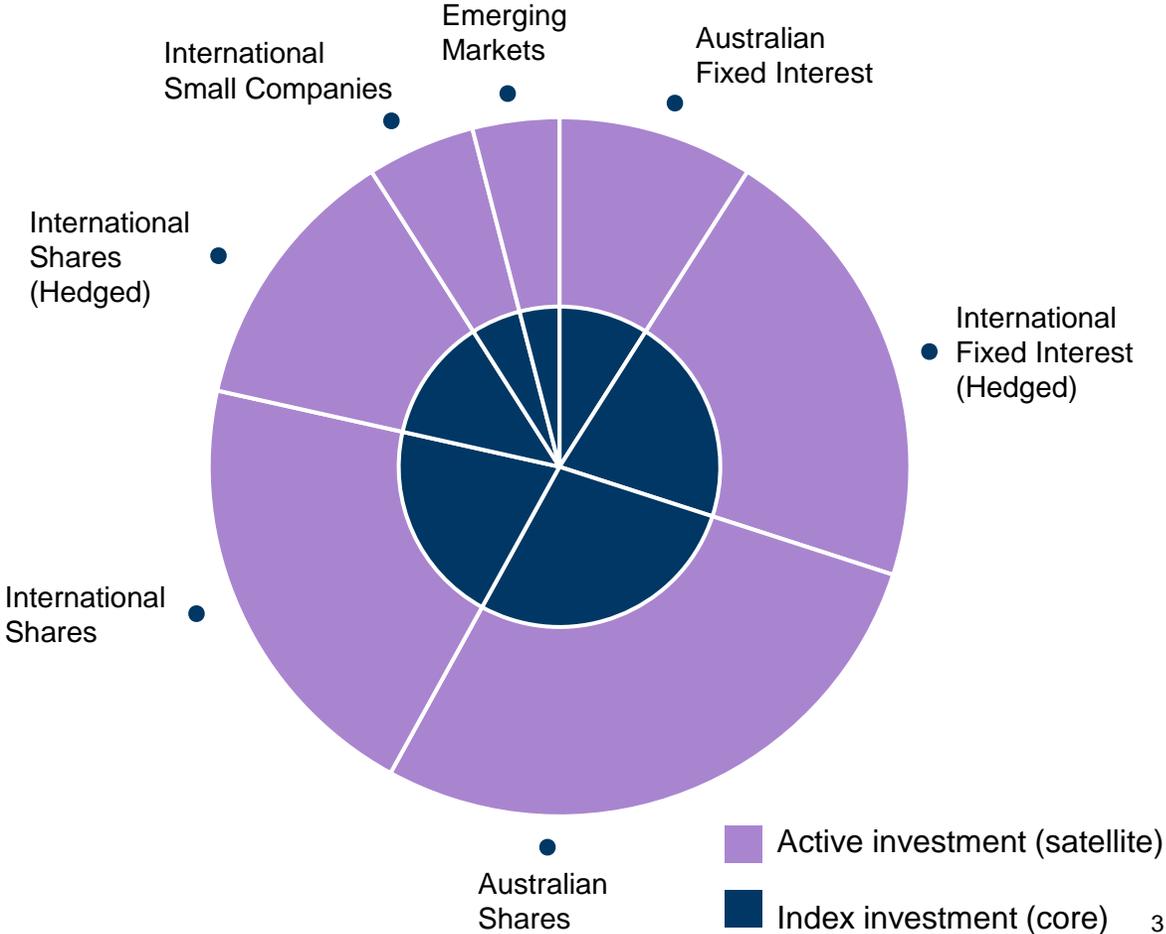


# Balance cost and performance

An investment approach that seeks to combine an index “core” with active “satellites” in order to better control performance and cost.

**Significant allocation to active funds (25%-49% indexing)**

Alpha potential:	High
Tracking error:	High
Cost:	High
Manager risk:	High
Tax & turnover:	High
Due diligence required:	High



The asset allocation in this diagram is illustrative only and is based on the factors stated.

# Balance cost and performance

An investment approach that seeks to combine an index “core” with active “satellites” in order to better control performance and cost.

**Moderate allocation to active funds  
(50%-74% indexing)**

Alpha potential: **Low**

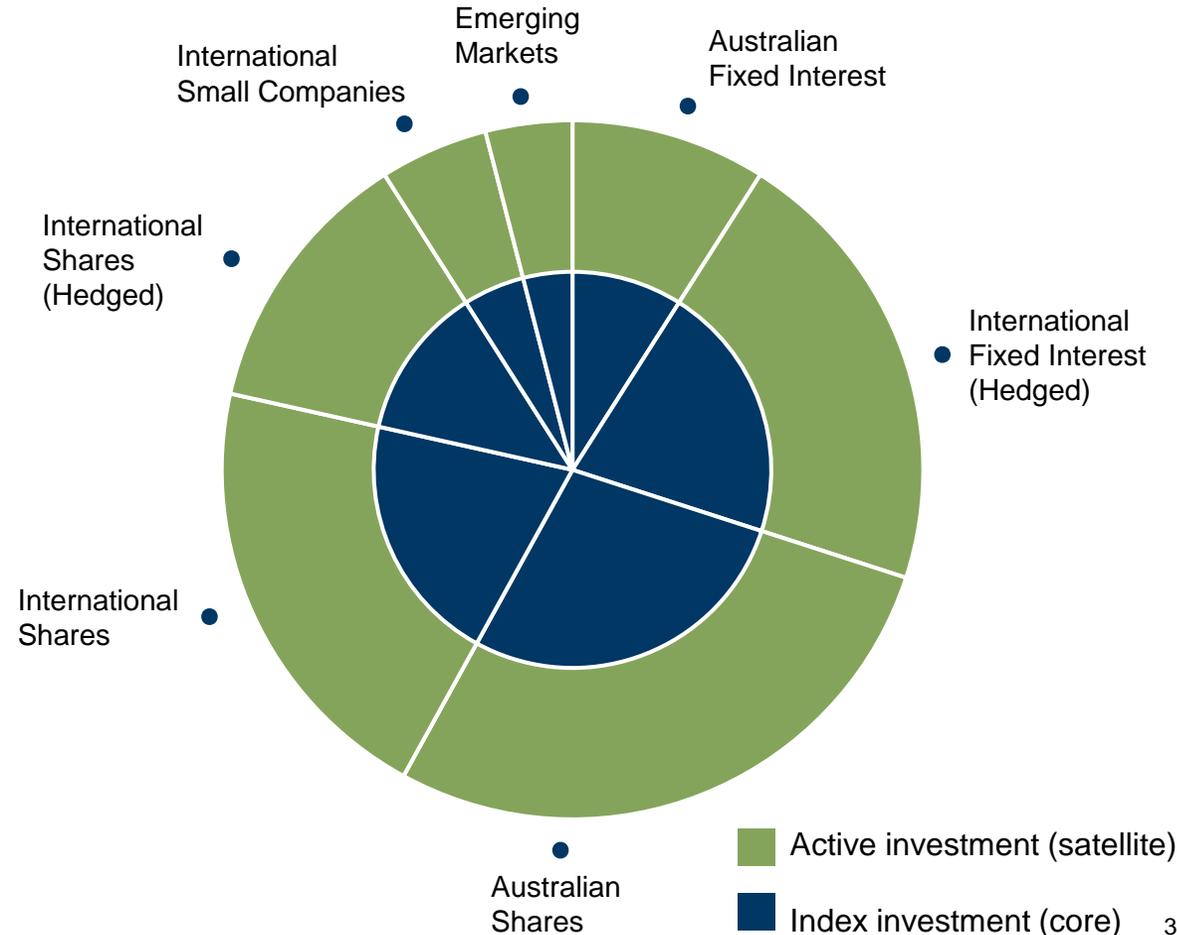
Tracking error: **Low**

Cost: **Low**

Manager risk: **Low**

Tax & turnover: **Low**

Due diligence required: **Low**



The asset allocation in this diagram is illustrative only and is based on the factors stated.

# Lesson 12

Choose the right structure for you



# What structure suits you?



## Managed Fund

### Costs

- ✓ Management Fee
- ✓ Entry/Exit price differential
- ✓ Platform fee (if used)

- Price set at end of investing day
- Application and redemption forms

**May work well for regular investing and withdrawals as no brokerage**



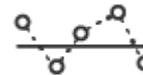
## Exchange Traded Fund

### Costs

- ✓ Management Fee
- ✓ Bid/offer price differential
- ✓ Brokerage

- Price known at transaction time
- Can be bought and sold on ASX

**Easy to transact quickly and with certainty**



## Separately Managed Account (SMA)

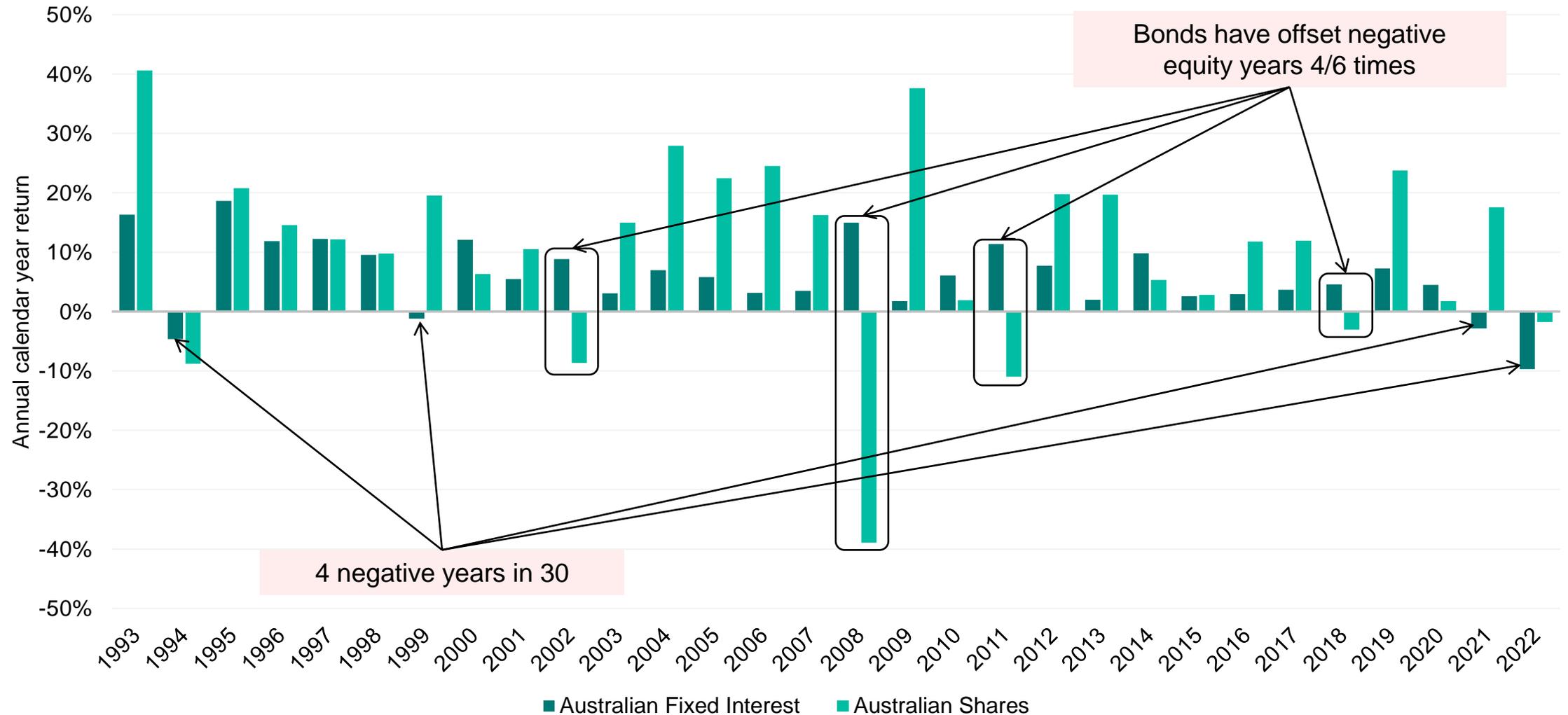
### Costs

- ✓ Management Fee (incl. platform, SMA manager and underlying fund managers)
- ✓ Platform transaction costs and buy/sell spread of underlying

**Platform functionality and reporting. May be able to transfer between SMA changes without triggering CGT**

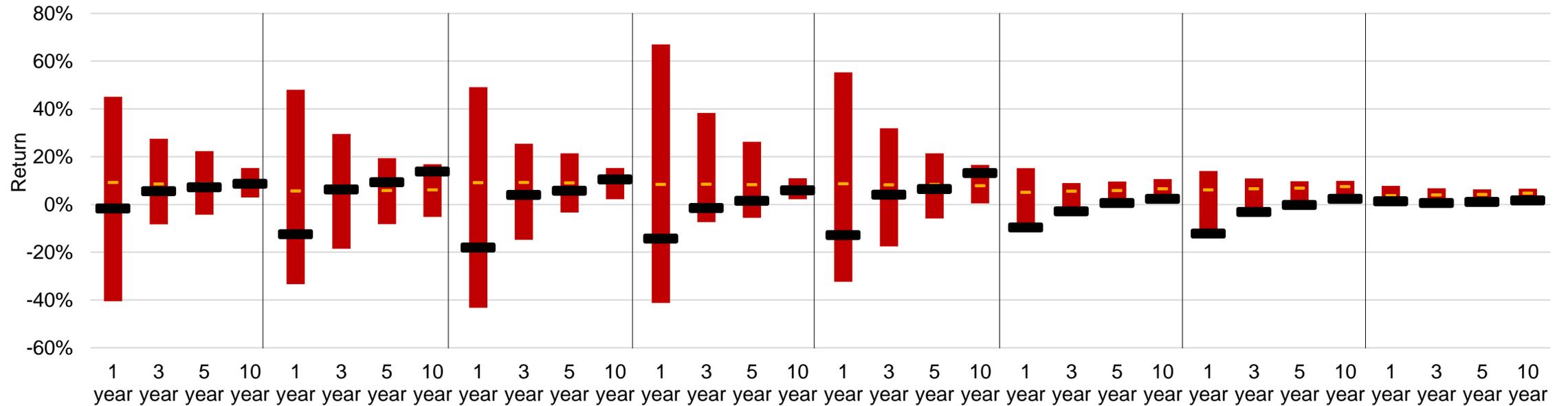
# Appendix

# The role of fixed income: Diversifying nature of fixed interest



# Why we need to think long term

Filter out the noise of short term volatility



— Average — 31-Dec-22 — Maximum and minimum rolling 1, 3, 5 and 10 year returns commencing January 2001 to December 2022

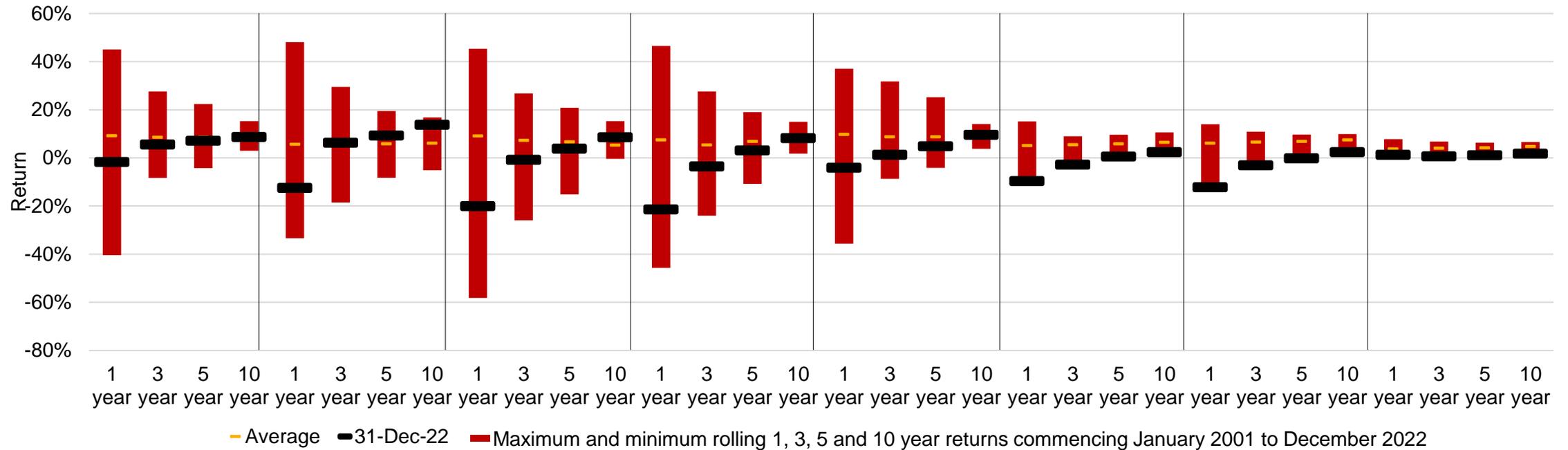


Source: Lonsec iRate, report run 5 January 2023.

Notes: Rolling 1 year, 3 year, 5 year and 10 year returns since January 2001 except Global Equities (Hedged) which commences January 2002 and Global Emerging Markets which commences December 2001. Indexes used: Australian Equities = S&P/ASX 300 TR Index AUD, Global Equities = MSCI AC World ex Australia NR Index AUD, Global Equities (Hedged) = MSCI AC World ex Australia NR Index (AUD Hedged), Global Emerging Markets= MSCI Emerging Markets NR Index AUD, Global Small Caps= MSCI World ex Australia Small Cap NR Index AUD, Australian Fixed Interest = Bloomberg AusBond Composite 0+ Year Index AUD, Global Fixed Interest = Bloomberg Global Aggregate TR Index (AUD Hedged), Cash = Bloomberg AusBond Bank Bill Index AUD.

# Why we need to think long term

Filter out the noise of short term volatility



Source: Lonsec iRate, report run 5 January 2023.

Notes: Rolling 1 year, 3 year, 5 year and 10 year returns since January 2001 except Global Infrastructure which commences February 2006. Indexes used: Australian Equities = S&P/ASX 300 TR Index AUD), Global Equities = MSCI AC World ex Australia NR Index AUD, Australian Listed Property Securities = S&P/ASX 300 A-REIT TR Index AUD, Global Listed Property = FTSE EPRA/NAREIT Developed ex Australia NR Index/ UBS Global Investors ex Australia Index (prior to May 2013), Global Infrastructure: FTSE Global Core Infrastructure 50/50 NR Index (AUD Hedged) / UBS Global Infrastructure & Utilities 50-50 NR Index (AUD Hedged) (prior to Apr 2015), Australian Fixed Interest = Bloomberg AusBond Composite 0+ Year Index AUD, Global Fixed Interest = Bloomberg Global Aggregate TR Index (AUD Hedged), Cash = Bloomberg AusBond Bank Bill Index AUD.

# Important Information

Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) is the product issuer and the Operator of Vanguard Personal Investor. We have not taken yours or your clients' objectives, financial situation or needs into account when preparing this information so it may not be applicable to the particular situation you are considering. You should consider yours and your clients' objectives, financial situation or needs, and the Product Disclosure Statement ("PDS") and the IDPS Guide ("the Guide"), before making any investment decision or recommendation. A copy of the Target Market Determinations (TMD) for Vanguard's financial products can be obtained at [vanguard.com.au](http://vanguard.com.au) free of charge and include a description of who the financial product is appropriate for. You should refer to the TMD for Vanguard's financial products before making any investment decisions. You can access our disclosure documents at [vanguard.com.au](http://vanguard.com.au) or by calling 1300 655 205. Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance. This material was prepared in good faith and we accept no liability for any errors or omissions.

"Bloomberg®" is a service mark of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Vanguard. Bloomberg is not affiliated with Vanguard, and Bloomberg does not approve, endorse, review, or recommend Vanguard products. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Vanguard Products. © 2023 Bloomberg. Used with Permission

London Stock Exchange Group companies include FTSE International Limited ("FTSE"), Frank Russell Company ("Russell"), MTS Next Limited ("MTS"), and FTSE TMX Global Debt Capital Markets Inc. ("FTSE TMX"). All rights reserved. "FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies and are used by FTSE, MTS, FTSE TMX and Russell under licence. All information is provided for information purposes only. No responsibility or liability can be accepted by the London Stock Exchange Group companies nor its licensors for any errors or for any loss from use of this publication. Neither the London Stock Exchange Group companies nor any of their licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE Indices or the fitness or suitability of the Indices for any particular purpose to which they might be put.

The funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities. The PDS contains a more detailed description of the limited relationship MSCI has with Vanguard and any related funds.

The S&P Index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI") and ASX Operations Pty Limited, and has been licensed for use by Vanguard. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by Vanguard. ASX is a trademark of the ASX Operations Pty Limited and has been licensed for use by SPDJI and Vanguard. Vanguard Products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, or ASX Operations Pty Limited and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P Index.

# Important Information

© 2023 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) or Financial Advice Provider Disclosure Statement (NZ) at [www.morningstar.com.au/s/fsg.pdf](http://www.morningstar.com.au/s/fsg.pdf) and [www.morningstar.au/s/fapds.pdf](http://www.morningstar.au/s/fapds.pdf). You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision.

Information provided by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Warning: Past performance is not a reliable indicator of future performance. Lonsec gives no warranty of accuracy or completeness of information in this document, which is compiled from information from public and third-party sources. Opinions and ratings are reasonably held by Lonsec at compilation. Lonsec assumes no obligation to update this document after publication. Except for liability which can't be excluded, Lonsec, its directors, officers, employees and agents disclaim all liability for any error, inaccuracy, misstatement or omission, or any loss suffered through relying on the document or any information.

© 2023 Vanguard Investments Australia Ltd. All rights reserved.