



Vanguard Asset Management, Ltd.

MIFIDPRU Public Disclosure

31 December 2022

Contents

- 1. Introduction2
- 2. Risk management objectives and policies3
- 3. Governance arrangements9
- 4. Own funds16
- 5. Own funds requirements19
- 6. Remuneration policy and practices23
- 7. Investment policy25
- Glossary26
- Important Information28

1. Introduction

1.1. Purpose

Vanguard background

The Vanguard Group, Inc. (“VGI”) is the ultimate parent company of the Vanguard UK Group. VGI is a US SEC-registered investment adviser and one of the world’s leading investment management firms with over \$8 trillion in global AUM and approximately 50 million clients worldwide.

Since its establishment in 1975, VGI has been committed to the provision of a high-quality service to its clients with a unique mutual ownership structure which aligns its interests with those of its investors. As a result, investors benefit from Vanguard’s commitment to putting their interests first. Vanguard’s structure underpins its core purpose, which is to take a stand for all investors, treat them fairly and give them the best chance for investment success.

Vanguard Asset Management, Ltd. (“VAM” or “Company”) is a wholly owned subsidiary of Vanguard Asset Services, Ltd. (“VAS”). VAM is designated as a MIFIDPRU investment firm under IFPR and is regulated by the Financial Conduct Authority (“FCA”). VAM performs a range of activities which include portfolio management and the operation of the UK personal investor platform.

Disclosure overview

The UK Investment Firm Prudential Regime (“IFPR”) came into force on 1 January 2022 and applies to investment firms which are authorised in accordance with the provisions of the Markets in Financial Instruments Directive (“MiFID”). IFPR replaced the Capital Requirements Regulation (“CRR”) and Capital Requirements Directive (“CRD IV”) Rules.

The disclosures within this document are prepared for VAM on a standalone entity basis (given that VAM is the only in scope firm for MIFIDPRU public disclosures).

1.2. Basis of Disclosures

These disclosures (“Disclosures”) have been made in accordance with the requirements of MIFIDPRU 8 of the Prudential Sourcebook for MiFID Investment Firms. The Disclosures include VAM’s risk management objectives and policies, governance arrangements, own funds and own funds requirements, remuneration policy and practices and investment policy.

VAM has an accounting reference date of 31 December, and the Disclosures are published annually in line with the publication of VAM’s audited financial statements (or more frequently in the event of material changes).

The Disclosures are subject to internal review, challenge and approval prior to publication. The Disclosures are not required to be subject to an independent external audit. The Disclosures are published on the VAM corporate website at the following location:

<https://fund-docs.vanguard.com/2022MIFIDPRUPublicDisclosure.pdf>

2. Risk management objectives and policies

2.1. Overview

Vanguard puts considerable focus and resources on assessing and managing risks across the Vanguard Group. Senior management view risk management as being central to formulating and executing strategy to achieve business objectives, for ensuring good outcomes for clients, safeguarding the interests of staff, and meeting legal and regulatory obligations.

The Boards of the legal entities are ultimately responsible for managing risks effectively. This responsibility is discharged by the Boards via the governance structure in place, the approval and operation of the Enterprise Risk Management Framework ("ERMF") including the Risk Appetite Framework and corresponding risk limits.

The ERMF is the key guidance document which establishes a clear and consistent approach to identification, assessment, mitigation, monitoring, and reporting on risks to business objectives. It also articulates roles and responsibilities with regards to risk management. This enables the Vanguard UK Group to meet its commitment to proactively manage risk.

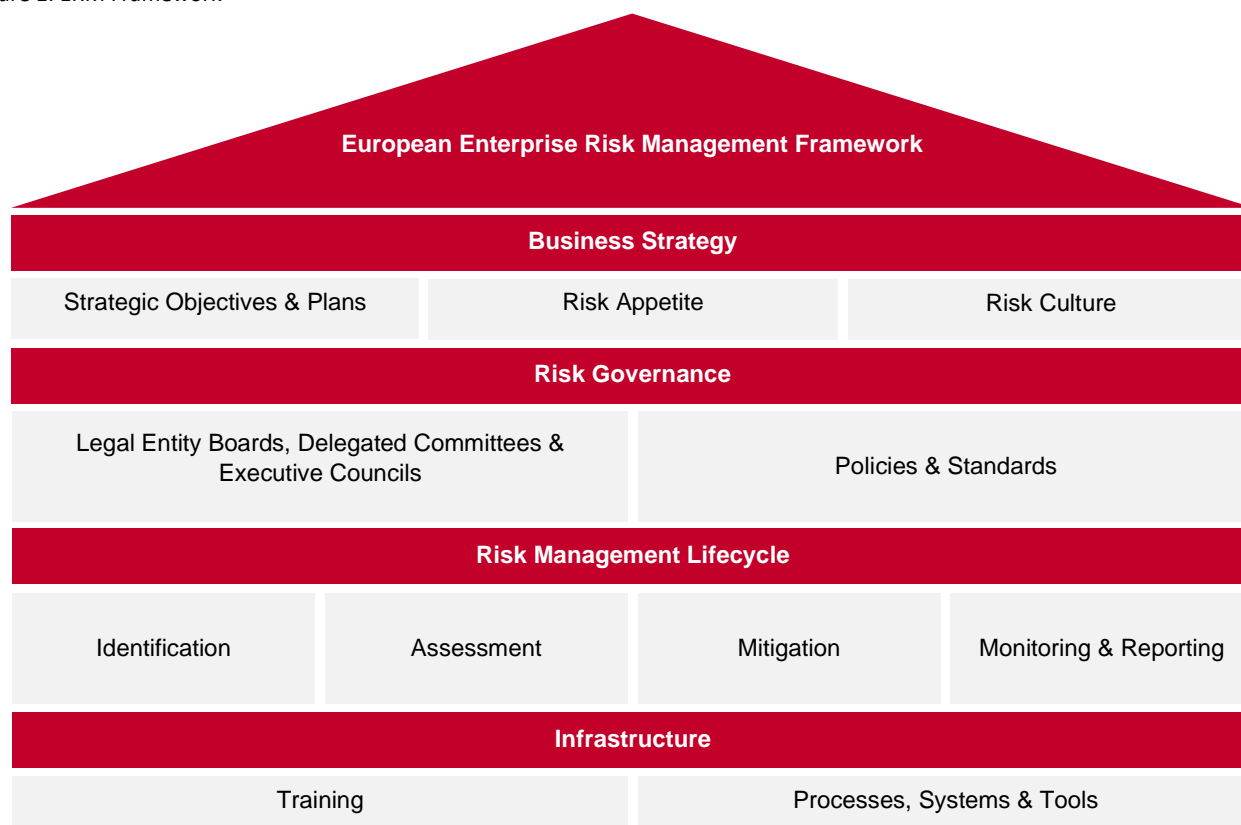
The ERMF is reviewed annually and is approved by the Board of each legal entity in the Vanguard UK Group and is also subject to periodic Internal Audit review.

2.2. Enterprise Risk Management Framework

The ERMF applies to all Vanguard UK Group legal entities and is designed to ensure the consideration of risk in key business activities and decision making. The ERMF is designed to ensure that the overall operating model supports the effective management of risk within the guardrails as set out within the Boards Risk Appetite Statement. Formal governance structures support executive and regional board risk awareness and risk management oversight through dedicated Risk and Compliance Councils and Committees.

The key components of the ERMF are shown in the diagram on the following page:

Figure 1: ERM Framework



2.2.1. Business Strategy

The Boards are responsible for setting business strategy. Strategy is set at the regional (European) level. Each legal entity Board is responsible for the specific components applicable to that entity and for cascading to the relevant local businesses across Europe to implement. The strategy determines the types and levels of risks that the business faces and is willing to accept in order to achieve its business objectives.

2.2.2. Risk Governance and Approach to Mitigating Risks

The Board discharges its responsibilities in relation to Enterprise Risk Management by delegating authority to its Board Committees and Councils, as set out in Section 3. Governance Arrangements.

Vanguard's European Chief Risk Officer is a member of ELT and is responsible for overseeing the Global Risk and Security ("GR&S") function across Europe, which enables our strategy; protects clients, staff, and company interests; and stewards a risk-smart culture. Another primary responsibility of the GR&S function is to protect clients, the market and the firm from existing threats and vulnerabilities which have the potential to cause material harm.

Vanguard employs a three lines of defence model which supports the mitigation of risk. The first line of defence protecting clients, markets and the firm is the business itself. Since the business owns both their risks and controls, business leaders and staff have the daily responsibility of validating that controls are working and managing risks associated with their operations.

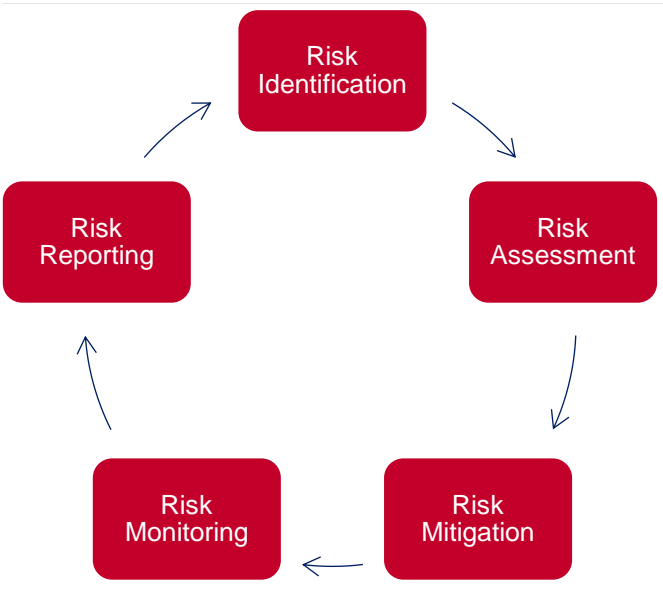
Responsibilities at the business level are supplemented by the second line of defence, which comprises internal subject matter experts, including GR&S, the Office of the General Council and Compliance, which,

among other things establish enterprise-wide policies and procedures and advise on matters within their expertise.

Vanguard’s Internal Audit function is the third line of defence, serving as a broad, independent, and objective function with direct accountability to the board of directors. Internal Audit provides an independent assessment of internal control design and effectiveness across the organisation, and highlights improvement opportunities to the business leadership teams.

2.2.3. Risk Management Lifecycle

The Risk Management Lifecycle (see diagram below) is a continuous, interlocking process and a fundamental component of the ERMF which provides the mechanism by which the Boards of the legal entities gain assurance of the strength and maturity of the control environment.



Risk Identification: The possibility that events will occur which affect Vanguard’s ability to achieve its business objectives.

Risk Assessment: The steps taken to assess risks, including the likelihood and impacts of the risk given the controls in place.

Risk Mitigation: The actions taken by management to respond to residual risk exposures outside of risk appetite.

Risk Monitoring and Reporting: The process of tracking risks to continually identify, assess, and manage risks, and Vanguard’s ability to monitor and report on these risks.

2.3. Vanguard's Risk Profile

2.3.1. Vanguard European Risk Universe

Vanguard seeks to address a broad spectrum of risk, and has established clear standards for identifying, assessing, and managing/mitigating risks, as well as counselling on controls across the Group. Specifically, Vanguard focuses on five primary domains of risk:



Operational Risks arise from inadequate or failed processes, people and systems that are present in Vanguard's daily operations either internally or through third-party vendors. The management of operational risk is an integral component of Vanguard's ERMF and involves a range of policies and procedures implemented by all three lines of defence to enhance controls and minimise potential material harm.

Vanguard has a robust program in place to identify, select and continually monitor third-party service providers and business partners to ensure they maintain and demonstrate strong strategic and cultural alignment. Vanguard has defined a global third-party risk management framework, risk-based requirements, and roles and responsibilities for managing and providing oversight to third-party engagements. Risk metrics and reporting provide a means to monitor adherence to Vanguard's risk-based standards and are tailored based on third-party criticality.

Corporate Financial Risks relate to the organisation's ability to manage its financial resources efficiently and responsibly.

Vanguard regularly assesses its balance sheet and monitors the environment to ensure a sound financial position that a) enables the firm to operate effectively and b) efficiently mitigates business and operational risk, whilst ensuring that Vanguard can meet its obligations as they fall due.

Investment Risks encompass market, credit, and liquidity risks which investment managers incur in their pursuit of returns on behalf of clients. Vanguard does not operate proprietary trading.

As an investment management company, mitigating undue risk whilst achieving superior long-term returns is central to prudent portfolio oversight on behalf of clients. Vanguard has an established Investment Management and Financial Risk (“IMFR”) team which is a critical member of GR&S and is responsible for analysing and monitoring investment risk across the Vanguard fund range. Importantly, IMFR operates independently of the investment management team and reports directly to Vanguard’s Chief Risk Officer.

Strategic Risks refer to management’s ability to make appropriate business decisions to prepare for and react to the broader economic, competitive, and regulatory environment. These risks typically manifest themselves over longer durations which threaten the viability of Vanguard’s business or impede strategic momentum.

Legal and Regulatory Risks relate to the risk of non-compliance with existing laws and regulations, or Vanguard’s inability to influence proposed regulatory activities.

2.3.2. Other Risks

Group Risks arise from relationships (financial and non-financial) with other entities within the same group. These risks may impact the financial position or operational effectiveness of individual entities within the group or the whole group (e.g. reputational contagion).

Concentration Risks span multiple risk categories and comprise the risk of exposures to groups of counterparties, where the likelihood of materialisation is driven by common factors (sector, economy, geography, location, instrument type). Vanguard’s risk program is forward looking, not only seeking to manage day-to-day risks, but also to address those linked to not acting through diversification across the business.

2.3.3. Potential for Harm Associated with Vanguard’s Strategy

Vanguard has a long history of thoughtfully managing risk and protecting clients, dating to the founding of Vanguard’s first fund, Vanguard Wellington Fund, in 1929. Unlike its highly leveraged, stock-laden peers, Vanguard Wellington fund adhered to a balanced approach, diversifying its assets among blue-chip stocks and high-quality bonds. This prudent strategy helped the fund successfully weather the 1929 stock market crash and ensuing bear market.

Today, Vanguard puts considerable focus and resources into assessing and managing risks across the firm. The nature of risks which Vanguard faces and the potential harms which might arise from Vanguard’s pursuit of its strategic objectives are fundamentally different from those assumed by banks or other credit institutions. The companies which make up Vanguard’s UK business do not undertake any proprietary trading on their own balance sheets. Moreover, client assets are held in segregated accounts with third party custodians. Discretionary incentives are aligned with client outcomes and based on the Vanguard Group performance. The largest risks taken are operational. Therefore, the potential harm which could be caused by Vanguard’s pursuit of strategic objectives is considered relatively low to moderate in comparison to other financial institutions.

Vanguard’s risk profile can be distinguished further from other asset managers as follows:

- Vanguard's unique ownership structure and ethos helps avoid conflicts of interest experienced by many other asset managers whereby mutual fund directors are serving two masters, namely the fund management company shareholders and the interests of clients;
- The reduction in costs for Vanguard clients is of significant importance. Seeking to align its low-cost ethos with its culture and unique ownership structure enables behaviours which are centred on client outcomes and providing a sustainable risk adjusted return, which the Vanguard UK Group believes is not prevalent in other asset managers;
- The Vanguard UK Group does not pay for distribution, therefore there are no conflicts of interest arising from this practice;
- The Vanguard UK Group is not exposed to asset retention risk should one or more of its fund managers leave the organisation. This is due to the continual rotation of staff and the absence of a "star" fund manager culture;
- The Vanguard UK Group's portfolios are exclusively long-only, unleveraged, and funded by client money and/or the US parent company, which sometimes provides "seed" money to launch funds domiciled in the UK. Vanguard UK Group's portfolio teams are not "profit centres" and their remuneration is not derived or based on the amount of AUM;
- The Vanguard UK Group's range of index funds track market indices. As such, there is no incentive for fund manager risk – i.e. managers who might deviate from a fund's core objectives in pursuit of outperformance; and
- The Vanguard UK Group does not have a business model or culture that encourages risk-taking beyond boundaries defined in the European Risk Appetite Framework or in the Vanguard UK Group's remuneration policy.

3. Governance arrangements

3.1. Governance

The Board of VAM (“Board”) believes robust governance arrangements support effective decision-making and help ensure that the business runs smoothly and that material risks are identified, managed, monitored and reported on.

The Board is collectively responsible for the long-term sustainable success of VAM. The Board approves and oversees the achievement of VAM’s long-term strategy and provides direction to the business, within a framework of prudent and effective controls which enables risks to be assessed and managed and ensures compliance with legal and regulatory requirements. The Board approves and reviews VAM’s risk appetite, and challenges the identification, evaluation, prioritisation, monitoring and management of risks.

To discharge its responsibilities, the Board generally meets five times per year but will meet more frequently if required.

The Board has delegated to the Managing Director, Europe responsibility for managing the day-to-day affairs of VAM in accordance with corporate policies and the Board approved risk appetite. The responsibilities delegated to the Managing Director - Europe include:

- Planning, organising and directing the operations of VAM and providing executive leadership to the organisation;
- Developing business plans and strategies for consideration by the Board and, to the extent approved by the Board, implementing these plans and strategies;
- Providing leadership, direction and goals to VAM and establishing the desired business culture;
- Overseeing the development, implementation and maintenance of appropriate systems and controls to ensure that VAM’s operations and business are within the parameters and framework set by the Board from time to time and meet VAM’s statutory and regulatory obligations.

The Managing Director, Europe has established the ELT, comprising heads of businesses and functions, as an advisory council to assist in the performance of his duties. Management information and comprehensive reporting is provided regularly by the Managing Director - Europe and members of the ELT to enable the Board to fulfil its statutory and regulatory responsibilities.

3.2. VAM Board Composition and Directorship

As of 31 December 2022, the Board comprised non-executive directors (“NEDs”), independent non-executive directors (“INEDs”) and executives directors (“EDs”). The Board considers its composition and effectiveness annually and makes any necessary changes as required from time to time. In this regard, following a review of its governance, the following Board composition design principle was agreed by the Board in 2023:

- As a departure from previous practice, the membership of the VAM Board and that of VIUK, the Authorised Corporate Director of Vanguard’s UK Fund Range (“ACD”), shall be separate with no directors in common on both boards to minimise the potential conflict of interests between the ACD and VAM as investment management and distribution service provider to the ACD.

A review of the composition and balance of skills, experience and competence on the Board was carried out by the Nominations Committee of VAM on 24 April 2023 and approved by the Board on 29 June 2023. The VAM Board now comprises a mix of NEDs and EDs (as described below).

It was determined that the Directors appointed to the Board on 29 June 2023:

- are of sufficiently good repute;
- possess sufficient knowledge, skills and experience to perform their duties;
- possess adequate collective knowledge, skills and experience to understand the VAMs’ activities, including the main risks;
- reflect an adequately broad range of experiences;
- can commit sufficient time to perform their functions in VAM; and
- act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the ELT where necessary and to effectively oversee and monitor management decision-making.

In compliance with SYSC 4.3A.5 and SYSC 4.3A.6, the directors of VAM do not hold more directorships than is appropriate for a firm of VAM’s nature, scale and complexity. In determining the composition of its Board, VAM has considered its obligation to ensure that directors do not hold more than one of the following combinations of directorship in any organisation at the same time: (a) one executive directorship with two non-executive directorships; and (b) four non-executive directorships.

VAM has also considered, as per MIFIDPRU 8.3.2 R, that (a) directorships in organisations which do not pursue predominantly commercial objectives shall not count and (b) executive or non-executive directorships held within the Vanguard Group count as a single directorship.

In light of the composition of the Board, as of 29 June 2023, no modification or waiver of [SYSC 4.3A.6R\(1\)\(a\)](#) or (b) was sought from the FCA in order to allow a member of the [management body](#) to hold additional directorships.

Composition of the VAM Board as of 29 June 2023:

Name of Director	Title	Other Directorships
Christopher McIsaac	Chair Non-Executive Director	<u>Vanguard</u> <ul style="list-style-type: none"> Vanguard Asset Management, Ltd. <u>External</u> <ul style="list-style-type: none"> Saint Joseph's University Board of Trustees The Franklin Institute Board of Trustees
Kathleen Bock	Non-Executive Director	<u>Vanguard</u> <ul style="list-style-type: none"> Vanguard Asset Management, Ltd. Vanguard Investments Canada Inc. VIGM S.A. de C.V., Asesor en Inversiones Independiente <u>External</u> <ul style="list-style-type: none"> Investment Funds Institute of Canada The Canadian ETF Association
Sean Hagerty	Executive Director	<u>Vanguard</u> <ul style="list-style-type: none"> Vanguard Asset Management, Ltd. Vanguard Asset Services, Ltd. Vanguard UK Nominees Limited Vanguard Pension Trustee UK Limited Vanguard Group Europe GmbH Vanguard Group (Ireland) Limited Vanguard Investment Series plc Vanguard Funds plc <u>External</u> <ul style="list-style-type: none"> The Investment Association
Lamiece Abdalla	Executive Director	<u>Vanguard</u> <ul style="list-style-type: none"> Vanguard Asset Management, Ltd. <u>External</u> <ul style="list-style-type: none"> None
Blair Fanning	Executive Director	<u>Vanguard</u> <ul style="list-style-type: none"> Vanguard Asset Management, Ltd. Vanguard Asset Services, Ltd. Vanguard UK Nominees Limited Vanguard Pension Trustee UK Limited <u>External</u> <ul style="list-style-type: none"> None

3.3. Board Succession Plan and Diversity Policy

On 24 April 2023, the VAM Board approved updated versions of its Board succession plan and Board diversity policy.

3.3.1. Board Succession Plan

The purpose of the Board succession plan is to provide clarity with respect to the criteria to be considered by the Board in evaluating the composition of the Board and the procedures to be followed in the event of a vacancy arising on the Board. The Board succession plan sets out:

- The formal requirements in relation to Board Composition
- The obligations on Directors
- The annual review of Board Composition
- The process on resignation / retirement / replacement of a NED, and ED, a Chair or an INED
- The procedure to fill temporary vacancies
- Term limits

The Board succession plan was considered in the Board composition changes which came into effect on 29 June 2023.

3.3.2. Board Diversity Policy

The Board Diversity Policy sets out VAM's approach to diversity on the Board. The Board recognises the benefits of having a diverse Board and is committed to achieving the most appropriate blend and balance of diversity. The objective is to ensure that the Board is diversified with an appropriate mix as regards age, gender, ethnic and educational/socio-economic/professional backgrounds, while achieving compliance by all individuals with regulatory requirements and an overall composition with the requisite experience and skills.

The Board, supported by its Nominations Committee, ultimately aspires to maintain women / men parity on the Board, with a commitment to have no less than 33% women representation on the Board. The Board also supports and monitors management's actions to increase the proportion of senior leadership roles held by women, people from ethnic minority backgrounds and other under-represented groups.

The Board Diversity Policy was adhered to in relation to the Board composition changes which came into effect on 29 June 2023. The Board was able to keep its commitment to having no less than 33% women representation on the Board and increase the proportion of senior leadership roles held by women, people from ethnic minority backgrounds and other under-represented groups.

3.4. Risk Committee

The Board has delegated certain activities to its Committees (as detailed below) to help ensure that VAM is managed efficiently and effectively and that risks are identified and overseen with regards to governance and oversight. The Board still retains overall responsibility for the delegated activities and receives appropriate management information and reports to enable its Directors to discharge their responsibilities, including reports and/or minutes from all committees established by the Board.

As a Non-Small and Non-Interconnected MIFIDPRU Investment Firm, VAM is required to establish the following Board Committees, comprising a mix of non-executive and executive directors:

- Nominations Committee
- Risk and Compliance Committee
- Remuneration Committee

In addition, given its nature, size and complexity, VAM also maintains an Audit Committee.

3.4.1. Risk and Compliance Committee

VAM is required by MIFIDPRU 7.3.1R to establish a risk committee. In compliance with its regulatory obligations, the VAM Board has established a Risk and Compliance Committee (“RCC”) with delegated authority to review and discuss significant risk and compliance priorities and oversees risk and compliance issues impacting VAM. At least 50% of the members of the RCC are non-executive directors.

In addition, the RCC supports the VAM Board with the following: (a) identifying the risks relating to the activities of VAM and overseeing the management of those risks within any risk tolerance, (b) monitoring the effectiveness of the policies, procedures, arrangements, processes, and mechanisms in relation to VAM’s ERMF and (c) reviewing and taking on responsibility for the ICARA Process on behalf of the Vanguard UK Group. The RCC meets and reports to the VAM Board on a quarterly basis.

3.4.2. Remuneration Committee

The Remuneration Committee is a committee of the VAM Board with delegated authority. At least 50% of the members of the Remuneration Committee are non-executive directors. The Remuneration Committee considers matters relating to the framework and policies underpinning VAM’s remuneration practices.

3.4.3. Nominations Committee

The Nominations Committee is a committee of the VAM Board with delegated authority. At least 50% of the members of the Nominations Committee are non-executive directors. The Nominations Committee consider matters relating to appointments to the VAM Board and committees.

3.4.4. Audit Committee

The Audit Committee is a committee of the VAM Board with delegated authority. At least 50% of the members of the Audit Committee are non-executive directors. The Audit Committee has responsibility for serving as a focal point for communication between the external auditors, Internal Audit and members of senior management, as their duties relate to financial accounting, reporting and internal controls.

3.5. Additional information on the internal governance of VAM

In addition to the above, the internal governance arrangements set out below enable the VAM Board to define, oversee and remain accountable for the implementation of governance arrangements that ensure effective and prudent management of VAM, including the segregation of duties in the organisation and the prevention of conflicts of interest, in a manner that promotes the integrity of the market and the interests of clients.

3.5.1. Consumer Duty Champion

As part of the Consumer Duty regulation which comes into force on 31 July 2023, VAM has appointed a Consumer Duty champion, a member of the Board who is expected to ensure that the Consumer Duty is being regularly discussed in a meaningful way. The primary role of the champion is to support the Chair and Managing Director, Europe in raising the Consumer Duty regularly in all relevant discussions, as well as challenging the Board on how it is embedding Consumer Duty and focusing on consumer outcomes.

3.5.2. Whistleblowers' Champion

The Audit Committee chair is appointed as whistleblowers' champion with responsibility for ensuring and overseeing the integrity, independence and effectiveness of policies and procedures on whistleblowing.

3.5.3. The ELT

The ELT acts as an advisory council to the Managing Director, Europe in the day-to-day management of the business and comprises the Managing Director, Europe and other senior managers from various departments including Distribution, Product, Marketing, Office of the General Counsel (which comprises Government Relations, Legal, Compliance and Investment Stewardship), Investment Management Group, HR, Risk and Finance.

Five councils with terms of reference have been created to support the ELT in discharging its responsibilities and fulfilling its role towards the VAM Board.

The ELT, and the councils supporting it (see below for further details), do not have delegated authority from the Board but are a key component of the overall risk control and governance framework of the firm. They ensure proper focus and oversight on key areas of operational and regulatory risk.

In relation to VAM, the following councils are overseen by, and serve in an advisory capacity to the ELT.

3.5.3.1. European Operating Council ("EOC")

The EOC oversees the day-to-day management of key operational matters of the business including third party outsourcing, client assets, complaints, financial crime and regulatory change.

3.5.3.2. European Risk and Compliance Council (“ERCC”)

The role of the ERCC is to facilitate executive management of risk and compliance issues across the Vanguard European business, promote debate and discussion and facilitate escalation of issues to relevant Vanguard European Boards and Committees.

3.5.3.3. European Conflicts Council (“ECC”)

The ECC is chaired by the Head of the Office of the General Counsel, Europe and oversees the identification, assessment and management of conflicts across Vanguard’s European business.

3.5.3.4. Advice Investment Policy Council (“AIPC”)

The AIPC is chaired by the Managing Director, Europe and is responsible for oversight, approval and ongoing review of the advice and investment methodology and the client / investment outcomes of VAM’s retail and intermediated advice offerings and investment solutions in the UK and Europe, future and current.

3.5.3.5. ESG Management Oversight Council (“ESG - MOC”)

The ESG-MOC is responsible for providing oversight of environmental, social and governance (“ESG”) risks and strategy in relation to Vanguard Europe that may impact Vanguard and its investment products and services.

4. Own funds

The following own funds disclosures are in accordance with MIFIDPRU 8.4 and MIFIDPRU 8 Annex 1.

4.1. Composition of regulatory own funds

At 31 December 2022, VAM's own funds comprised solely of Common Equity Tier 1 ("CET1") capital. CET1 consists of share capital and retained earnings. Under MIFIDPRU, current year profits are only eligible for inclusion in capital resources once audited (and have been included for the year ended 31 December 2022, given the completion of the 2022 VAM audit at the time of publication of these Disclosures).

Table OF1 below discloses the full composition of VAM's own funds. Amounts in table OF1 are stated in GBP thousands.

Item	Amount (GBP thousands)	Source based on reference numbers / letters of the balance sheet in the audited financial statements
1 Own funds	137,497	Total equity
2 Tier 1 capital	137,497	Total equity
3 Common equity tier 1 capital	137,497	Total equity
4 Fully paid-up capital instruments	-	Share capital and share premium
5 Share premium	79,915	Share capital and share premium
6 Retained earnings	57,582	Retained earnings
7 Accumulated other comprehensive income	-	
8 Other reserves	-	
9 Adjustments to CET1 due to prudential filters	-	
10 Other funds	-	
11 (-) Total deductions from common equity tier 1	-	
19 CET1: Other capital elements, deductions, and adjustments	-	
20 Additional tier 1 capital	-	
21 Fully paid up, directly issued capital instruments	-	
22 Share premium	-	
23 (-) Total deductions from additional tier 1	-	
24 Additional Tier 1: Other capital elements, deductions, and adjustments	-	
25 Tier 2 capital	-	
26 Fully paid up, directly issued capital instruments	-	
27 Share premium	-	
28 (-) Total deductions from tier 2	-	
29 Tier 2: Other capital elements, deductions, and adjustments	-	

4.2. Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

Table OF2 provides a reconciliation of regulatory own funds to the balance sheet as per VAM's audited financial statements as at 31 December 2022. As VAM has the same accounting and regulatory scope of consolidation, disclosure is only required under column A below (column B has therefore been left blank).

Table OF2: Reconciliation of regulatory own funds to the balance sheet in the audited financial statements (amounts stated in GBP thousands).

	Column A Balance sheet per audited financial statements As at 31 December 2022 (GBP thousands)	Column B Under regulatory scope of consolidation As at 31 December 2022	Cross reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
Non-current assets			
1 Deferred tax asset	1,941		
Current assets			
2 Trade and other receivables	34,147		
3 Prepayments	746		
4 Cash and cash equivalents	144,336		
Total assets	181,170		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
Current liabilities			
1 Trade and other payables	43,673		
Total liabilities	43,673		
Shareholder Equity			
1 Share capital and share premium	79,915		5 Share premium
2 Retained earnings	57,582		6 Retained earnings
Total Shareholder equity	137,497		

4.3. Own funds: main features of instruments issued by VAM

Table OF3 illustrates the main features of the CET1 instruments issued by VAM as at 31 December 2022. 100% of the share capital of VAM is owned by VAS (its immediate parent company). VAS is a UK registered company.

No dividends were paid by VAM in 2022 (2021: £nil). 100% of VAM's shareholder's equity is recognised as regulatory own funds.

Table OF3: Main features of CET1 capital issued by VAM

Issuer	VAM	VAM	VAM	VAM	VAM	VAM
Public or private placement	Private	Private	Private	Private	Private	Private
Instrument type	Ordinary share capital	Ordinary share capital	Ordinary share capital	Ordinary share capital	Ordinary share capital	Ordinary share capital
Amount recognised in regulatory capital (GBP thousands)	1	4,999,999	8,000,000	915,000	43,000,000	23,000,000
Nominal amount of instrument (GBP whole number)	1	1	1	N/A	1	1
Issue price (GBP whole number)	1	4,999,999	8,000,000	915,000	43,000,000	23,000,000
Redemption price	N/A	N/A	N/A	N/A	N/A	N/A
Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity
Original date of issuance	31 December 2010	31 December 2010	9 October 2015	27 March 2019	16 December 2021	29 June 2022
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Maturity date	N/A	N/A	N/A	N/A	N/A	N/A
Issuer call subject to prior supervisory approval	N/A	N/A	N/A	N/A	N/A	N/A
Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons / dividends	N/A	N/A	N/A	N/A	N/A	N/A
Fixed or floating dividend / coupon	N/A	N/A	N/A	N/A	N/A	N/A
Coupon rate and any related index	N/A	N/A	N/A	N/A	N/A	N/A
Existence of a dividend stopper	N/A	N/A	N/A	N/A	N/A	N/A
Convertible or non-convertible	N/A	N/A	N/A	N/A	N/A	N/A
Write-down features	N/A	N/A	N/A	N/A	N/A	N/A
Link to the terms and conditions of the instrument	N/A	N/A	N/A	N/A	N/A	N/A

5. Own funds requirements

Calculation of the own funds requirement

VAM, as a MIFIDPRU investment firm, must at all times maintain own funds that are at least equal to its own funds requirement (“OFR”). As set out in MIFIDPRU 4.3.2R, the OFR is calculated as the higher of:

- a) Permanent minimum capital requirement (“PMCR”)
- b) Fixed overhead requirement (“FOR”)
- c) K-factor requirement (“KFR”)

5.1. Permanent minimum capital requirement

The PMCR for VAM (on a standalone entity basis) is £150,000, which is based on the regulatory permissions and activities undertaken by VAM.

5.2. Fixed overhead requirement

The purpose of the FOR is to ensure that firms hold a minimum amount of capital to support an orderly wind-down. Per MIFIDPRU 4.5.1R, the FOR is determined as one quarter of the firm’s relevant expenditure of the preceding year (or projected fixed overheads if there is a material change to projected relevant expenditure in the year).

The fixed overhead expenses for VAM are determined based on the total relevant expenditure per International Financial Reporting Standards (“IFRS”) less deductions (if applicable) arising from discretionary costs and non-recurring expenses from non-ordinary activities.

At 31 December 2022, VAM’s FOR was circa £32.2m.

5.3. K-Factor requirement

The purpose of the K-Factor requirement is to align capital requirements to the level of risk posed by investment firms and the activities they undertake.

The K-Factor approach assesses certain harms that firms could pose to their clients and counterparties (Risk to Client), on the markets within which they operate (Risk to Market), and on themselves (Risk to Firm). Each category has specific K-Factor calculations where relevant to a firm.

The KFR is calculated based on regulatory defined coefficients applied to different base values according to the scale of each activity. Firms are required to apply the K-Factors which are relevant to their business. The following K-Factors are relevant to VAM:

- a) Assets under management (K-AUM)
- b) Client money held (K-CMH)
- c) Assets safeguarded (K-ASA)
- d) Client orders handled (K-COH)

Per table OFR1, the KFR was the highest OFR as at 31 December 2022. VAM held sufficient own funds throughout the year to cover the OFR.

Table OFR1: Calculation of VAM's own funds requirement

Own funds requirement at 31 December 2022	Value (£'000)
K-Factor requirement	
Σ K-AUM, K-CMH and K-ASA	54,813
K-COH	874
Total K-Factor Requirement	55,686
Fixed overhead requirement	32,231
Permanent minimum capital requirement	150

5.4. Assessing the adequacy of own funds in accordance with the overall financial adequacy rule ("OFAR")

The KFR and FOR as determined above, establish the regulatory minimum level of own funds which VAM is required to hold.

The OFAR (as set out in MIFIDPRU 7.4.7), requires that VAM must, at all times, hold own funds and liquid assets which are adequate, both to their amount and quality, to ensure that it is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities, or so that it can be wound down in an orderly manner, minimising harm to consumers or to other market participants. This is assessed through VAM's ICARA process.

5.4.1. ICARA

VAM has established an ICARA process which seeks to identify material harms which could result from the ongoing operation of the business, or from winding-down of the business, and to establish the amount of capital and liquid assets required to cover these potential harms.

VAM's risk management and control framework enables the identification, mitigation and monitoring of risks to the business and consideration of potential harms to clients, the firm and the wider financial markets.

The ICARA process reflects VAM's risk management framework, incorporating assessment of its business model, planning and forecasting, stress and scenario testing, recovery planning and wind-down planning. The ICARA is operated on an ongoing basis and applies to the entire VAM business. VAM reviews the adequacy of its ICARA process at least annually or following any material change in its business or operating model. The assessments are performed at a VAM level and at the immediate parent company consolidated level (VAS).

The required amount of capital is determined using internally approved methodologies and is subject to approval by the VAM Board. Internal capital buffers are held in excess of the OFAR in line with VAM's corporate risk appetite.

5.4.2. Adequacy of own funds

Per table OFR1, at 31 December 2022, the OFR was determined by the KFR (i.e. the KFR sets the minimum regulatory own funds to be held by VAM).

The own funds threshold requirement ("OFTR") is the amount of own funds that a firm needs to hold at any given time to comply with the OFAR. This is determined as the higher of:

- a) The amount of own funds required to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; and
- b) The amount of own funds that a firm would need to hold to ensure that the firm can be wound down in an orderly manner.

At 31 December 2022, VAM held own funds in excess of its OFTR, which is determined by the level of own funds required to fund ongoing business operations.

5.4.3. Adequacy of liquid assets

VAM's regulatory liquid assets obligations are specified per MIFIDPRU 7.7. To comply with the OFAR, VAM must hold, at all times, the sum of the basic liquid assets requirement ("BLAR") and liquid assets threshold requirement ("LATR"). The LATR is calculated as the higher of:

- a) The additional amount of liquid assets that the firm requires to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle, or
- b) The additional amount of liquid assets that a firm would need to hold when commencing its wind-down process to ensure that the firm could be wound down in an orderly manner.

At 31 December 2022, VAM held liquid assets in excess of its LATR, which is determined by the BLAR plus the additional amount of liquid assets required to initiate the wind-down process.

5.4.4. Early warning indicators

VAM has established the levels of own funds and liquid assets that it considers, if breached, may indicate that there is a risk to its threshold requirements. Early warning indicators are used to monitor own funds or liquid assets, with appropriate VAM Board and FCA escalation processes established for each level of early warning indicator.

5.4.5. Stress and scenario testing

In line with MIFIDPRU 7.5.2 R (5), VAM has identified a series of severe but plausible scenarios which could impact VAM across the ICARA period. Stress and scenario testing considers the harm that VAM and its clients are exposed to and whether VAM has sufficient and appropriate recovery actions for relevant severe but plausible stresses.

5.4.6. Wind-down planning

Wind-down planning (“WDP”) is undertaken to assess the financial and non-financial resources required to wind-down VAM in an orderly manner. This includes how the business would close or transfer its assets under management, reduce its staff and infrastructure, and to estimate the additional costs to mitigate the material potential harms on clients, counterparties and the market that could arise from winding-down. The potential harms arising from winding down the business and how they could be mitigated are documented in the VAM wind-down plan.

6. Remuneration policy and practices

VAM's performance year commences on 1 November each year and is consequently 10 months behind the business reporting period which runs on a calendar year. As a result of this, VAM is currently in the middle of its first performance year under MIFIDPRU which will run until 31 October 2023. The remuneration report below is therefore made under the previous requirements of the Pillar III, with acknowledgement to current practices as required under MIFIDPRU.

For the reporting period ending 2022, the FCA's General Guidance on Proportionality under the remuneration code (SYSC19A) clarified that, as an IFPRU limited license group VAM was within Proportionality Level 3 and thus required to avail itself fully of CRR's Proportionality Principle. The PRA's Supervisory Statement LSS8/13, Remuneration Standards: The Application of Proportionality, outlines the precise disclosure obligation for firms that fall within Proportionality Level 3 – namely, compliance with CRR Article 450(1) (a), (b), (g) and (h). All disclosures in this document are made on the basis of compliance with these elements of CRR Article 450.

6.1. Governance

The governance of remuneration within Vanguard Europe is undertaken through a tiered structure, including Vanguard's Global Remuneration Committee, the ELT and the VAM Remuneration Committee.

The Compensation Committee of the Vanguard Group Inc. (the "Compensation Committee") oversees the overall compensation programmes of the Vanguard Group (including the companies that make up Vanguard Europe. The Compensation Committee is made up solely of independent directors who are not current or former officers or employees of the Vanguard Group.

The Global Remuneration Committee (the "GRC") is a standing committee formed at the direction of the Vanguard Group's Chief Executive Officer. The GRC consists of executives within the Vanguard Group who are independent of the business of Vanguard Europe. Committee members include the Vanguard Group's Chief Executive Officer, Vanguard Group's Chief Investment Officer, and the Managing Director of Vanguard Group's International Division. The GRC has overall responsibility for overseeing the compensation offerings of the Vanguard Group (including VAM) and makes recommendations to the Compensation Committee regarding:

- Vanguard Group's total rewards philosophy,
- Assessments of the usage, performance and costs of the remuneration programs; and
- Retaining or replacing remuneration programmes and plans and oversees and makes recommendations to all other non-US remuneration committees regarding the implementation of the remuneration programs and payments made under those programmes.

On at least an annual basis, the HR, Risk and Compliance functions will liaise to review the implementation of the remuneration policy and will report to the relevant governance committees. As part of this review, the Risk function will consider the effectiveness of the methods applied to review and, where appropriate make remuneration recommendations to reflect risk.

6.2. Material Risk Takers (“MRT”)

MRTs are staff members whose professional activities are deemed to have a material impact on VAM's risk profile or the assets it manages. These crew are identified annually prior to the commencement of the relevant performance period. In addition, a review of the identification of MRTs will be undertaken more frequently as necessary, including to take account of new company formations, appointments, promotions, changes in duties and departures.

VAM ensures that the fixed and variable components of total remuneration are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component. VAM ensures that performance-related variable remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall results of the firm.

VAM is required to disclose quantitative remuneration information for its MRT population in a manner that is appropriate to its size, internal organisation and the nature, scope, and complexity of its activities. The aggregate remuneration awarded for the 2022 performance year for the firm's MRTs was £17.3m, of which £11.8m was awarded to the firm's management body. The remuneration comprised base salary, variable remuneration in the form of monetary awards, long term incentive plans, pension contributions and benefits in kind in accordance with the rules.

7. Investment policy

As stated in MIFIDPRU 8.7.1R of the FCA Handbook, a firm must complete template MIFIDPRU 8 Annex 2R:

- Only in respect of a company whose shares are admitted to trading on a regulated market;
- Only where the proportion of voting rights that the MIFIDPRU investment firm directly or indirectly holds in that company is greater than 5% of all voting rights attached to the shares issued by the company; and
- Only in respect of shares in that company to which voting rights are attached.

As at 31 December 2022, the funds managed by VAM do not in aggregate hold—either directly or indirectly—more than 5% of the voting rights of any individual security. VAM does not therefore exceed the MIFIDPRU threshold which requires disclosure of the aforementioned template.

Glossary

(Terms are included below if not fully defined elsewhere in the document)

“**AUM**” is Assets Under Management;

“**Board**” is the board of directors of each of VIUK, VAM, VAS, VUN and VPTUK and the governing body of VISG (as defined below), as appropriate;

“**CEO**” is the Chief Executive Officer;

“**CRD IV**” is the prudential requirements applicable in Europe to banks and in-scope investment firms as contained in the CRR and Directive 2013/36/EU;

“**CRR**” is the EU Capital Requirements Regulation (EU no 575/2013);

“**FCA**” is the UK Financial Conduct Authority or any successor body or bodies;

“**FOR**” is the Fixed Overhead Requirement. This is an amount that is equal to one quarter of a firm’s relevant fixed expenditure;

“**ICARA**” is the Internal Capital Adequacy and Risk Assessment;

“**ICARA Process**” is the collective term for the internal systems and controls that a firm must operate to identify and manage potential material harms that may arise from the operation of its business, and to ensure that its operations can be wound down in an orderly manner;

“**IFPR**” is the UK Investment Firm Prudential Regime for MiFID investment firms regulated by the FCA; It includes the amount of liquid assets and capital levels a firm should hold to enable it to wind-down in an orderly way if required;

“**IFPRU**” is the FCA’s Prudential Sourcebook for Investment Firms;

“**IPRU (INV)**” is the FCA’s Interim Prudential Sourcebook for Investment Business;

“**Irish Funds**” means certain sub-funds of: (1) Vanguard Investment Series plc, (2) Vanguard Common Contractual Fund; (3) Vanguard Investments Common Contractual Fund; (4) Vanguard Investments II Common Contractual Fund; (5) Vanguard Investments III Common Contractual Fund and (6) Vanguard Funds plc, each an Ireland-domiciled fund;

“**K-ASA**” is the K-Factor requirement for Assets Safeguarded and Administered set out in MIFIDPRU 4.9;

“**K-AUM**” is the K-Factor requirement for Assets Under Management set out in MIFIDPRU 4.7;

“**K-CMH**” is the K-Factor requirement for Client Money Held set out in MIFIDPRU 4.8;

“**K-COH**” is the K-Factor requirement for Client Orders Handled set out in MIFIDPRU 4.10;

“**MiFID**” is Directive 2014/65/EU of 15 May 2014 on markets in financial instruments;

“**MIFIDPRU**” is the FCA’s Prudential Sourcebook for MiFID Investment Firms;

“**Minimum Own Funds Requirement**” is the minimum level of own funds required to meet the OFAR. This term is referred to as the ‘own funds requirement’ in MIFIDPRU 4;

“Non-SNI MIFIDPRU investment firm” is a MIFIDPRU investment firm that is “not a small and non-interconnected (SNI) MIFID investment firm” as defined in MIFIDPRU 1.2;

“OFAR” is the Overall Financial Adequacy Requirement as set out under MIFIDPRU 7.4.7 R;

“OFTR” is the Own Funds Threshold Requirement. This is the level of financial resources required to meet the OFAR;

“Pillar 3” is the public disclosure of risk and capital management (including capital adequacy), in accordance with GENPRU and IFPRU. The disclosures are to be made public for the benefit of the market;

“Risk Appetite” is the level of risk that the Boards are willing to take in pursuit of overall financial, solvency and business objectives;

“SYSC” is the FCA’s sourcebook of Senior Management Arrangements, Systems and Controls;

“UK Funds” means certain sub-funds of the AUTs and the ICVCs managed by VIUK, which are UK-domiciled funds;

“VAM” is Vanguard Asset Management, Ltd;

“Vanguard Europe” means the Vanguard UK Group, VGIL and Vanguard Group Europe, GmbH;

“Vanguard Group” or **“Vanguard”** means VGI and its subsidiaries;

“Vanguard UK Group” means VAS, VAM, VIUK, and VISG, which are prudentially consolidated for the purposes of IFPR;

“VAS” is Vanguard Asset Services, Ltd;

“VGI” is The Vanguard Group, Inc;

“VGIL” is Vanguard Group Ireland, Limited;

“VISG” means Vanguard Investments Switzerland, GmbH;

“VIUK” is Vanguard Investments UK, Limited.

Important Information

The content of this document has been prepared and issued by Vanguard Asset Management, Ltd, which is authorised and regulated in the UK by the Financial Conduct Authority, solely for the purpose of disclosing certain information in accordance with relevant regulatory requirements.

The information is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information in this document does not constitute legal, tax, or investment advice. You must not, therefore, rely on the content of this document when making any investment decisions.

Although public disclosures are intended to provide transparent disclosures on a common basis, the information contained in this document may not be directly comparable with the information of other firms for several reasons, including differences in business models.