Vanguard®

Principles for investing success

We believe you give yourself the best chance of investment success if you focus on what you can control.

Important information

If you have any questions related to your investment decision or the suitability or appropriateness of the products described in this document, please contact your financial adviser.

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Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Focus on what you can control

It's very easy, and very tempting, to make investment decisions based on market movements, the economy, manager ratings or the historical performance of individual funds. This may lead you to overlook the basic principles that we believe can give you the best chance of investment success.

Vanguard's principles for investing success rest on one key theme: Focus on the things you can control.

Goals

Create clear, appropriate investment goals
The investment process begins by setting measurable and attainable investment goals and developing a plan for reaching those goals.

Balance

Develop a suitable asset allocation using broadly diversified funds
A successful investment strategy starts with establishing an appropriate asset allocation suitable for meeting your objectives, based on reasonable expectations of risk and potential returns. Holding a diversified mix of different investments can help limit your exposure to unnecessary risk.

Cost

Minimise costs
You can't control the markets, but you can control how much you pay to invest. Every pound or euro that you pay in costs and charges comes directly out of your potential return. Indeed, research suggests that lower-cost investments have tended to outperform higher-cost alternatives.

Discipline

Maintain perspective and long-term discipline
Investing evokes emotion that can disrupt the plans of even the most sophisticated investors. You can counter emotions with discipline and a long-term perspective. This can help you stick to your plan.

Successful investing begins by setting measurable and attainable investment goals and developing a plan for reaching those goals.

1. Goals

Create clear, appropriate investment goals

We believe that successful investing begins by setting measurable and attainable investment goals and developing a plan for reaching those goals. Keeping your plan on track means evaluating progress on a regular and ongoing basis.

Fail to plan, plan to fail

Investors without a plan often construct portfolios by evaluating the merits of each investment or fund individually. If the evaluation is positive, they add the investment to their portfolio, often without considering whether it fits. Common mistakes include buying funds with good recent performance in the hope that it will continue, and trying to time market peaks and troughs with buying and selling at exactly the right times. Our research shows that such efforts are incredibly difficult to get right, even for professional investors.

Focus on your goals

Collecting top-performing funds and trying to time markets can result in a portfolio that contains more risk than you're willing to take, or a portfolio with little chance of achieving your investing goals. You can avoid these mistakes by working through your current situation and setting some reasonable goals, then developing an investment plan to meet those goals, based on your unique circumstances.

Below are some of the items you should consider when developing a plan to meet your investment objectives.

Investment plan considerations

Objective	How much money you need to achieve a goal, such as retirement
Time horizon	The number of years you have to reach the goal
Risk profile	The level of risk you are willing to take to achieve your goal
Savings rate	How much you can invest at the start, and regularly thereafter
Investment mix	The broad mix of investment types you'll use to achieve your goal (often referred to as your 'asset allocation')
Monitoring	How your portfolio will be monitored and adjusted to maintain its asset allocation target

About equities and bonds

Equities, also referred to as 'shares', represent a share of ownership in a listed public company. They trade on stock exchanges and their prices can fluctuate – sometimes quite significantly – on a daily basis. Historically, equities have offered the best prospect for long-term growth.

Bonds, on the other hand, represent a type of loan to a government or company, in return for which they promise to pay the bondholder a certain number of interest payments until the bond's maturity date, when they will also repay the initial value of the bond. The long-term rate of return for bonds tends to be lower than equities, but their prices and income have tended to be more stable.

Rather than buying individual shares or bonds, most investors tend to invest in equity and bond funds, which can offer access to tens of thousands of shares and/or bonds in one investment.

2. Balance

Develop a suitable asset allocation using broadly diversified funds

No doubt you've heard there's no reward without risk. That's as true of investing as it is of anything else in life. You can't control what happens in the markets, but understanding the historical patterns of equities and bonds can help you handle risk in your own portfolio and select the right balance of investments for you.

Getting the balance right for you

Achieving long-term financial goals means accepting the trade-off between risk and reward, and appreciating the historical characteristics of different types of investments.

Equities have historically offered higher returns over the long run than bonds, but they've also typically carried more short-term risk. The mix of equities and bonds that you choose will depend on how much risk you're willing to take to achieve an expected return. And that depends on why you're investing, and how long a period of time you have until you will need your money.

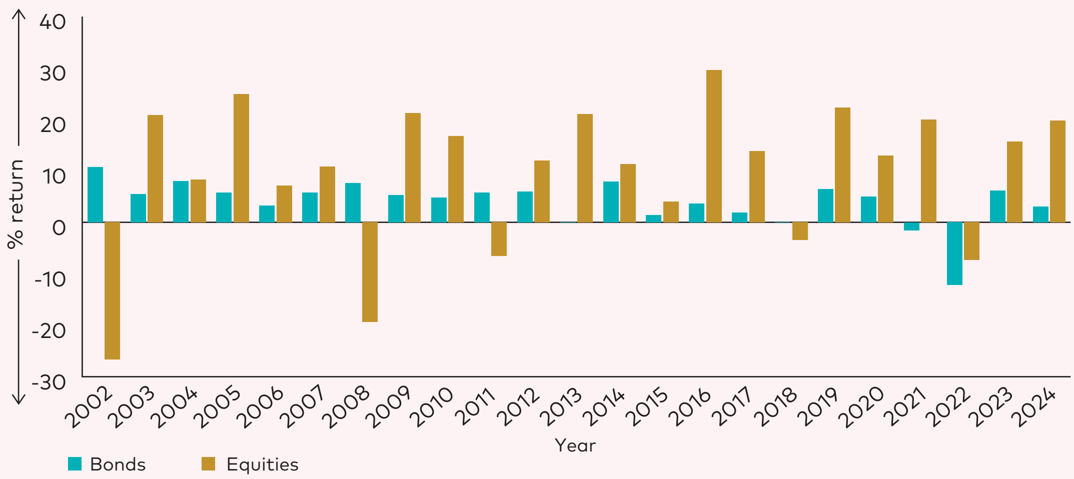
The graph below shows the yearly returns of equities and bonds since 2002. While equities have had some much bigger gains in many individual years, they have also suffered much bigger losses in certain years. The larger fluctuations in equity returns increase their risk. Every investor is different, so you need to think about how much investment risk you are willing and able to take.

Diversification: a broad mix can reduce risk

Investing in a broad mix of different asset classes and investments, otherwise known as diversification, can help reduce large swings in the value of your investment portfolio. A diversified portfolio can help smooth returns through market ups and downs - so your better performing investments help offset those that aren't performing so well.

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

The performance of equities and bonds, 2002-2024



Past performance is not a reliable indicator of future returns.
The performance of an index is not the exact representation of any particular investment, as you cannot invest directly into an index. The performance shown in this table does not include the costs of investing in the relevant index. Basis of performance NAV to NAV with gross income reinvested. Sources: Bloomberg. Data period from 31 December 2001 to 31 December 2024. Indices used: Bonds: Bloomberg Global Aggregate Total Return Bond Index, hedged in pounds sterling. Equities: FTSE All-World Total Return Equity Index, in pounds sterling.

You can't control what happens in the markets, but you can control how much you pay to invest.

3. Costs

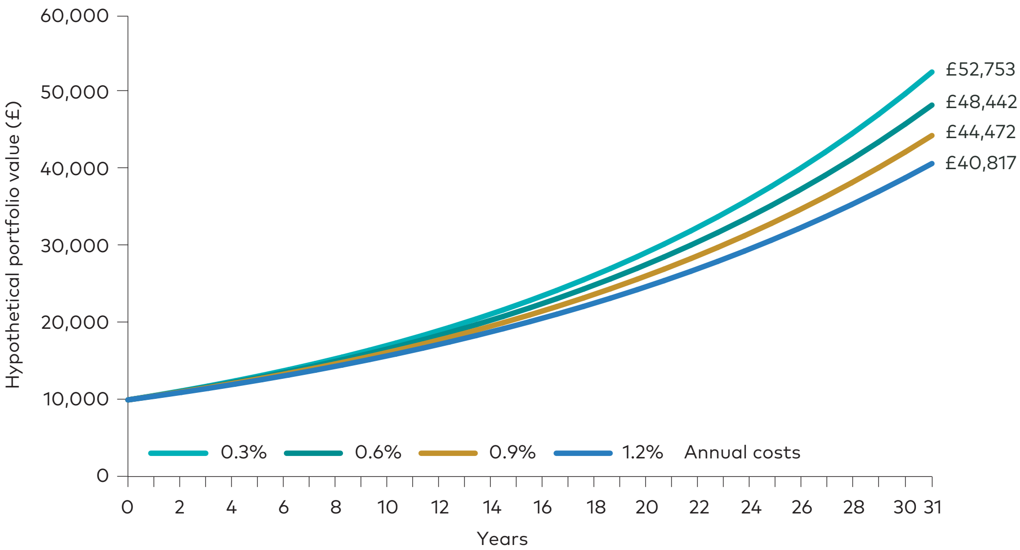
Minimise expenses

Whatever investments you choose, you increase your chance of outperformance by choosing those with lower costs. That's because the lower the charges, the more you get to keep of any returns the funds achieve. Remember that fund costs are incurred regardless of fund performance.

Using a hypothetical example (which does not represent any particular investment), the graph below illustrates the potential impact of costs on an initial investment of £10,000 over a 30-year period. This graph assumes 6% average growth per annum which is compounded year on year. As the chart shows, investing in a fund that charges 0.3% compared with one that charges 1.2% could potentially provide an additional £11,936 in returns over a 30-year period. Understanding the impact of costs on long-term returns is a key step towards achieving investing success.

It is important to note that costs are not the only factor that could impact your returns. This example assumes growth of 6%, but in reality, returns may vary and you may get a lower return from a fund with lower investment costs.

Growth of a £10,000 initial investment over a 30-year period, assuming 6% growth per annum



This hypothetical example assumes an initial investment of £10,000, growing at an annual rate of 6% per annum over 30 years, with all profits reinvested. Costs are applied annually based on the total value of the portfolio over time. As it is hypothetical, this example does not represent any particular investment.

Source: Vanguard.

A balanced and cost-effective asset allocation works only if you stick to it over time and through market ups and downs.

4. Discipline

Maintain perspective and long-term discipline

Discipline in investing is the ability to stick to your investment plan over time and through varying market conditions.

Successful investing tales time. It can evoke strong emotions that often lead us to want to make impulsive decisions—like panic selling during a period of market volatility, for example.

Maintaining discipline and perspective can help you remain committed to your long-term investment plan, helping you avoid potentially harmful emotional decisions during periods of market uncertainty.

There are four core components to being a disciplined investor:

1. Making regular investment contributions.
2. Staying invested through periods of market volatility.
3. Rebalancing your portfolio to maintain a suitable asset allocation.
4. Having a disciplined spending strategy.

Making regular investment contributions

Making regular contributions to your portfolio, and increasing them over time, can have a powerful impact on your long-term results. By consistently reserving a portion of your regular income plus any increases in salary or additional income earned, you can take advantage of the opportunity to earn returns on these additional savings over time. In fact, increasing how much you save each year can be more powerful than investing in a riskier portfolio with potentially higher returns.

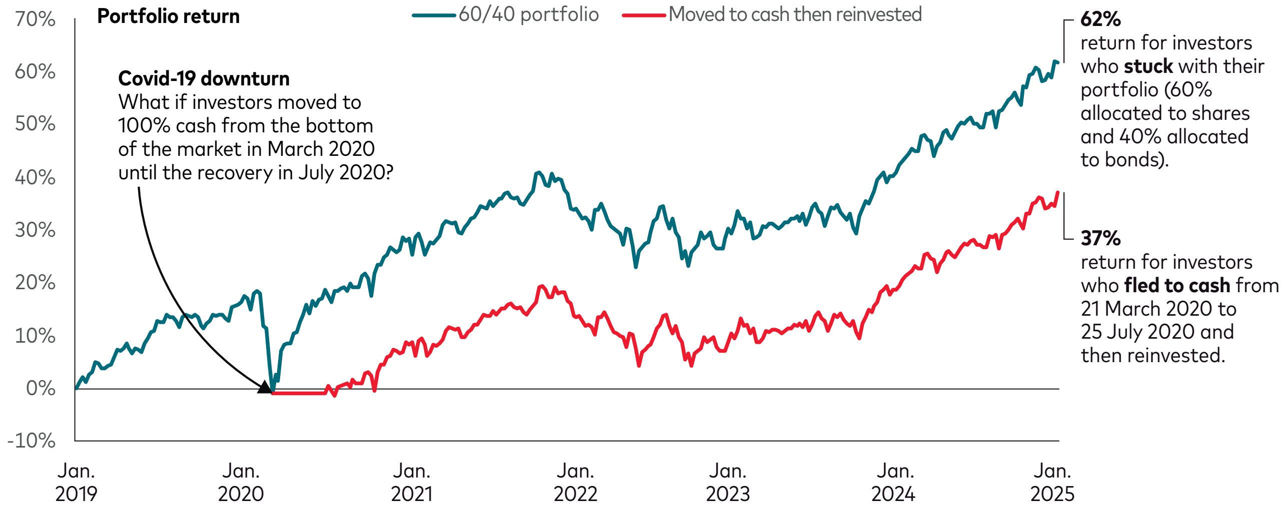
Staying invested through volatile times

We naturally associate investment success with strong investment returns. However, returns over shorter periods of time are often unpredictable and outside of our control. Tuning out the noise can help you maintain discipline and avoid the temptation to alter your investments in response to short-term market falls.

The chart below illustrates the importance of discipline by comparing the returns of an investor who abandoned his investment plan during the Covid market decline in 2020 with an investor who stuck to her asset allocation throughout the period. Both investors begin with equal portfolios comprising 60% equities and 40% bonds,

The importance of maintaining discipline: Reacting to market volatility can jeopardise returns

What if investors shifted to cash at the bottom of the Covid-19 downturn and stayed there until the market recovered?



Past performance is not a reliable indicator of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Notes: The investment is in a portfolio made up of 60% shares and 40% bonds. Shares are represented by the FTSE Global All Cap Index, in GBP. Bonds are represented by the Bloomberg Global Aggregate Bond Index (GBP Hedged). The return on cash is represented by the Sterling Overnight Index Average (SONIA) rate. Returns do not take into account inflation.

Sources: Vanguard calculations, using data from Morningstar, for the period 1 January 2019 to 31 December 2024.

but one of the investors (red line) sells his assets in March 2020, moving the proceeds into cash until the market recovers in July 2020, when he re-invests his money back into a 60/40 portfolio allocation. Meanwhile, the other investor who stuck to her investment plan recovered her losses more quickly and earned superior returns (green line) than the investor who didn't stay the course and cashed out of for just a short period of time.

Abandoning your plan can actually wind up adding to your stress, and means you have to decide when to time your re-entry back into the market—often when valuations have moved higher than when you exited and at a lower account balance than if you had stayed invested.

Rebalancing to maintain your target asset mix

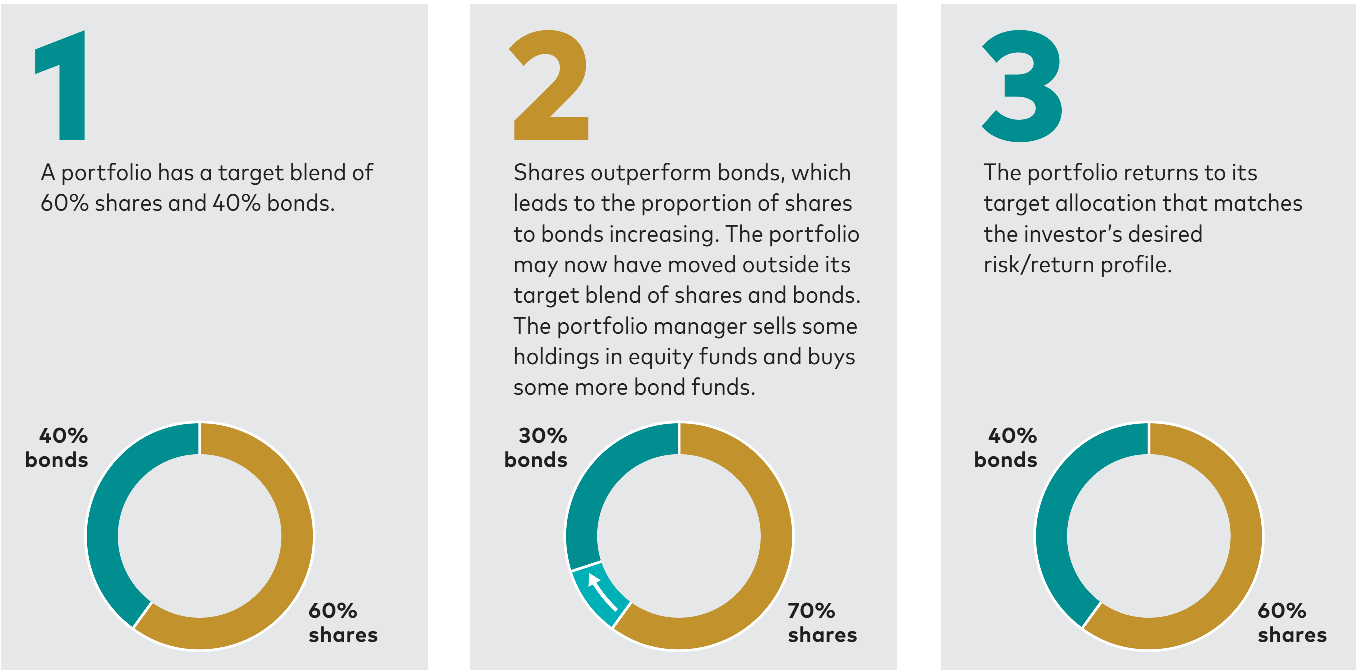
Asset allocation is one of the most crucial decisions for achieving your investment goals. Yet over time, your portfolio can unintentionally drift from its original allocation due to market shifts and changes. Rebalancing helps keep your portfolio in balance and ensures it remains aligned with your investment goals and your appetite for risk.

Staying disciplined in your spending

For investors who are approaching retirement or already drawing an income from their portfolio, sticking to your spending plan is key to ensuring you stay on track and ensuring your investments generate the returns you need to support your requirements.

It can be especially difficult to remain disciplined during periods of heightened inflation or when faced with challenging situations. But maintaining a conscious spending plan can help ensure your accumulated wealth remains sufficient to achieve your long-term spending goals.

How rebalancing works



Note: This is a hypothetical example of how rebalancing works in a typical multi-asset fund. It does not reflect any particular fund or portfolio.
Source: Vanguard.

Glossary

Asset, asset class
A category of investment that displays similar characteristics, for example, shares, bonds or property.

Bonds
This is a loan issued by a government, public-sector body or company. Bonds usually pay a fixed rate of annual interest—hence why they are also known as fixed-income assets—while the original sum borrowed is typically repaid at a specific future date.

Diversification
This is a strategy designed to reduce the risk in an investment portfolio by holding a wide range of assets. This helps to manage risk because better-performing investments can help to offset those that perform less well, over time.

Equities
Another word for ordinary company shares, which represent an ownership stake in the business.

Fund
An investment product that pools the money of many investors to buy shares and/or other assets.

Fund manager
The person, team or company that manages a fund. In an active fund, they will make the investment decisions. In an index fund, they will make sure the fund is closely tracking the index.

Index
An index typically measures the performance of a basket of investments that are intended to replicate a certain area of the market. Indices are often used as benchmarks against which to evaluate the performance of an investment, such as a fund.

Index fund
An investment fund that aims to closely match the returns of a specified market index. The fund may hold all of the constituents of the particular index or purchase a sample of constituents so that its performance is as close as possible to the index.

Index provider
An index provider is a company that designs and calculates indices (as defined above). They set the rules on what is included in the index, how it is managed and how constituents will be added or removed over time.

Portfolio
This is a collection of individual investments or funds that is usually created to meet specific goals, such as long-term capital growth.

Risk
The likelihood that the return on an investment will differ from what is expected. There are different types of risk, including market risk (the chance that returns will fluctuate) and shortfall risk (the possibility that a portfolio will fail to meet its longer-term objective). Different investors have different tolerances for risk based on factors such as their personal circumstances and their investment timeframe.

Volatility
The extent to which investment values fluctuate over time. When investors are uncertain about the economic environment or geopolitical events, short-term volatility tends to increase.

About Vanguard

The Vanguard Group launched its first index fund in 1976 in the US and investors worldwide now trust us to manage over $10.1 trillion worth of their assets as at 31 December 2024.

Our unique mutual ownership structure in the US, where we are owned by our clients, means our interests are aligned with those of our investors globally. As a result, investors in the UK and Europe benefit from our commitment to putting investors' interests first.

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. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares.

Important information

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