

# Vanguard's Adviser's Alpha: The Value of Your Value

Wouter van Dorp

Frits de Rek

April 2022

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.

# Introductie Vanguard

Total assets worldwide: **USD 8 trillion**



# De toegevoegde waarde van de adviseur

Here at Vanguard, we have a very clear aim, to bring value to investors. It is a goal we have always shared with advisers. Investment success, in our view, depends on clearly identified goals, good investment behaviours, and low costs. This is why we are a great advocate for good quality financial advice.

# Vanguard 360: Adviser support programme

Make use of Vanguard's suite of research and educational materials, from the value of advice to decision-making frameworks and market insights.

## The value of advice

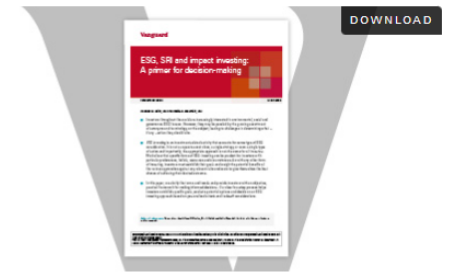
## A framework for decision-making



Putting a value on your value -  
Quantifying Vanguard Adviser's Alpha



Advisor's Alpha Guide to Proactive  
Behavioral Coaching



ESG - a primer for decision making



The case for low-cost index-fund  
investing

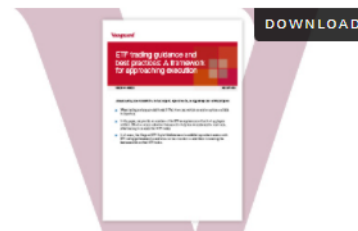
## Commentary and education



Physical and synthetic ETF  
structures



Beyond expense ratio



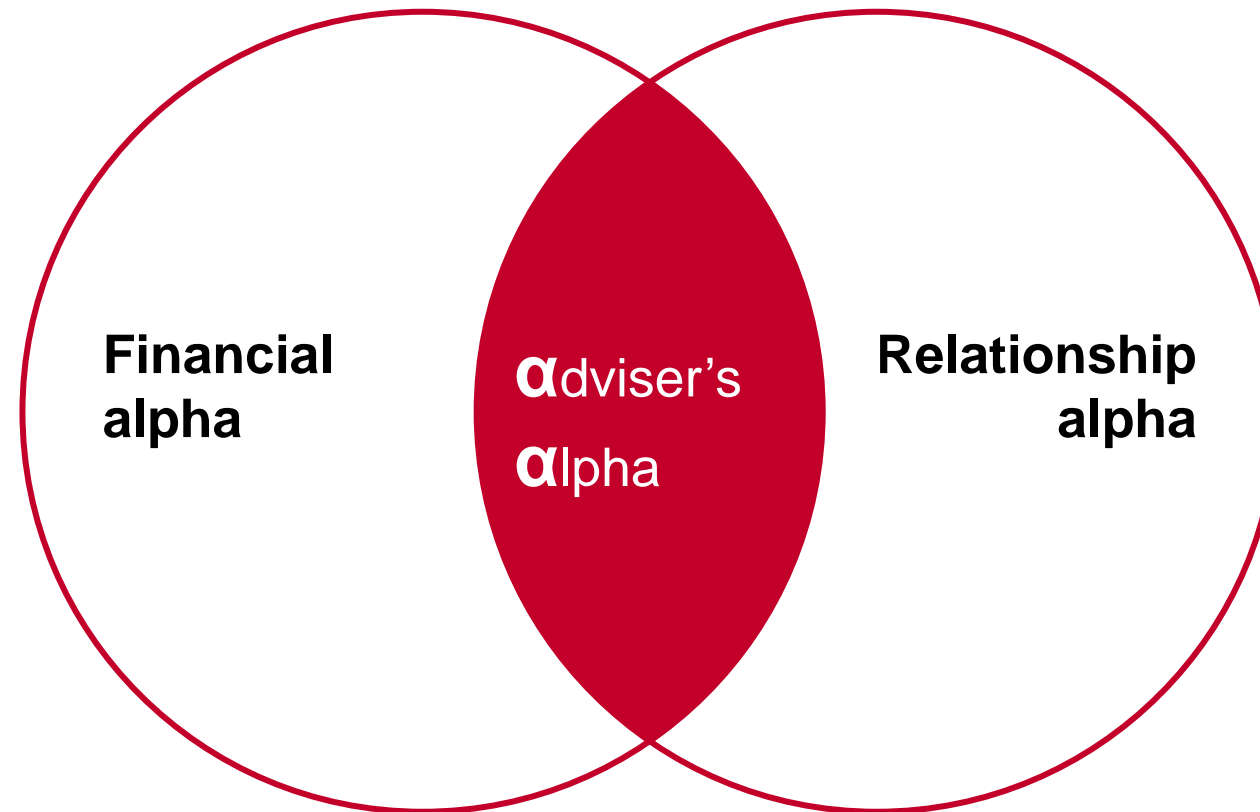
ETF trading guidance and  
best practices



120 years of returns

# Adviser's Alpha

Door het vrijmaken van de tijd die nodig is voor het bouwen en onderhouden van beleggingsportefeuilles, kunnen adviseurs hun inspanningen richten op waar het meerwaarde toevoegt voor hun klanten.



# Waar kunnen adviseurs echt waarde toevoegen ?

	Potential value added	
Suitable asset allocation using broadly diversified funds/ETFs	> 0* bps	
Cost-effective implementation (expense ratios)	29 - 44 bps	
Rebalancing	0 - 48 bps	← Becoming a trusted guide is likely to add most value
Behavioural coaching	150 bps	
Tax allowances and asset location	0 - 32 bps	← Good financial planning
Withdrawal order for client spending	0 - 153 bps	
Total-return versus income investing	> 0* bps	



Source: Vanguard, as at June 2020.

Notes: Value-add relative to "average" client experience (in basis points of return). \* denotes that return value-add for modules 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.

# Quantifying the investor's view on the value of human and robo-advice

Vanguard


Vanguard research February 2022


## Quantifying the investor's view on the value of human and robo-advice

In this paper, we quantify how much investors value financial advice and where they believe advisers add value. Using a survey of more than 1,500 US investors who reported having a human adviser, a digital service, or both, we found the following:

- **Advice adds value across the board.** Regardless of the method of delivery, investors believe advice provides higher incremental portfolio value than going it alone. The perceived value-add to annual performance was 5% for human advice and 3% for digital-only advice.
- **The loyalty to human advisers is enduring.** While more than 90% of human-advised clients say they would not consider switching to digital, 88% of robo-advised clients would consider switching to a human adviser in the future.
- **Clients prefer emotional support from human advisers.** Investors using human advisers estimate being \$160,000 closer to achieving their financial goals. Three times as many investors report having strong peace of mind when working with a human adviser as compared to going it alone.
- **Digital advice also serves a role.** Investors prefer digital advice for certain portfolio-management services such as diversification and tax optimisation.
- **The preference for advice delivery type is not dictated by client age or wealth.** Across the board, clients suggest that human advisers should consider automating their portfolio management services, leveraging technology to scale their business while strengthening their uniquely human value.

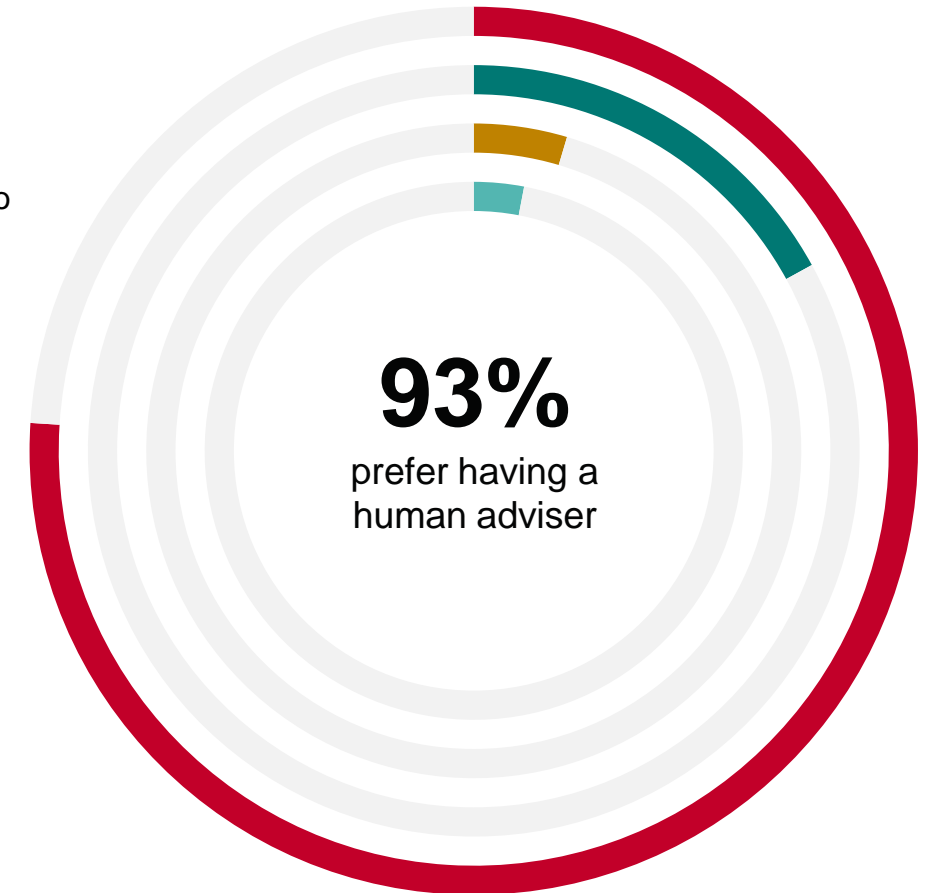
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- Human advisor
- Human and digital combo
- Digital advisor or service
- Self-managed

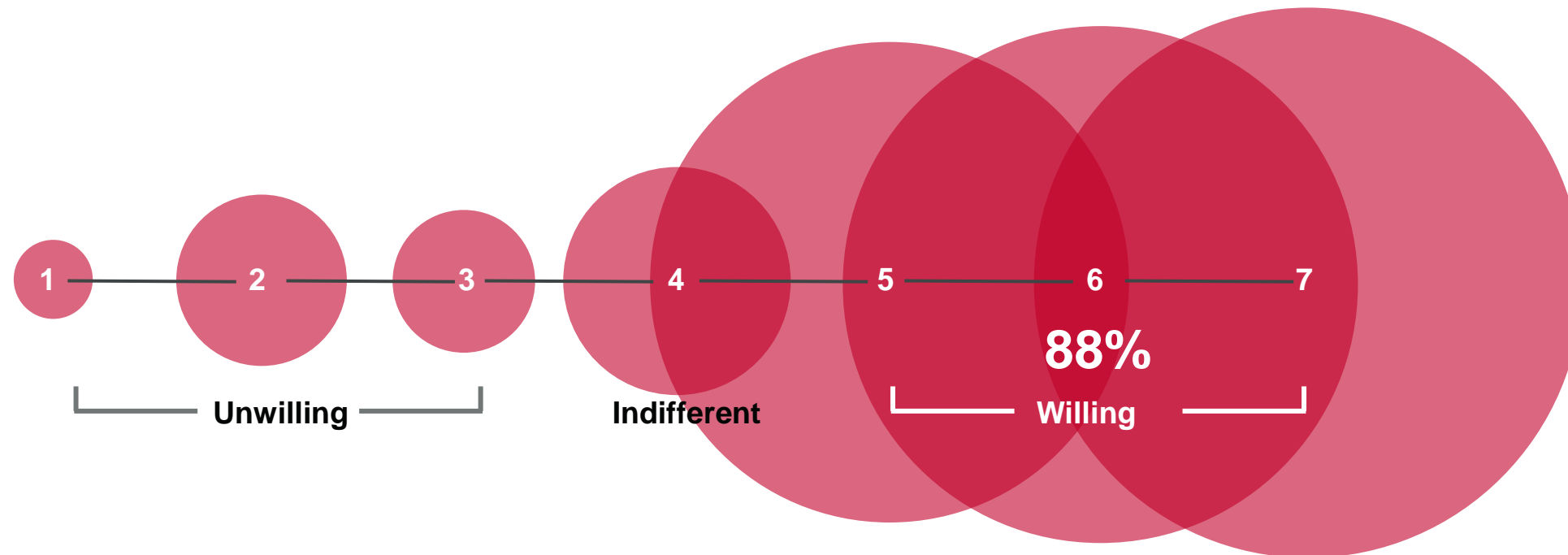


## THE RESEARCH

# Investors with digital advisors are willing to switch to human advisors

Respondents were asked:

“On a scale of one to seven, how willing would you be to work with a human financial advisor in the future?”





## THE VALUE OF ADVISORS

# Human and digital—finding the right balance

Focus on delivering emotional and financial outcomes as you automate portfolio construction and functional tasks

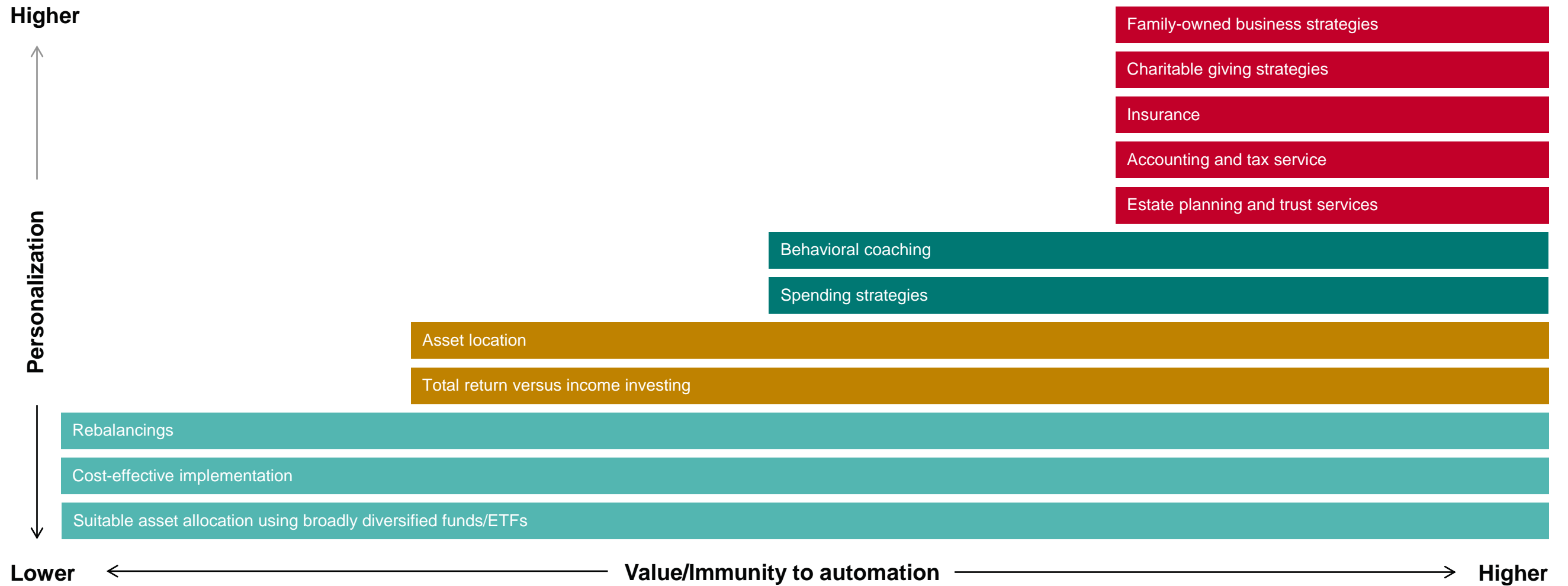
PREFERENCE	RANK	MICRO-INTERACTION
<b>Human</b>	1	Know clients—feel that they and their retirement goals are understood
	2	Develop a connection/relationship with clients
	3	Work in clients' best interests—take good care of them
	4	Make clients feel listened to and understood
	5	Are empathetic to clients' personal situation and needs
<b>Digital</b>	38	Gather accurate inputs for clients by helping them understand how to answer
	39	Account for scenarios of different market conditions or life events (what-if)
	40	Prevent details, or entire accounts, from being overlooked
	41	Diversify investments
	42	Simplify for organized, cohesive management



Notes: In this figure, all 1,518 clients answered the question. They were presented with four micro-interactions at a time, 12 times in different screens, and asked which they most preferred to be delivered by a human or digital service so that we could rank each micro-interaction as well as relative preferences. Please see Appendix for additional microtransaction rankings and investors' relative preference.  
Sources: Vanguard and Escalent, 2021.

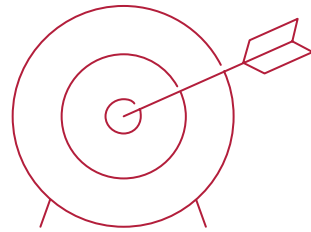
## KEY CONCLUSIONS

# Use technology so you can focus on providing higher-value services



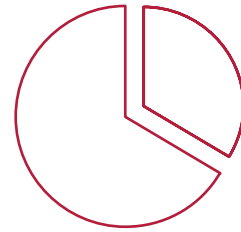
# Portefeuille constructie

# Vanguard's beleggingsprincipes



## Goals

Create clear, appropriate investment goals



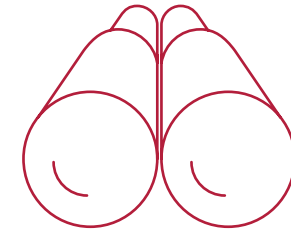
## Balance

Develop a suitable asset allocation using broadly diversified funds



## Cost

Minimise cost



## Discipline

Maintain perspective and long-term discipline

# Er is veel verschil in rendement per beleggingscategorie

## Key index returns (%), ranked by performance

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
20.1	37.4	13.0	62.5	23.6	20.3	17.8	28.3	19.6	8.8	35.4	21.1	0.8	26.5	16.5
16.8	15.7	7.6	30.1	21.3	16.7	15.5	25.2	18.8	5.5	34.1	17.2	0.5	22.3	13.0
16.8	10.8	3.6	21.2	19.1	6.5	12.8	21.0	14.6	5.3	29.6	16.9	0.1	21.2	12.8
7.2	8.3	-10.0	20.1	16.7	5.8	12.3	20.8	12.5	4.0	25.5	13.8	-0.4	19.2	11.9
3.3	6.6	-13.2	14.8	14.5	1.2	12.0	13.6	11.3	1.4	25.4	13.1	-2.2	15.9	11.3
2.8	5.8	-13.3	14.7	8.9	-3.5	11.2	1.6	7.9	1.0	21.2	11.3	-3.4	14.0	9.1
1.7	5.6	-19.4	13.6	8.7	-6.6	10.7	0.6	7.9	0.7	16.8	4.9	-7.6	11.0	8.9
0.8	5.3	-24.0	6.3	7.5	-12.6	5.9	0.0	2.8	0.5	12.3	2.5	-8.0	7.1	7.8
0.5	5.2	-29.9	5.3	5.8	-14.7	2.9	-4.2	1.2	-1.1	10.7	2.0	-9.1	6.5	5.0
-0.2	0.4	-34.8	-1.2	4.8	-18.4	0.6	-5.3	-1.4	-10.3	3.7	1.9	-9.5	6.3	-9.8

- 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

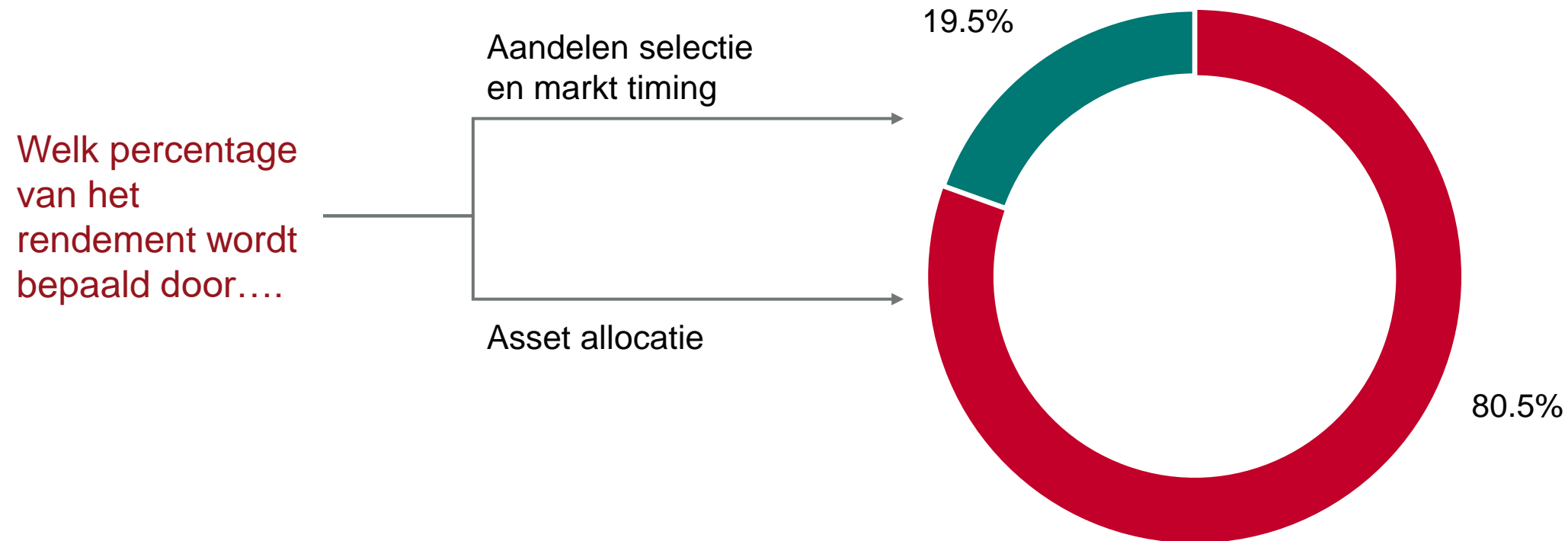
**Past performance is not a reliable indicator of future results.**

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.



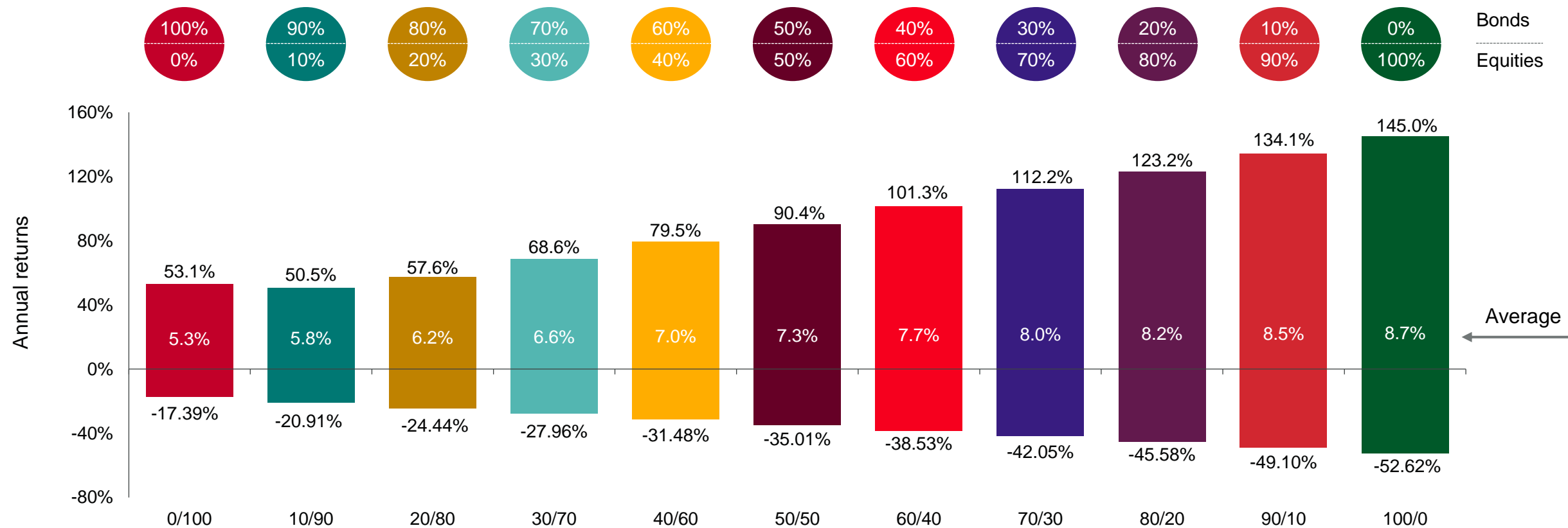
# Strategische asset allocatie bepaalt het risico- rendements spectrum

Beleggingsresultaten worden grotendeels bepaald door de lange termijn mix van assets in een portefeuille



# De beleggingsmix bepaalt de spreiding van rendementen

Beste, slechtste en gemiddelde rendementen voor verschillende aandelen- en obligatieallocaties, 1901-2021



**Past performance is not a reliable indicator of future results**

Sources: Vanguard, using data from Morningstar, Inc., FactSet and Bloomberg.

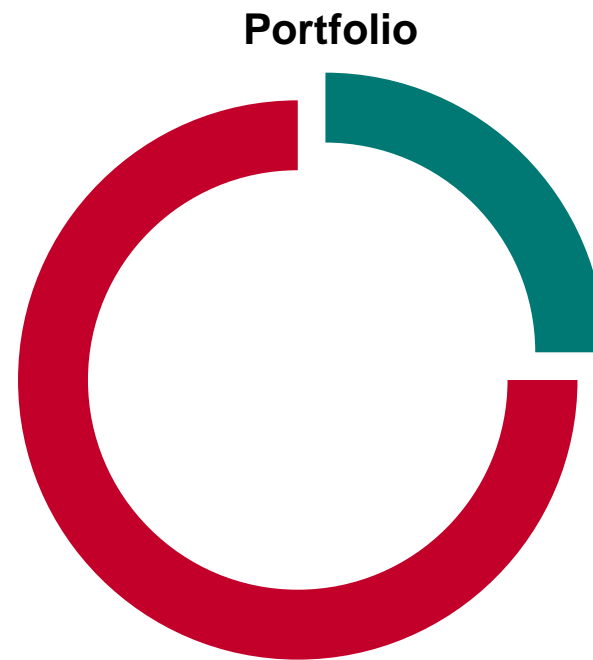
Notes: Data from 1901 to 2021. Reflects the maximum and minimum calendar year returns, along with the average annualised return, from 1901-2021, for various stock and bond allocations, rebalanced annually. Equities are represented by the DMS UK Equity Total Return Index from 1901 to 1969; thereafter, equities are represented by the MSCI UK. Bond returns are represented by the DMS UK Bond Total Return Index from 1901 – 1985; the FTSE UK Government Index from Jan 1986 – Dec 2000 and the Bloomberg Barclays Sterling Aggregate thereafter. Returns are in sterling, with income reinvested, to 31 December 2021.



# Sub-asset allocatie: Welke keuzes zijn er?

The way equity and fixed income exposure is structured can express many different views

Equity	
Region	Style and factors
<ul style="list-style-type: none"> <li>• Domestic</li> <li>• Global</li> <li>• Emerging</li> <li>• Developed</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Value</li> <li>• Quality</li> <li>• Momentum</li> </ul>
Capitalisation	Sector
<ul style="list-style-type: none"> <li>• Large</li> <li>• Mid</li> <li>• Small</li> <li>• Micro</li> </ul>	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Healthcare</li> <li>• Real Estate</li> <li>• Financial Services</li> </ul>



Fixed income	
Region	Credit quality
<ul style="list-style-type: none"> <li>• Domestic</li> <li>• Global</li> <li>• Emerging</li> <li>• Developed</li> </ul>	<ul style="list-style-type: none"> <li>• BBB and above <i>(investment grade)</i></li> <li>• BB and below <i>(high yield)</i></li> </ul>
Term and duration	Sector
<ul style="list-style-type: none"> <li>• Short</li> <li>• Intermediate</li> <li>• Long</li> <li>• Zero duration</li> </ul>	<ul style="list-style-type: none"> <li>• Government</li> <li>• Corporate</li> <li>• Asset-backed</li> <li>• Inflation-linked</li> </ul>

## Alternatives

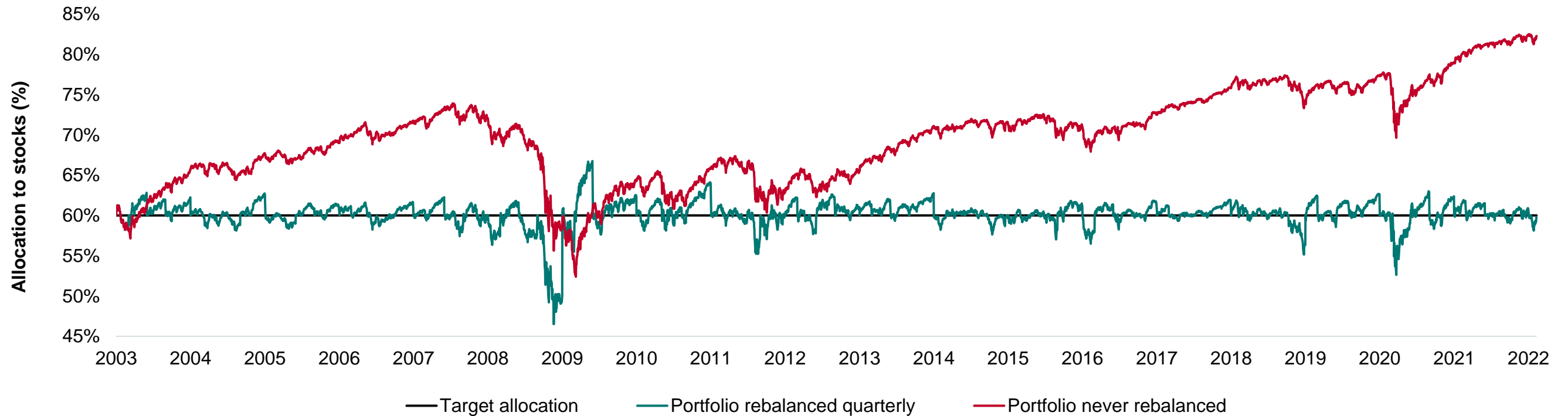
Commodities    Real assets    Infrastructure    Private equity    Hedge funds



# Het belang van herbalanceren

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

Failure to rebalance can increase an investor’s exposure to risk



**Past performance is not a reliable indicator of future results**

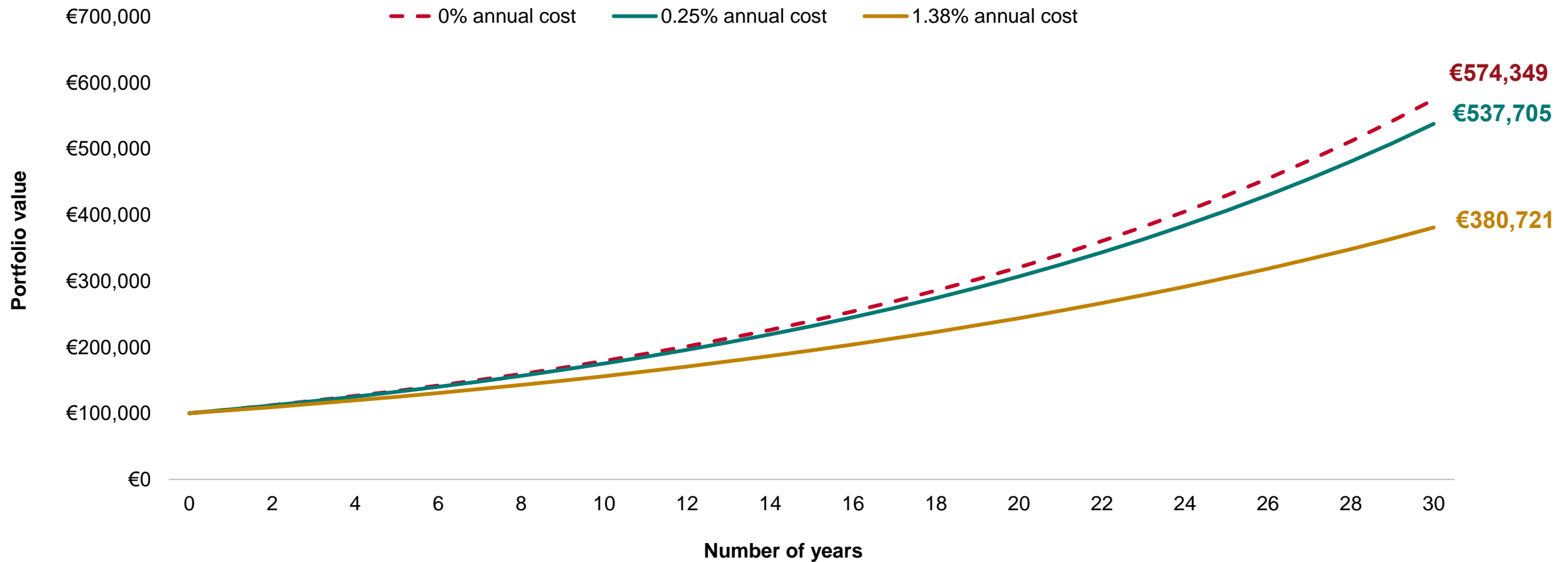
Sources: Vanguard, using data from Bloomberg.

Notes: Daily returns data from 1 January 2003 to 10 February 2022. The initial allocation for both portfolios is 42% US stocks, 18% international stocks, and 40% US bonds. The rebalanced portfolio is returned to this allocation at the start of each quarter. Returns for the US stock allocation are based on the Dow Jones US Total Stock Market Index until April 2005 and on the MSCI US Broad Market Index thereafter. Returns for the international stock allocation are based on the MSCI All Country World Index ex USA and returns for the bond allocation are based on the Bloomberg US Aggregate Bond Index. All returns calculated in USD.



# Kosten: De enorme impact op de lange termijn

Assuming a starting balance of €100,000 and a yearly return of 6%, which is reinvested



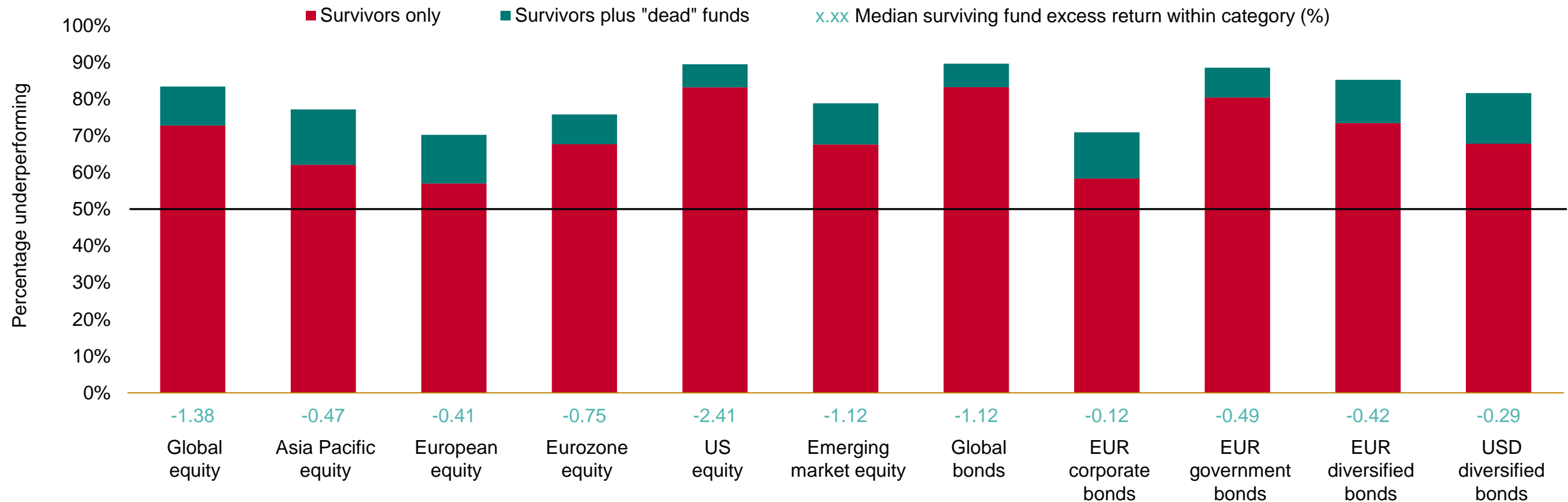
Source: Vanguard.

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.



# Active tends to underperform on average

The percentage of underperforming actively managed funds (using prospectus benchmark) over 5 years



**Past performance is not a reliable indicator of future results.**

Source: Vanguard calculations, using data from Morningstar, Inc.

Note: Fund universe includes funds available for sale and filtered according to the descriptions in the charts in Belgium, Netherlands, Luxembourg, Sweden, Denmark, Norway, Finland, Germany and France. The following Morningstar categories with corresponding benchmarks are used: Global equity - MSCI WORLD IMI; European equity - MSCI EUROPE IMI; Eurozone equity - MSCI EMU IMI; US equity - MSCI USA IMI; Asia Pacific equity - MSCI Pacific IMI; Emerging market equity - MSCI EM IMI; Global bonds - Barclays Global Aggregate Index (EUR); EUR government bonds - Barclays Euro Aggregate Index Treasuries (EUR); EUR corporate bonds - Barclays Euro Aggregate Index Corporate (EUR); EUR diversified bonds - Barclays Euro Aggregate Index (EUR); USD diversified bonds - Barclays US Aggregate Index (EUR). Performance is shown in euro terms, net of fees, gross of tax withholding, with income reinvested to 31 December

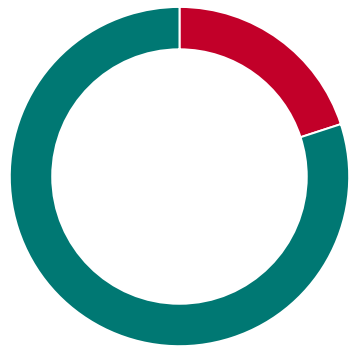


# Vier profielen voor verschillende doelstellingen

- Low-cost, broadly diversified core portfolio solution
- ETF-of-ETFs structure

- Ongoing Charges Figure for each fund of 0.25%
- EUR based currency

**Vanguard LifeStrategy  
20% Equity UCITS ETF**



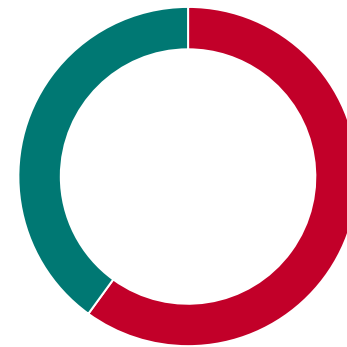
■ 20% Equities  
■ 80% Bonds

**Vanguard LifeStrategy  
40% Equity UCITS ETF**



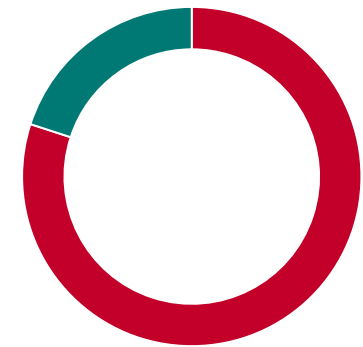
■ 40% Equities  
■ 60% Bonds

**Vanguard LifeStrategy  
60% Equity UCITS ETF**



■ 60% Equities  
■ 40% Bonds

**Vanguard LifeStrategy  
80% Equity UCITS ETF**



■ 80% Equities  
■ 20% Bonds

More than 20,000 underlying investments  
Over 8,000 unique holdings\*

Objective: provide a combination of income and some long-term capital appreciation by investing in fixed income and equity securities

Objective: provide a combination of income and moderate long-term capital appreciation by investing in fixed income and equity securities

Objective: provide a combination long-term capital appreciation with a moderate level of income by investing in fixed income and equity securities

Objective: provide a combination of long-term capital appreciation with some income by investing by investing in fixed income and equity securities

LOWER RISK

Client risk profile

HIGHER RISK

# Q&A

# Investment risk

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.

Some funds invest in emerging markets which can be more volatile than more established markets. As a result the value of your investment may rise or fall.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid- offer spread which should be considered fully before investing.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

The Funds may use derivatives in order to reduce risk or cost and/or generate extra income or growth. The use of derivatives could increase or reduce exposure to underlying assets and result in greater fluctuations of the Fund's net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

Some funds invest in securities which are denominated in different currencies. Movements in currency exchange rates can affect the return of investments.

For further information on risks please see the "Risk Factors" section of the prospectus on our website at <https://global.vanguard.com>.

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For further information on the fund's investment policies, please refer to the Key Investor Information Document ("KIIDs"). The KIID for this fund is available in local languages, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>.

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