

Sustainability-related disclosures: Vanguard ESG Developed World All Cap UCITS ETF v. Apr 2023

Legal entity identifier: 549300HRU2IZSYZMOV18

(a) Summary

Environmental or social characteristics and investment strategy

The Fund employs a “passive management” – or indexing – investment approach, through physical acquisition of securities, designed to track the performance of the FTSE Developed All Cap Choice Index.

The Fund promotes environmental and social characteristics by excluding companies from its portfolio based on the impact of their conduct or products on society and / or the environment but does not have as its objective sustainable investment.

The Index excludes stocks of companies that the sponsor of the Index determines to be engaged or involved in, and / or derive revenue (above a threshold specified by the Index Provider) from, the following activities:

- (a) Vice Products (i.e., adult entertainment, alcohol, gambling, tobacco, cannabis);
- (b) Non-Renewable Energy (i.e., nuclear power, fossil fuels (including power generation from oil, gas, and thermal coal)); and
- (c) Weapons (chemical & biological weapons, cluster munitions, anti-personnel landmines, nuclear weapons, civilian firearms, and conventional military weapons).

The Index methodology also excludes companies that, as determined by the Index Provider, are involved in severe controversies (i.e., companies which do not meet the labour, human rights, environmental, and anticorruption standards as defined by the United Nations Global Compact Principles).

While the Fund promotes environmental and social characteristics, it does not commit to making sustainable investments (including environmentally sustainable investments within the meaning of the Taxonomy Regulation). As such, the Fund makes a minimum commitment of 0% in environmentally sustainable investments. 90% of the assets are aligned with environmental and / or social characteristics.

Monitoring and methodologies

The Investment Manager will measure the attainment of the environmental and social characteristics by assessing the extent to which the exclusion criteria described above have been applied and measuring the proportion of the portfolio excluded from the Parent Index (being the FTSE Developed All Cap Index).

Regarding methodologies, the Index rebalances on a quarterly basis, at which time the Parent Index (FTSE Developed All Cap Index) is screened for the ESG exclusions criteria. Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to the Index in order, for example, to correct an error in the selection of Index constituents.

In addition, the Index Provider has its own set of internal processes, which are independent of the Investment Manager.

Data sources and limitations

The Index Provider collects information from publicly available sources and third-party data on an annual basis for each company, following the publication of the company's annual report.

However, there is a lack of availability of self-reported data of the companies included within the Index. Data may therefore be based on assumptions, forecasts, projections, estimations and opinions of the Index Provider and their third-party providers. The Index Provider, as part of their methodology, applies the necessary screens which ensures that the E/S characteristics are met for the Fund.

Due diligence

The Investment Manager conducts due diligence in respect of the Index Provider prior to appointment and on an ongoing basis. The Index Provider is responsible for implementing the index methodology and conducting all necessary screens to ensure constituents adhere to this methodology.

Engagement policies

Not applicable.

Designated reference benchmark

This Fund is passively managed. Its objective is to track the performance of the FTSE Developed All Cap Choice Index. For this reason, the Index also serves as the designated Reference Benchmark for the purpose of attaining the environmental and / or social characteristics promoted by the Fund.

(b) No sustainable investment objective

Does the Fund have sustainable investment as its objective?

The Fund promotes environmental or social characteristics, but does not have as its objective sustainable investment.

(c) Environmental or social characteristics of the financial product

What environmental and / or social (E/S) characteristics are promoted by this financial product?

The Fund promotes environmental and social characteristics by excluding companies from its portfolio based on the impact of their conduct or products on society and / or the environment.

For information on the screening criteria, please refer to the summary section above. Further details of the screening criteria including the involvement thresholds for inclusion can be found in the FTSE Global Choice Index Series Ground Rules. Product-related exclusions can be found in Appendix A and conduct-related exclusions can be found in the Controversies section of Appendix B: https://research.ftserussell.com/products/downloads/FTSE_Global_Choice_Index_Series_Ground_Rules.pdf

(d) Investment strategy

What is the investment strategy used to meet the E/S characteristics promoted by the financial product?

The Fund employs a “passive management” – or indexing – investment approach, through physical acquisition of securities, designed to track the performance of the FTSE Developed All Cap Choice Index. The Fund will invest in a portfolio of equity securities of companies located in developed markets that so far as possible and practicable consists of a representative sample of the component securities of the Index.

The binding element of the investment strategy is the exclusionary screening methodology, which is detailed in the summary section above.

What is the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance?

The investee companies, in which the Fund invests, follow good governance practices since the Investment Manager replicates an index that excludes companies that are involved in poor governance practices. This excludes companies that, as determined by the Index Provider, are involved in severe controversies (i.e., companies which do not meet the labour, human rights, environmental, and anticorruption standards as defined by the United Nations Global Compact Principles).

The Investment Manager relies on the Index Provider to assess good governance practices of the investee companies based on the controversy screening.

(e) Proportion of investments

What is the asset allocation planned for this product?

The binding element of the investment strategy is solely the exclusionary screening methodology of the Index. This excludes companies which are engaged in, or derive revenue from, certain activities, from the Index based on the impact of their conduct or products on society and / or the environment (as further described above).

It is expected that at least 90% of the Fund's assets will be invested in constituents of the Index and accordingly, are determined to be aligned with the environmental and social characteristics promoted by the Fund.

Up to 10% of assets fall into the sub-category “#2 Other”. These represent indirect exposures (including derivatives) which are used for efficient portfolio management purposes only. The Fund does not apply any minimum environmental or social safeguards to such investments.

The Fund does not commit to make any sustainable investments.

Does this product have planned indirect exposures to entities?

The Fund does not plan to use indirect exposures (including derivatives) to attain the environmental or social characteristics promoted by the Fund.

(f) Monitoring of environmental or social characteristics

How are the E/S characteristics promoted by the financial product and the Sustainability Indicators used to measure the attainment of each of those E/S characteristics promoted by the financial product monitored throughout the lifecycle of the financial product?

The Investment Manager will measure the attainment of the environmental and social characteristics by:

- measuring the proportion of the portfolio excluded from the Parent Index (being the FTSE Developed All Cap Index) and
- assessing the extent to which the exclusion criteria described above have been applied

The first sustainability indicator, the proportion of the portfolio excluded from the Parent index, is monitored by the Investment Manager on an annual basis to include in the annual reports.

The second sustainability indicator, the extent to which the exclusion criteria have been applied, is monitored by the Investment Manager on a regular basis through internal and external controls, as discussed below.

What are the related internal control mechanisms?

Rebalancing activity in ESG index funds is reviewed and overseen by several 'lines of defense', including our portfolio management, risk management, investment data and product teams. Inputs from third-party data providers, consistent with the Index Provider's own ESG data, are used to analyse index constituents as part of this review process. This helps mitigate the risk of the Fund holding index constituents that are inconsistent with the specified ESG screening criteria.

There are additional internal trade compliance controls, that will check whether new instruments bought are benchmark constituents as well as checking for any fund holdings that may no longer be part of the benchmark. These checks aim to confirm that out of benchmark holdings are not added and are removed in a timely fashion. The Investment Manager will monitor tracking error (difference between portfolio and benchmark) on a daily basis and follow up on any significant deviations.

What are the related external control mechanisms?

The Index rebalances on a quarterly basis, at which time the Parent Index (FTSE Developed All Cap Index) is screened for the ESG exclusions criteria. Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to the Index in order, for example, to correct an error in the selection of Index constituents.

The Index Provider has implemented controls, which are independent of the Investment Manager. Further information in relation to the Index Provider's oversight process can be obtained at:

https://research.ftserussell.com/products/downloads/FTSE_Russell_Governance_Framework.pdf

(g) Methodologies

What are the methodologies to measure how the E/S characteristics promoted by the financial product are met?

The Fund promotes environmental and social characteristics by excluding companies from its portfolio based on the impact of their conduct or products on society and / or the environment. For information on the screening criteria, please refer to the summary section above.

The Index rebalances on a quarterly basis, at which time the Parent Index (FTSE Developed All Cap Index) is screened for the ESG exclusions criteria. Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to the Index in order, for example, to correct an error in the selection of Index constituents.

The Index Provider has its own set of internal processes, which are independent of the Investment Manager. Further information in relation to the Index Provider's methodologies can be obtained at:

https://research.ftserussell.com/products/downloads/FTSE_Global_Choice_Index_Series_Ground_Rules.pdf

(h) Data sources and processing

What are the data sources used to attain each of the E/S characteristics promoted by the financial product?

The Index Provider collects information from publicly available sources and third-party data on an annual basis for each company, following the publication of the company's annual report.

The Index Provider's proprietary data is the primary source for determining business activity exclusions, supplemented by third party data. Further information in relation to the Index Provider's operational details can be obtained at: https://research.ftserussell.com/products/downloads/Guide_to_the_Construction_and_Maintenance_of_FTSE_Exclusion_Lists.pdf

What measures are taken to ensure data quality?

From an external perspective, the Index Provider has its own set of internal processes which are independent of the Investment Manager. This includes due diligence to confirm that appropriate quality controls are in place in data sourcing and delivery for third-party data.

From an internal perspective, rebalancing activity in ESG index funds is reviewed and overseen by several 'lines of defense', including our portfolio management, risk management, investment data and product teams. Inputs from third-party data providers, consistent with the Index Provider's own ESG data, are used to analyse index constituents as part of this review process. This helps mitigate the risk of our funds holding index constituents that are inconsistent with the specified ESG screening criteria.

How are the data processed?

The Investment Manager does not perform any data processing with regards to the screening criteria, which is carried out by the Index Provider. Further information in relation to the Index, including current details as to its methodology can be obtained at https://research.ftserussell.com/products/downloads/FTSE_Global_Choice_Index_Series_Ground_Rules.pdf

What is the proportion of data that are estimated?

It is currently complex to report sufficiently accurate numbers on the proportion of data that is estimated. The Index Provider uses estimated data under specific circumstances; this is independent of the Investment Manager.

(i) Limitations to methodologies and data

What are the limitations to the methodologies referred to in section (g) and the data sources referred to in section (h)?

The main limitation is the availability of self-reported data of the companies included within the Index. Data may therefore be based on assumptions, forecasts, projections, estimations and opinions of the Index Provider and their third-party providers.

How do such limitations not affect how the E/S characteristics promoted by the financial product are met?

The Index Provider, as part of their methodology, applies the necessary screens which ensures that the E/S characteristics are met for the Fund. Furthermore, data availability will improve over time due to increasing regulatory disclosure requirements, such as the anticipated introduction of CSRD (The Corporate Sustainability Reporting Directive) in 2025.

(i) Due diligence

What due diligence is carried out on the underlying assets of the financial product (including the internal and external controls)?

The Investment Manager conducts due diligence in respect of the Index Provider prior to appointment and on an ongoing basis. The Index Provider is responsible for implementing the index methodology and conducting all necessary screens to ensure constituents adhere to this methodology. The Investment Manager focuses on the processes and procedures that the relevant Index Provider has in place on an ongoing basis. Please refer to section (f) for further details of the Investment Manager's processes and procedures.

Additionally, where the Index Provider has insufficient or no data available to adequately assess a particular company relative to the ESG criteria of the Index, such companies may be excluded from the Index until such time as they may be determined to be eligible by the Index Provider.

(k) Engagement policies

What is the engagement policy implemented where engagement is part of the environmental or social investment strategy (including any management procedures applicable to sustainability-related controversies in investee companies)?

Not applicable.

(l) Designated reference benchmark

Has an index has been designated as a reference benchmark to meet the E/S characteristics promoted by the financial product?

This Fund is passively managed. Its objective is to track the performance of the FTSE Developed All Cap Choice Index. For this reason, the Index also serves as the designated Reference Benchmark for the purpose of attaining the environmental and / or social characteristics promoted by the Fund.

How is this index aligned with the E/S characteristics promoted by the financial product?

The Index is constructed from the FTSE Developed All Cap Index which is then screened for certain environmental, social, and corporate governance criteria by the sponsor of the Index, which is independent of Vanguard.

The Index rebalances on a quarterly basis, at which time the Parent Index (FTSE Developed All Cap Index) is screened for the ESG exclusions criteria.

Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to the Index in order, for example, to correct an error in the selection of Index constituents.

The Investment Manager monitors the Index and its exclusions on a regular basis to ensure the alignment of the investment strategy with the methodology of the index.

Where can one find information with regards to input data, methodologies used to select those data, the rebalancing methodologies and index calculations?

Further information in relation to the Index, including current details as to its exact composition, methodology, exclusions and any revenue thresholds, can be obtained at <https://www.ftserussell.com/products/indices/global-choice>

Further Information

Please refer to the link below to access the sustainable finance disclosures of the Fund set out within the prospectus of Vanguard Funds plc.

<https://fund-docs.vanguard.com/etf-prospectus-en.pdf>

Please refer to the link below to access the sustainable finance disclosures of the Fund set out within the Annual Report of Vanguard Funds plc. This will only become available after the Annual Report for 2022 has been published.

<https://fund-docs.vanguard.com/etf-annual-report.pdf>

Version Control

April 2023:

- Legal Entity Identifier (LEI) - The LEI has been updated to reflect the Fund's LEI, rather than the Investment Manager LEI.
- Section (e) 'Proportion of investments' – The question "What is the asset allocation planned for this product?" has been updated to provide enhanced clarity and to improve investor comparability of Article 8 products promoting environmental and/or social characteristics through an exclusionary screening only approach. This update is also reflected in '(a) Summary'.