

October 2021

Think ESG investments sacrifice performance? Think again

Introduction

To meet the growing demands of your clients, three years ago we launched two broad-based ESG (environmental, social, and governance) products: Vanguard ESG U.S. Stock ETF (ESGV) and Vanguard ESG International Stock ETF (VSGX).

As you're aware, some of your clients simply want to avoid exposure to certain ESG risks or to companies that don't align with their values. That's why each of these products tracks an index that uses transparent exclusion measures to remove companies from the investment universe based upon predetermined ESG screening criteria.

The development of these products is a continuation of what Vanguard does best, i.e., respond to your clients' needs by creating low-cost, broadly diversified products that track indexes from providers with the experience and expertise needed in order to achieve success in a specific market segment.

The inclusion of ESG products in client portfolios is picking up steam

A recent survey by Institutional Shareholder Services found that 68% of advisors are more likely to invest in ESG products:¹

From asset managers that they know.

Primarily in response to investor interest.

As more and more of your clients want to talk about ESG issues, you can use our two ESG ETFs to offer them simple, low-cost, broadly diversified ways to dip a toe in the investing water based on their personal values and social conscience.

¹ Source: Institutional Shareholder Services Market Intelligence report based on survey results of 779 financial advisors conducted between July 27, 2021 and August 11, 2021.

Sacrificing performance with ESG products is a myth

The number one myth when it comes to ESG investing is that it's going to cost investors from a performance and diversification perspective. Recent Vanguard research suggests that ESG funds have neither systematically higher nor systematically lower raw returns and risk than the broader market.²

ESGV and VSGX have a three-year track record of returns to dispel this myth with a broad index-like risk-return profile. And with holdings totaling approximately 1,500 for ESGV and 5,100 for VSGX as of September 30, 2021, they are among the most broadly diversified ESG ETFs in the industry.³

Since their inception, ESGV and VSGX have delivered returns greater than those of ETFs that represent the broad market, yet with a similar level of risk. For the most current standardized performance information and characteristics, please visit our ESGV, VSGX, VTI, and VXUS product detail pages.

Outperforming the broad market since their inception

	ESG U.S. Stock ETF (ESGV)		Total U.S. Stock ETF (VTI)	
	Market price	NAV	Market price	NAV
Three-year annualized return	18.29%	18.30%	16.04%	16.04%
Standard deviation⁴	19.40%		19.66%	
Sharpe ratio⁵	0.91		0.80	

	ESG International Stock ETF (VSGX)		Total International Stock ETF (VXUS)	
	Market price	NAV	Market price	NAV
Three-year annualized return	9.00%	9.09%	8.38%	8.36%
Standard deviation⁴	17.55%		18.15%	
Sharpe ratio⁵	0.52		0.48	

Source: Vanguard and Morningstar Inc., as of September 30, 2021.

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit the product detail pages for ESGV, VSGX, VTI, and VXUS.

¹ Source: Institutional Shareholder Services Market Intelligence report based on survey results of 779 financial advisors conducted between July 27, 2021 and August 11, 2021.

² Jan-Carl Plagge and Douglas M. Grim, 2020. Have investors paid a performance price? Examining the behavior of ESG equity funds. The Journal of Portfolio Management 46(3):123-40.

³ Source: Morningstar Inc. as of September 30, 2021.

⁴ Standard deviation: A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

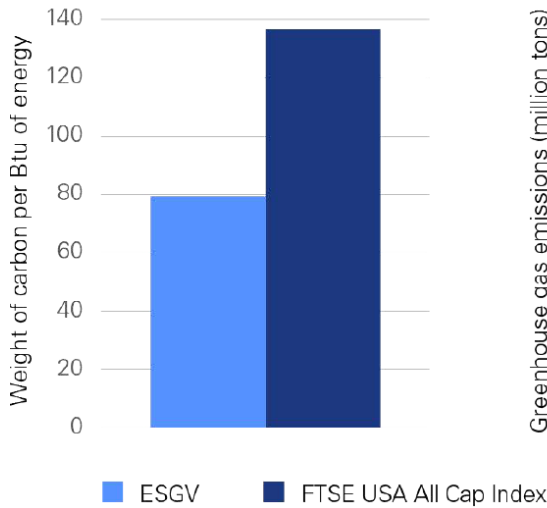
⁵ Sharpe ratio: A measure of risk-adjusted return. To calculate the Sharpe ratio, an asset's excess return is divided by the asset's standard deviation.

Decarbonizing a portfolio

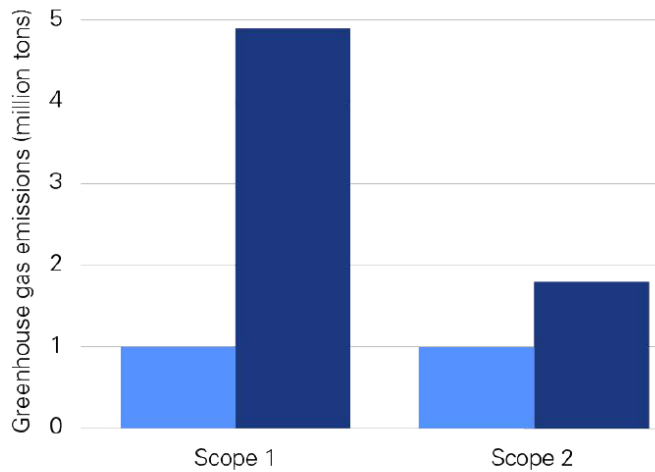
Clients want to know how their investments are helping to mitigate climate-related risk in their portfolios. With our two ESG ETFs, you can easily access data from the FTSE indexes that they track that show how excluding companies based on certain ESG criteria can help reduce the carbon intensity of a client's portfolio.

Vanguard ESG U.S. Stock ETF

Carbon intensity⁶



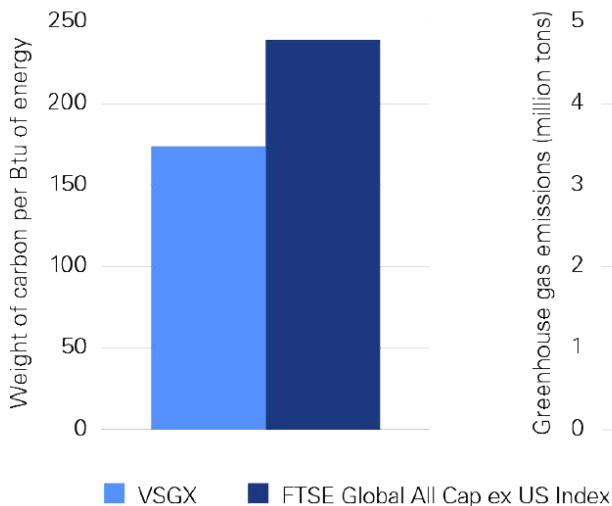
Emissions⁷



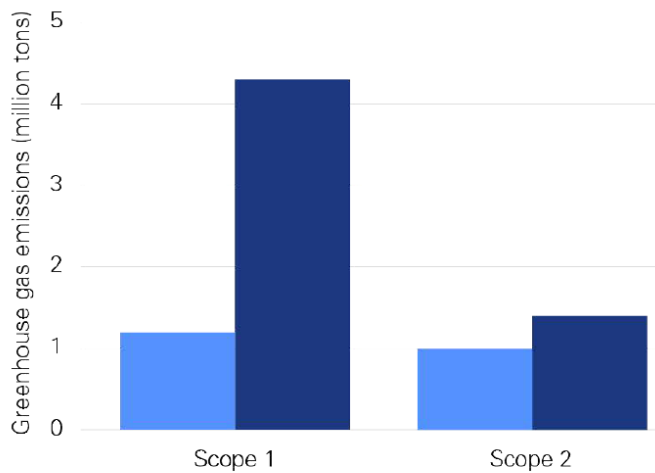
Source: Morningstar, Inc. as of March 31, 2021.

Vanguard ESG International Stock ETF

Carbon intensity⁶



Emissions⁷



Source: Morningstar, Inc. as of March 31, 2021.

We're pleased to see ESGV and VSGX meeting clients' needs for a straightforward ESG product that can make up their global equity allocation.

—Sarah Hersh Senior ESG Product Manager

Notes:

- For more information about Vanguard funds or Vanguard ETFs, obtain a prospectus (or a summary prospectus, if available) or call 800-523-1036 to request one. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.
- Vanguard ETF Shares are not redeemable with the issuing fund other than in very large aggregations worth millions of dollars. Instead, investors must buy and sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.
- All investing is subject to risk, including the possible loss of the money you invest. Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets. Diversification does not ensure a profit or protect against a loss.
- ESG funds are subject to ESG investment risk, which is the chance that the stocks or bonds screened by the index provider for ESG criteria generally will underperform the market as a whole or, in the aggregate, will trail returns of other funds screened for ESG criteria. The index provider's assessment of a company, based on the company's level of involvement in a particular industry or the index provider's own ESG criteria, may differ from that of other funds or of the advisor's or an investor's assessment of such company. As a result, the companies deemed eligible by the index provider may not reflect the beliefs and values of any particular investor and may not exhibit positive or favorable ESG characteristics. The evaluation of companies for ESG screening or integration is dependent on the timely and accurate reporting of ESG data by the companies. Successful application of the screens will depend on the index provider's proper identification and analysis of ESG data.

6 Carbon intensity: The asset-weighted average of holdings with actual emissions data from the Carbon Disclosure Project or estimated values from Sustainalytics in a portfolio. A lower score is better. Carbon intensity is computed for each holding as follows: total emissions (metric tons of CO₂) /revenue (\$ millions), and aggregated at the fund level. Sustainalytics looks at the latest reported scope 1 (direct emissions from owned or controlled sources) and scope 2 (indirect emissions from the generation of purchased energy) greenhouse gas intensity and emissions for more than 10,000 companies. More than 100 different estimation models are used for nonreporting companies.

7 Emissions scope 1: The asset-weighted average of holdings with scope 1 emissions data from Sustainalytics in a fund. Scope 1 emissions include direct greenhouse gas emissions from sources that are owned or controlled by the companies held in the fund. Scope 1 can include emissions from fossil fuels burned on site, emissions from entity-owned or entity-leased vehicles, and other direct sources. Emissions scope 2: The asset-weighted average of holdings with scope 2 emissions data from Sustainalytics in a fund. Scope 2 emissions include greenhouse gas emissions from the generation of purchased electricity consumed by the companies held in the fund. Scope 2 emissions physically occur at the facility where electricity is generated.

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