

CITYWIRE PRO BUYER NEW YORK DUE DILIGENCE RETREAT

# Getting the big decisions right: Opportunities in core fixed income

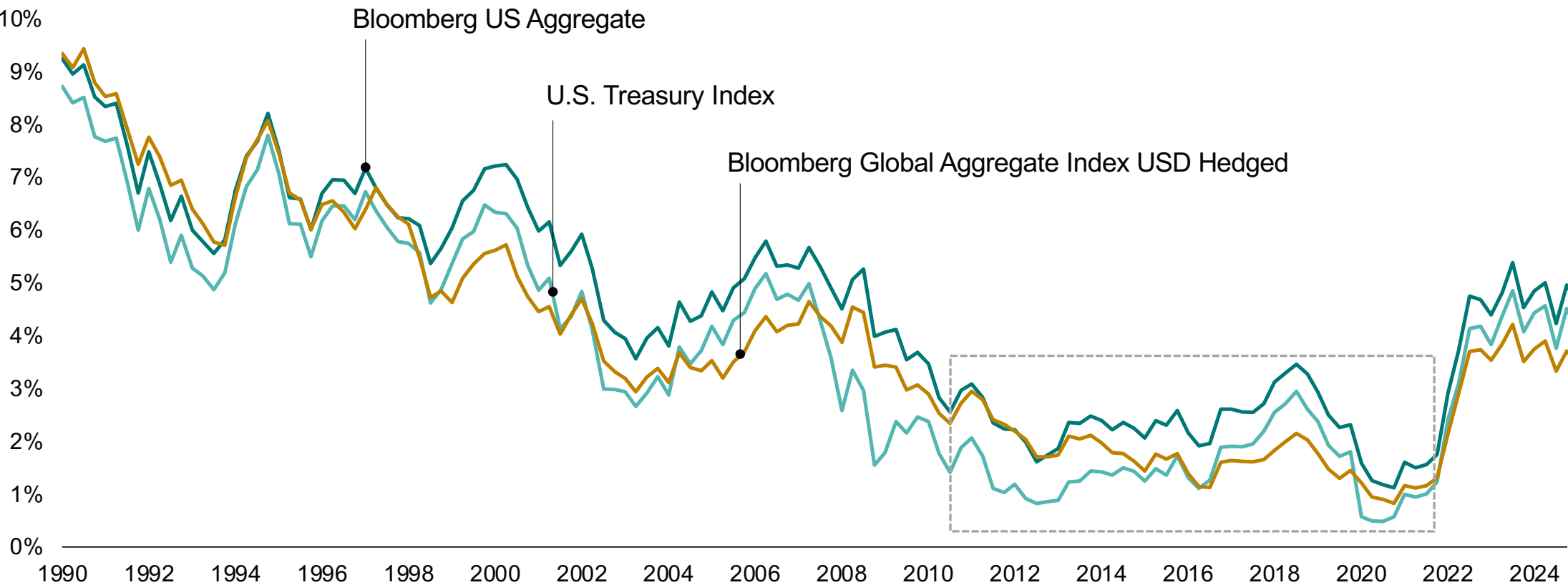
**Dan Larkin, CFA**  
Senior Fixed Income Specialist

**Becca Venter, CFA**  
Senior Fixed Income Product Manager

# Today's opportunity in fixed income

# Bond yields during the 2010s were an outlier

## Index yield to worst



Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

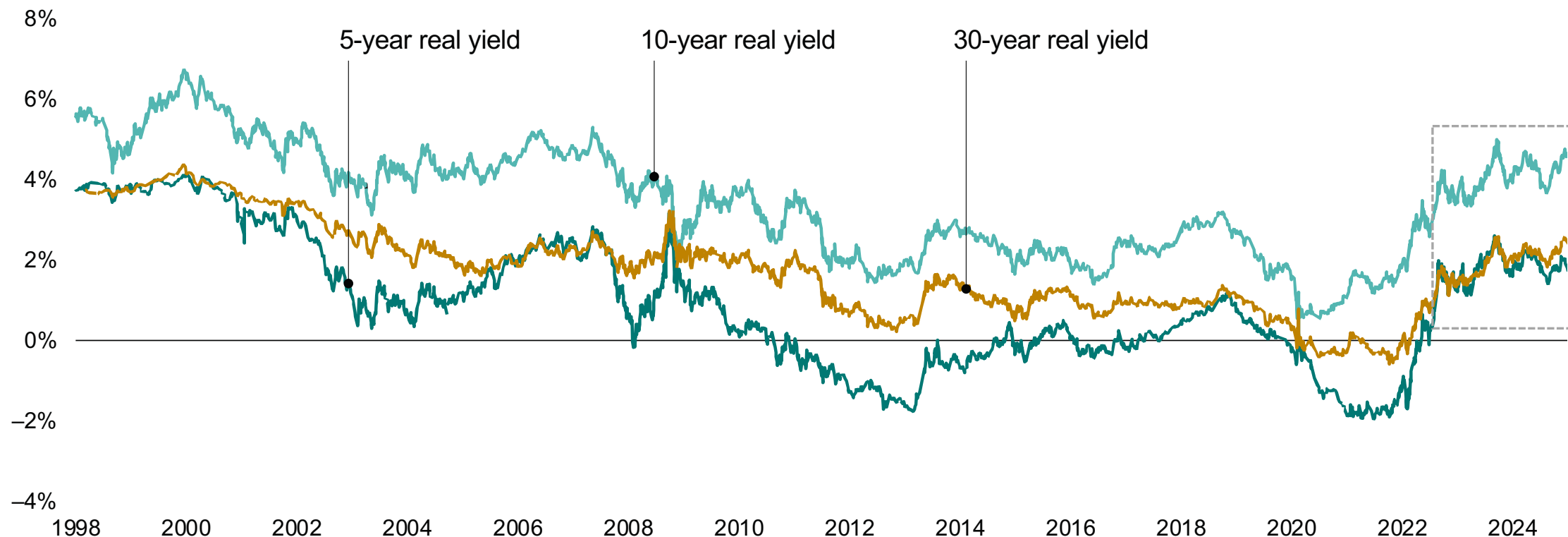
Source: Bloomberg as of 12/31/2024.

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# Today, yields in excess of inflation are positive across the curve

## Fixed income real rates



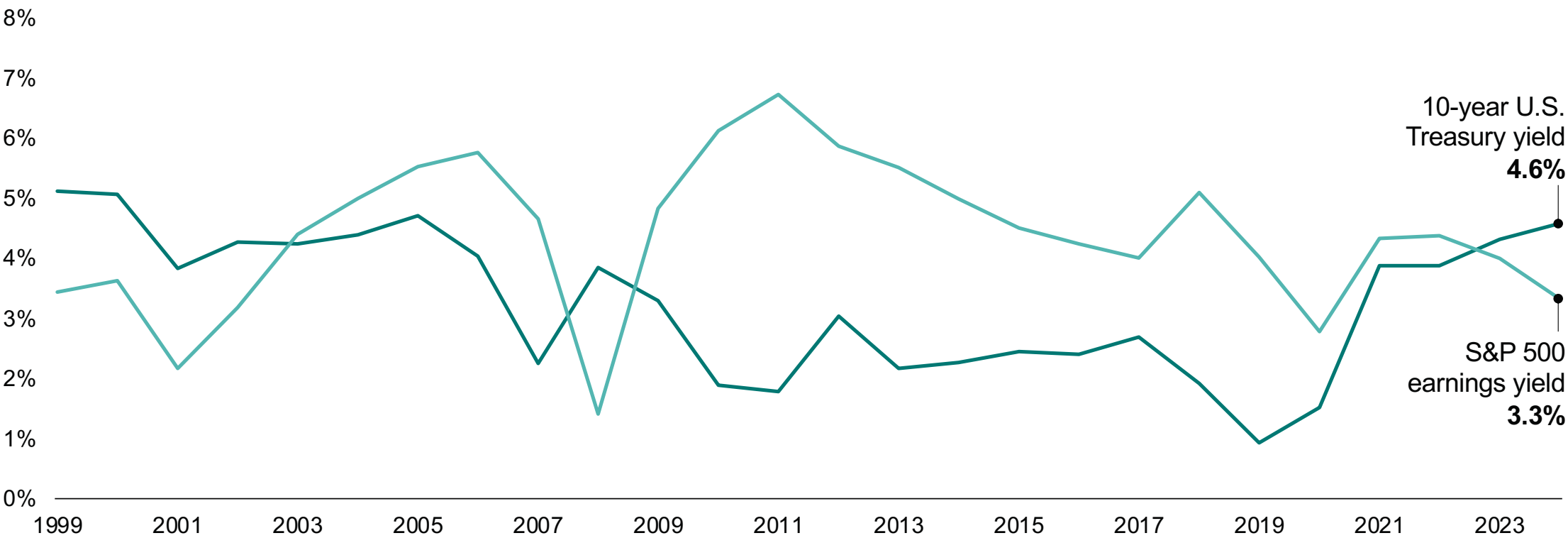
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Source: Bloomberg as of 1/31/2025.

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# Measures of expected market returns make a case for bonds

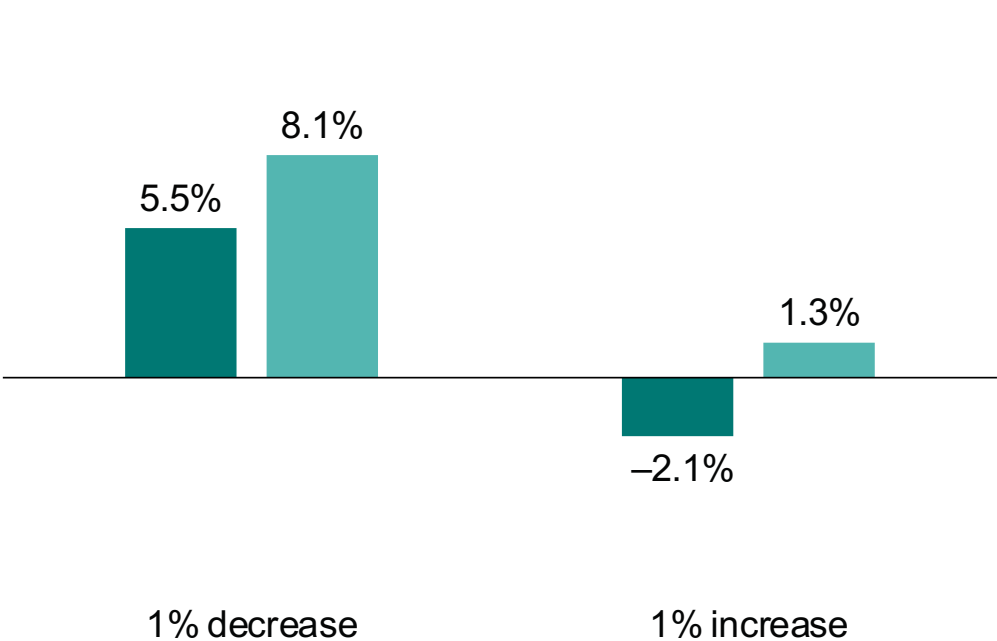
The 10-year U.S. Treasury yield is higher than the S&P 500 earnings yield



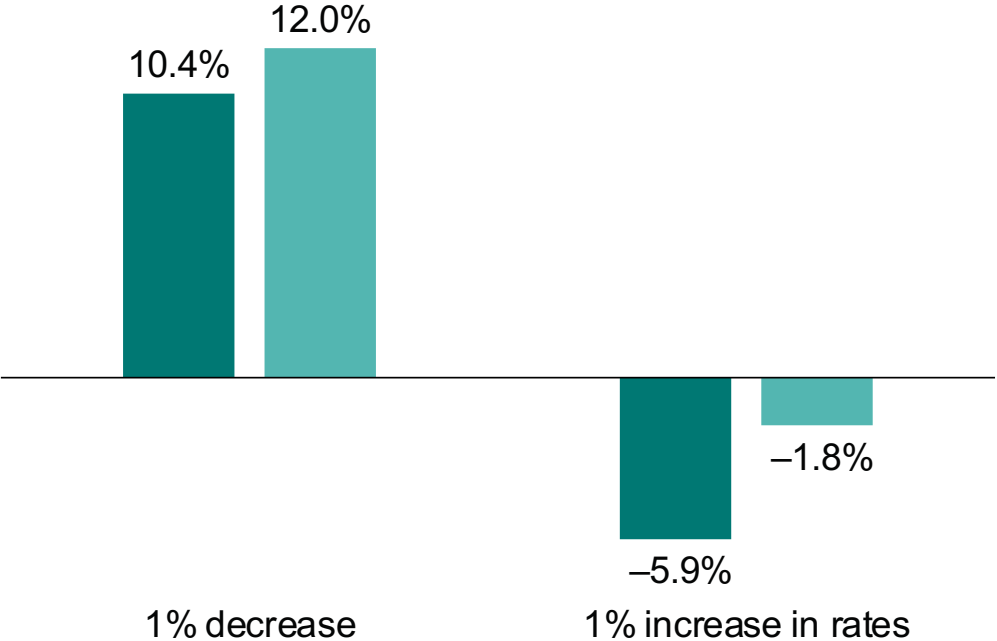
**Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.**  
Note: The Standard and Poor's (S&P) 500 Index earnings yield is a weighted average of each constituent stock's most recent trailing 12-month earnings per share divided by its share price.  
**Source:** Standard & Poor's (S&P) as of 12/31/2024.

# Higher yields provide better outcomes whether rates rise or fall

Effect of 1% change in rates on 5-year Treasuries (1-year return)



Effect of 1% change in rates on 10-year Treasuries (1-year return)



■ January 10, 2022 ■ January 10, 2025

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**Notes:** Modified duration calculated using 5-year and 10-year constant maturity yields as of January 10<sup>th</sup> 2022 and January 10<sup>th</sup> 2025. Impact of change in rates assumed to happen immediately and impact the price of the bonds at that time and assuming future yields are based on the new interest rate. Assumes parallel shift in the yield curve  
**Sources:** Vanguard Investment Advisory Research Center calculations using data from Morningstar Direct and St. Louis FRED database

# Vanguard active fixed income

# Vanguard has a large, sophisticated, and global active bond team

Vanguard total fixed income AUM

**\$2.5T**

Active fixed income AUM

**\$462B**

Municipal bonds:

**\$193B**

Taxable bonds:

**\$269B**

**30+**

Portfolio  
managers

**40+**

Traders

**65+**

Credit research  
analysts

**150+**

Dedicated team  
members

**40+**

Years managing  
active fixed income

**Notes:** Vanguard fixed income assets under management include \$43 billion in assets subadvised by Wellington Management Company LLP.

**Source:** Vanguard, as of December 31, 2024.

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# Our differentiated approach to active fixed income



<sup>1</sup> Vanguard is owned by its funds, which are owned by Vanguard's fund shareholder clients.

# Vanguard's active taxable bond products

## Multisector

Core Bond Fund  
**VCOBX**  
0.10% expense ratio

Core Bond  
ETF  
**VCRB**  
0.10% expense ratio

Core-Plus Bond  
Fund  
**VCPAX**  
0.20% expense ratio

Core-Plus Bond  
ETF  
**VPLS**  
0.20% expense ratio

Multi-Sector  
Income Bond Fund  
**VMSAX**  
0.30% expense ratio

## Investment-grade credit

Ultra-Short-Term  
Bond Fund  
**VUSFX**  
0.09% expense ratio

Ultra-Short  
Bond ETF  
**VUSB**  
0.10% expense ratio

Short-Term  
Investment-  
Grade Fund  
**VFSUX**  
0.09% expense ratio

Intermediate-Term  
Investment-Grade  
Fund  
**VFIDX**  
0.09% expense ratio

Long-Term  
Investment-Grade  
Fund  
**VWETX**  
0.10% expense ratio

Global Credit  
Bond Fund  
**VGCAx**  
0.25% expense ratio

## Single sector

Emerging Markets  
Bond Fund  
**VEGBX**  
0.35% expense ratio

High-Yield  
Corporate Fund  
**VWEAX**  
0.12% expense ratio

## Government

Short-Term  
Federal Fund  
**VSGDX**  
0.10% expense ratio

Intermediate-Term  
Treasury Fund  
**VFIUX**  
0.10% expense ratio

GNMA Fund  
**VFIJX**  
0.11% expense ratio

Short-Term  
Treasury Fund  
**VFIRX**  
0.10% expense ratio

Long-Term  
Treasury Fund  
**VUSUX**  
0.10% expense ratio

Inflation-Protected  
Securities Fund  
**VAIPX**  
0.10% expense ratio

Vanguard Core Bond ETF and Vanguard Core-Plus Bond ETF are not to be confused with the similarly named Vanguard Core Bond Fund and Vanguard Core-Plus Bond Fund. These products are independent of one another. Differences in scale, certain investment processes, and underlying holdings between the ETFs and their mutual fund counterparts are expected to produce different investment returns by the products.

**Notes:** Expense ratios are based on expenses as reported in each fund's most recent prospectus. The current expense ratio may be higher or lower than the figure shown.

Tickers shown for mutual funds are for Admiral Shares™.

Investor Shares are also available.

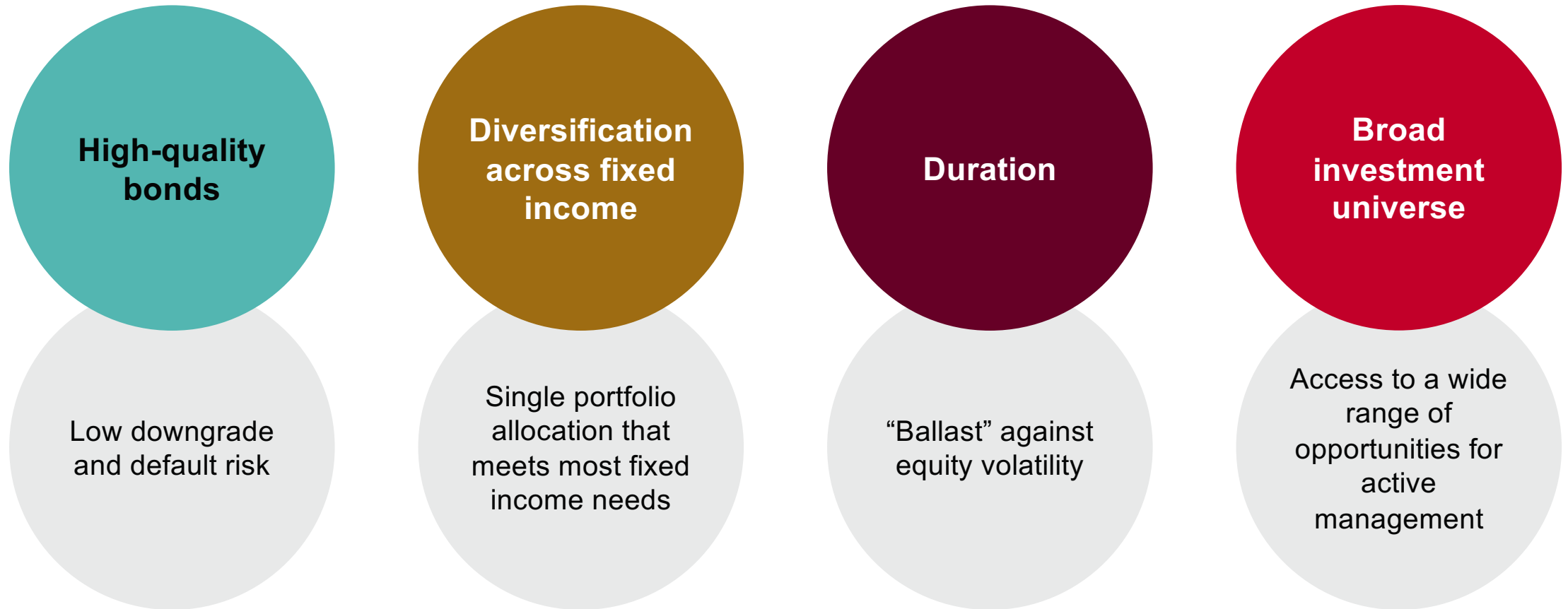
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# The case for core fixed income

# Core strategies provide a number of benefits

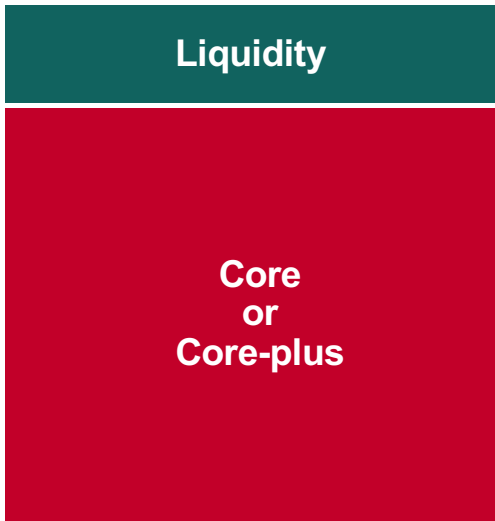
## Key characteristics of core fixed income



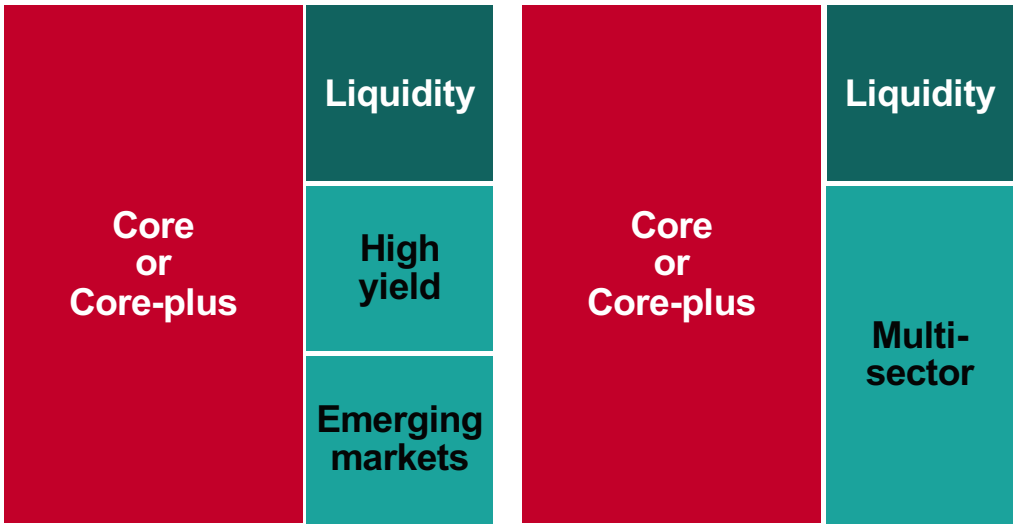
# Core bond funds can play a variety of roles in a portfolio

## Common approaches to portfolio construction using core fixed income

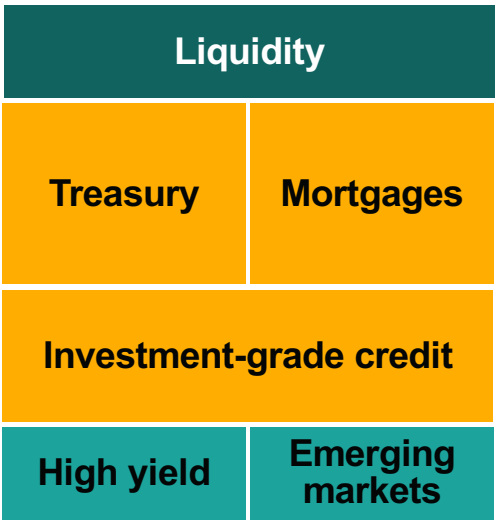
Single product solution



Core and satellite



Building blocks



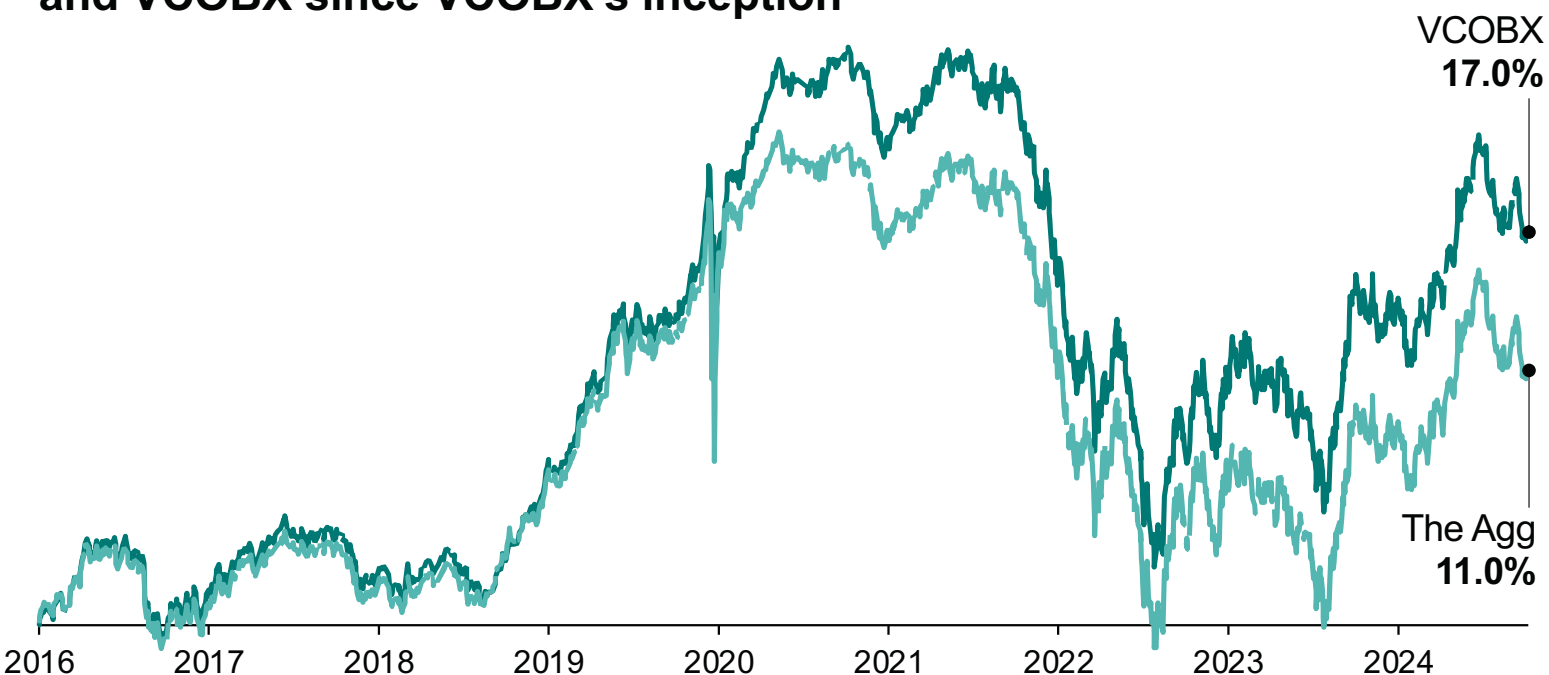
# Vanguard's active core strategies

# Vanguard Core Bond Fund has outperformed the Agg while still playing the same central role in a portfolio

## 5-year risk and return

	VCOBX	The Agg
Total return	0.40%	−0.33%
Standard deviation	6.56%	6.42%
S&P 500 correlation	0.58	0.56
Beta	1.02	1.00

## Cumulative return of Bloomberg U.S. Aggregate Index and VCOBX since VCOBX's inception

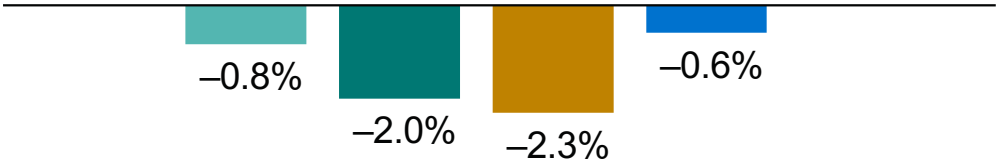


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The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [www.vanguard.com/performance](http://www.vanguard.com/performance).  
Source: Morningstar as of December 31, 2024.  
Note: Standardized performance can be found at the end of presentation.

# Vanguard Core Bond Fund delivered better downside protection and greater upside capture than peers in 2020

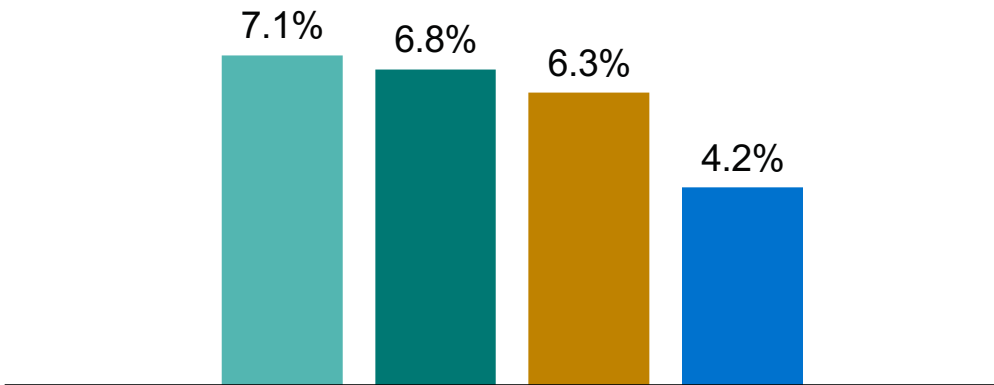
Intermediate Core Bond products' performance

Covid sell-off max drawdown



■ Vanguard Core Bond Fund   ■ Average of top 10 largest funds   ■ Average of Morningstar category   ■ Bloomberg U.S. Aggregate Bond Index

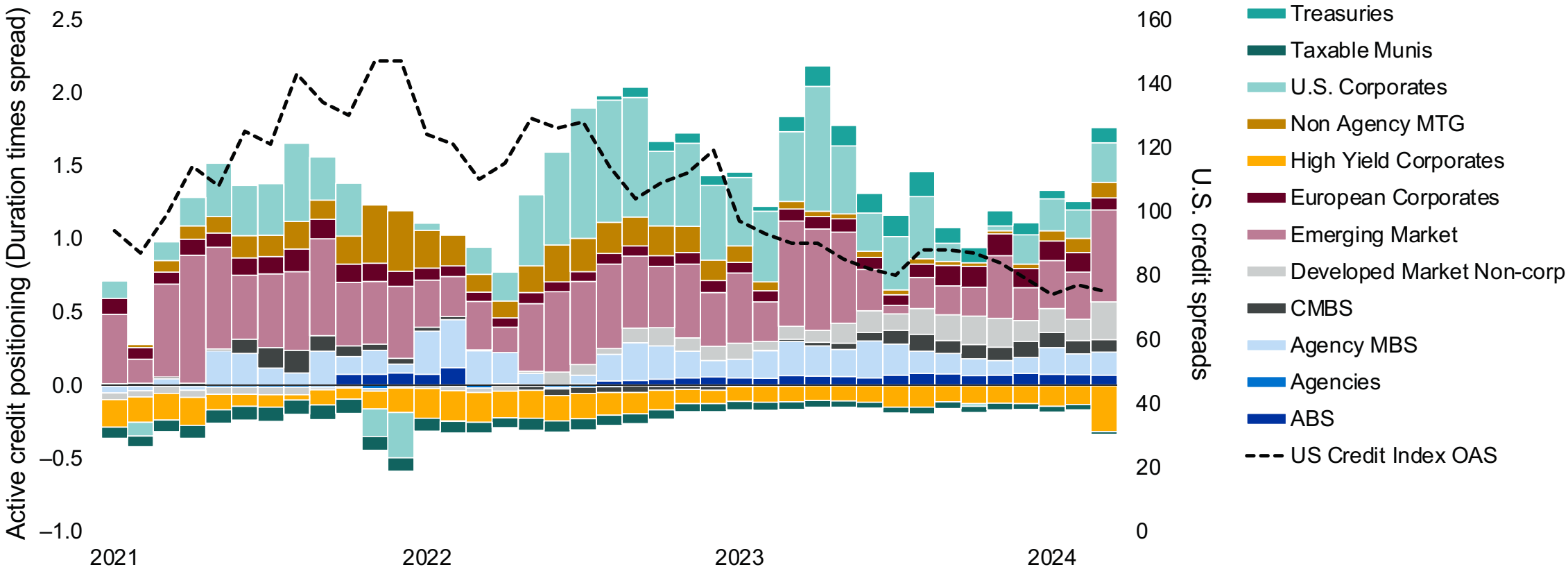
Total return (April to December, 2020)



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**Source:** Morningstar as of December 31, 2020.  
**Note:** Standardized performance can be found at the end of presentation.

# Core-Plus offers greater flexibility to generate alpha across a wide range of market sectors

Vanguard Core-Plus Bond Fund's active credit positioning versus credit spreads

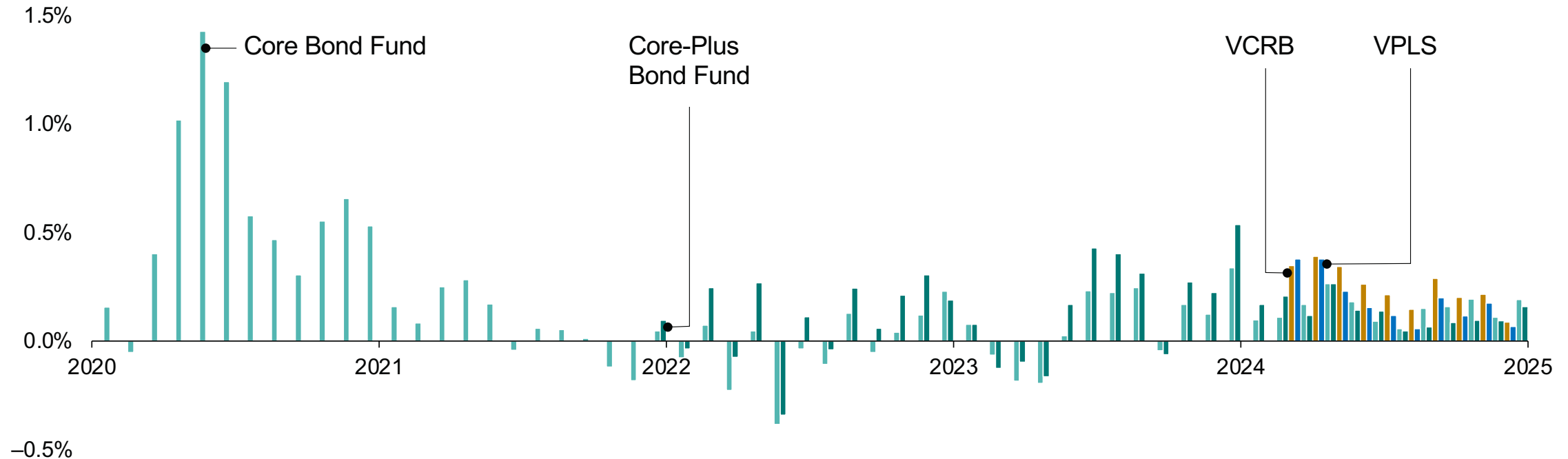


Source: Vanguard as of January 31, 2025.

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# Our “core” suite of products has generated consistent alpha, beating their benchmarks 82% of the time over the last 5 years

## Rolling 3-month net performance versus benchmark (5-year lookback)



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Source: Vanguard as of January 31, 2025.

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# Standardized performance of funds and ETFs listed in presentation

Vanguard fund	Ticker symbol	Month-end	Year-to-date	1 year	3 Year	5 Year	10 Year	Since inception
Vanguard Core Bond Fund	VCOBX	−1.62%	1.88%	1.88%	−2.12%	0.40%	—	1.67% <sup>1</sup>
Vanguard Core-Plus Bond Fund	VCPAX	−1.53	2.56	2.56	−1.44	—	—	−1.26 <sup>2</sup>
Vanguard Core Bond ETF (Market price)	VCRB	−1.56	2.21	2.21	—	—	—	5.27 <sup>3</sup>
Vanguard Core Bond ETF (NAV)	VCRB	−1.63	2.32	2.32	—	—	—	5.01 <sup>3</sup>
Vanguard Core-Plus Bond ETF (Market price)	VPLS	−1.43	2.71	2.71	—	—	—	5.74 <sup>4</sup>
Vanguard Core-Plus Bond ETF (NAV)	VPLS	−1.56	2.85	2.85	—	—	—	5.41 <sup>4</sup>

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Effective July 15, 2024, the market price returns are calculated using the official closing price as reported by the ETF's primary exchange. Prior to July 15, 2024, the market price returns were calculated using the midpoint between the bid and ask prices as of the closing time of the New York Stock Exchange (typically 4 p.m., Eastern time). The returns shown do not represent the returns you would receive if you traded shares at other times.

<sup>1</sup> Inception date: March 28, 2016.

<sup>2</sup> Inception date: October 25, 2021.

<sup>3</sup> Inception date: December 12, 2023.

<sup>4</sup> Inception date: December 6, 2023.

**Note:** All data as of December 31, 2024.

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**For more information about Vanguard funds or Vanguard ETFs, visit [advisors.vanguard.com](https://advisors.vanguard.com) or call 800-997-2798 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.**

*Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.*

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Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. High-yield bonds generally have medium- and lower-range credit-quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit-quality ratings. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax. Diversification does not ensure a profit or protect against a loss.

The Factor Funds are subject to investment-style risk, which is the chance that returns from the types of stocks in which a Factor Fund invests will trail returns from U.S. stock markets. The Factor Funds are also subject to manager risk, which is the chance that poor security selection will cause a Factor Fund to underperform its relevant benchmark or other funds with a similar investment objective, and sector risk, which is the chance that significant problems will affect a particular sector in which a Factor Fund invests, or that returns from that sector will trail returns from the overall stock market.

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