

A close-up photograph of a young Black woman with her hair in braids, smiling warmly. She is wearing a teal sweater and is in a professional setting, likely a meeting or office. Other people are blurred in the background.

Vanguard®

Advisor portfolio construction trends and insights

2023 mid-year update

A close-up photograph of a hand holding a smartphone, with a glass of water visible in the foreground. The background is dark and out of focus.

See how your portfolios stack up

This presentation offers insights into how your peers are managing their portfolios based on data provided by our Portfolio Analytics & Consulting service. Both our Portfolio Analytics & Consulting specialists and our broader Portfolio Solutions team of experts are here to help you take advantage of new opportunities, sidestep potential portfolio construction issues, and implement your investment strategies with confidence.

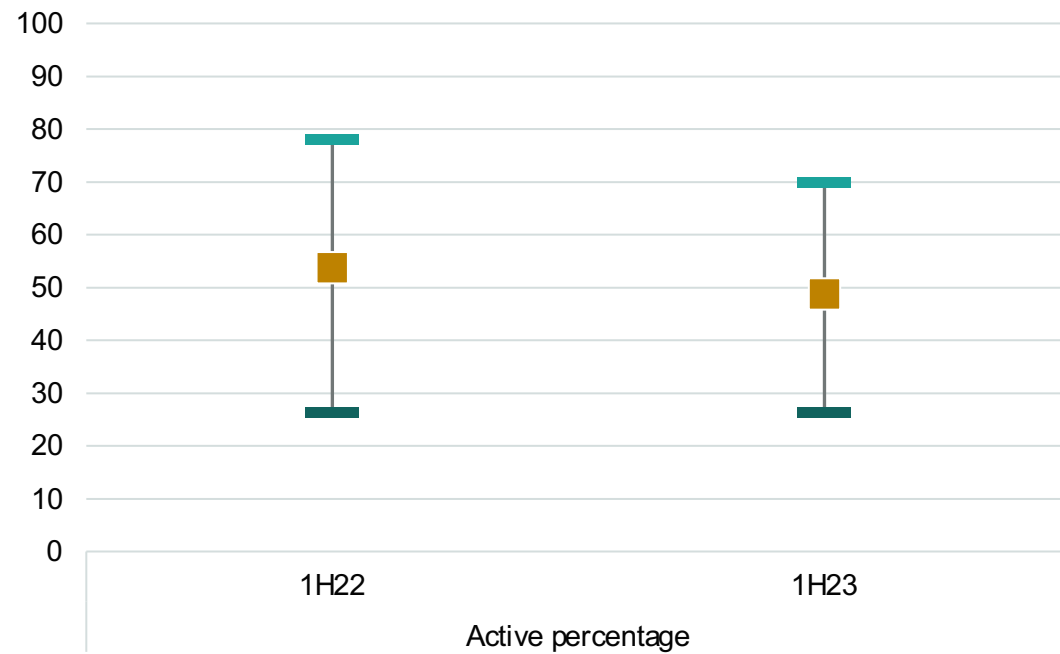
Vanguard's Portfolio Analytics & Consulting service has helped thousands of advisors solve their own unique portfolio construction challenges. For each reference period, we stack rank all qualifying advisor-submitted portfolios in quartiles and measure multi-asset class portfolio exposures. *Included:* individual stocks, ETFs, mutual funds. *Not included:* individual bonds, private investments. Typical assets under management per advisor are greater than \$100 million. The data provided in this report is unique to Vanguard and the advisors using our portfolio analytics service; this data does not necessarily reflect broader industry trends.

Data as of June 30, 2023 (unless otherwise indicated).

Advisor equity sleeve exposures

Active fund preferences

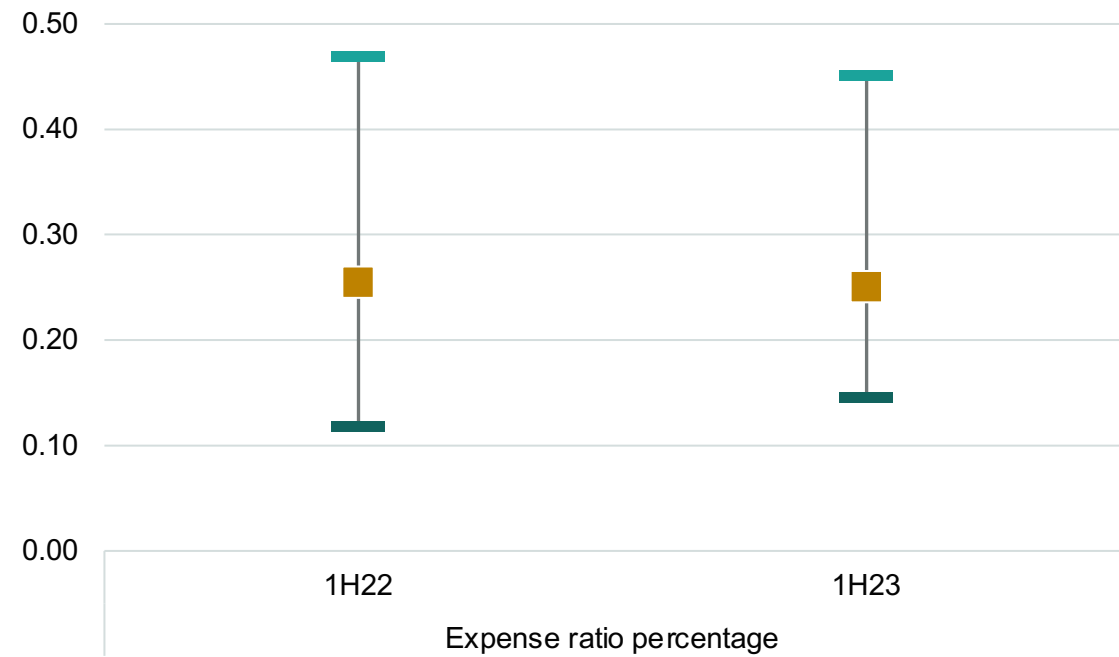
Top quartile target allocations falling



75th percentile 50th percentile 25th percentile

Expenses

Equity sleeve costs remain steady



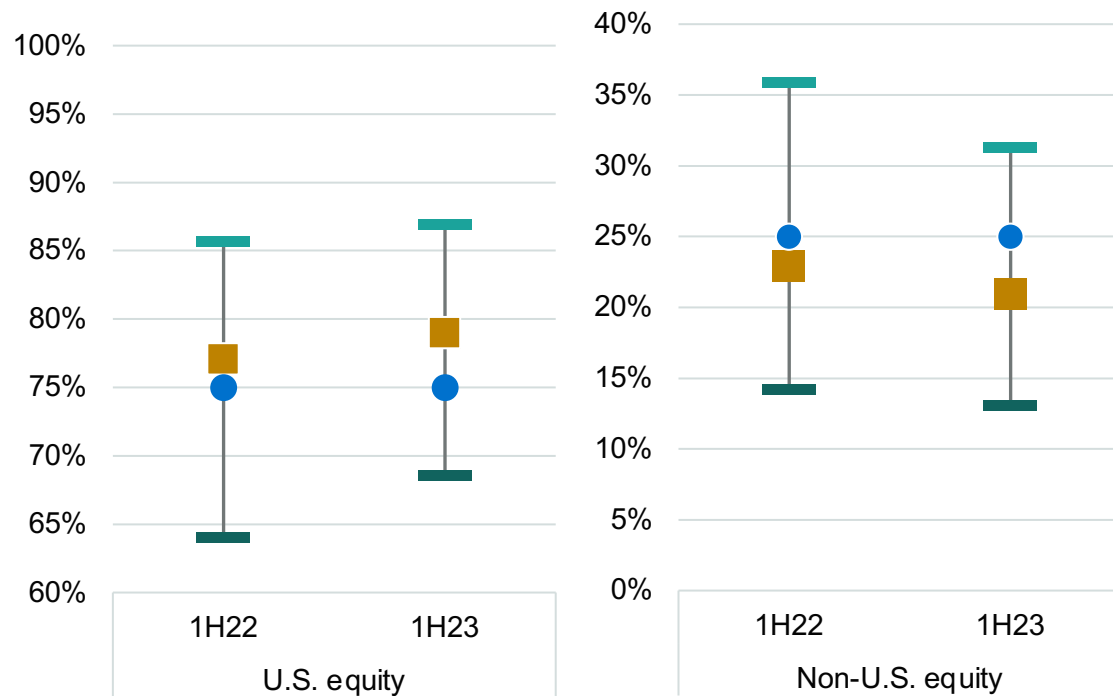
Sources for both charts: Vanguard and Morningstar, Inc., as of June 30, 2023. Equity charts include all observed portfolios in each time period.

Note: 807 equity sleeves observed in period, with an average of 12 tickers per sleeve.

Advisor equity sleeve exposures

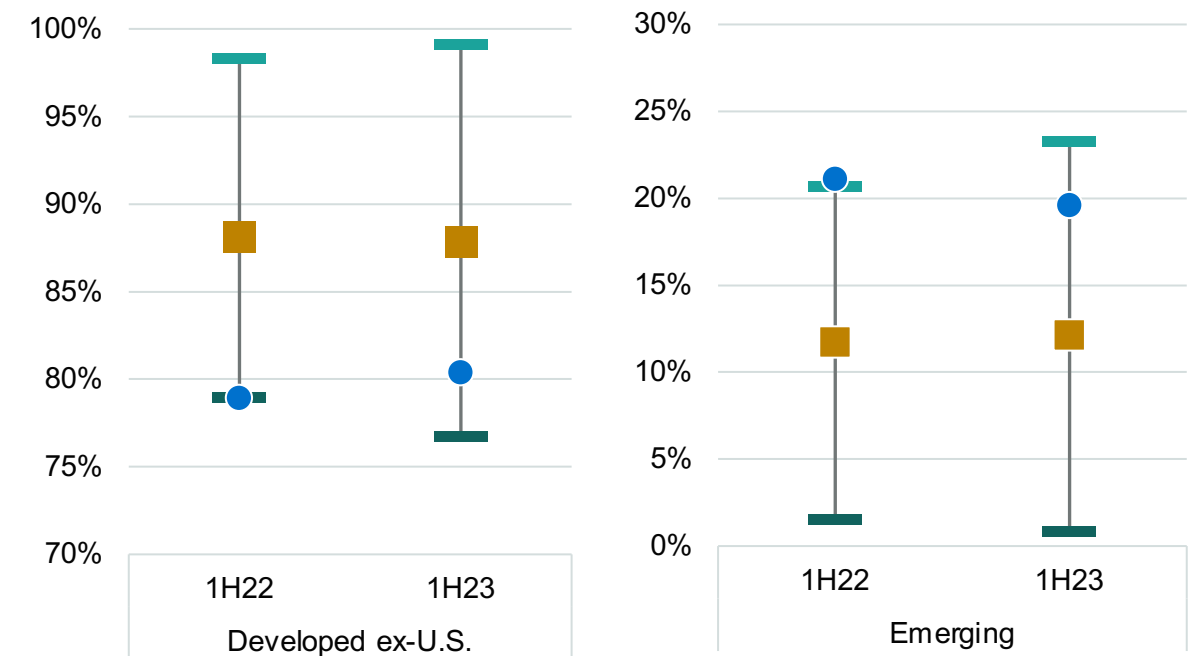
Domestic vs. international

Advisors lean even more into U.S. equities



International developed vs. emerging markets

Roughly three out of four advisors underweight emerging markets



■ 75th percentile
 ■ 50th percentile
 ■ 25th percentile
 ● Benchmark

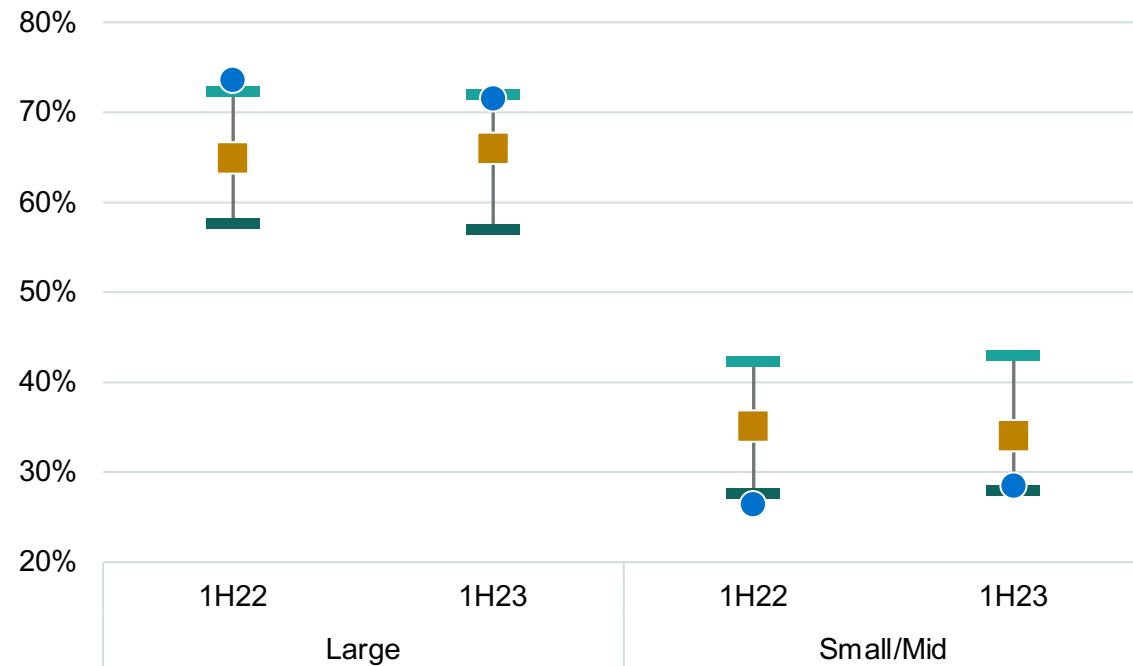
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Equity charts include all observed portfolios in each time period. Equity benchmark for domestic vs. international chart: Advisor blended benchmark 75% CRSP US Total Market TR USD and 25% FTSE Global All Cap ex US TR USD. Equity benchmark for international developed vs. emerging markets chart: FTSE Global All Cap ex US TR USD.

Note: 807 equity sleeves observed in period, with an average of 12 tickers per sleeve.

Advisor equity sleeve exposures

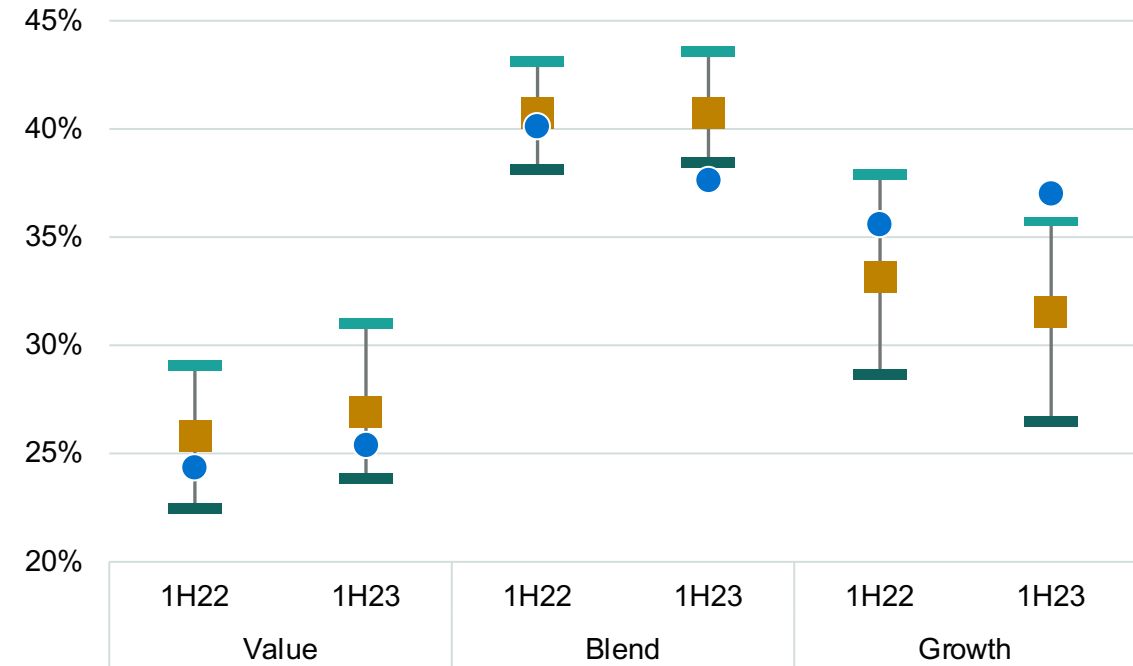
Size

Advisors continue to overweight small- and mid-caps



Style

Three out of four advisors now underweight growth



75th percentile 50th percentile 25th percentile Benchmark

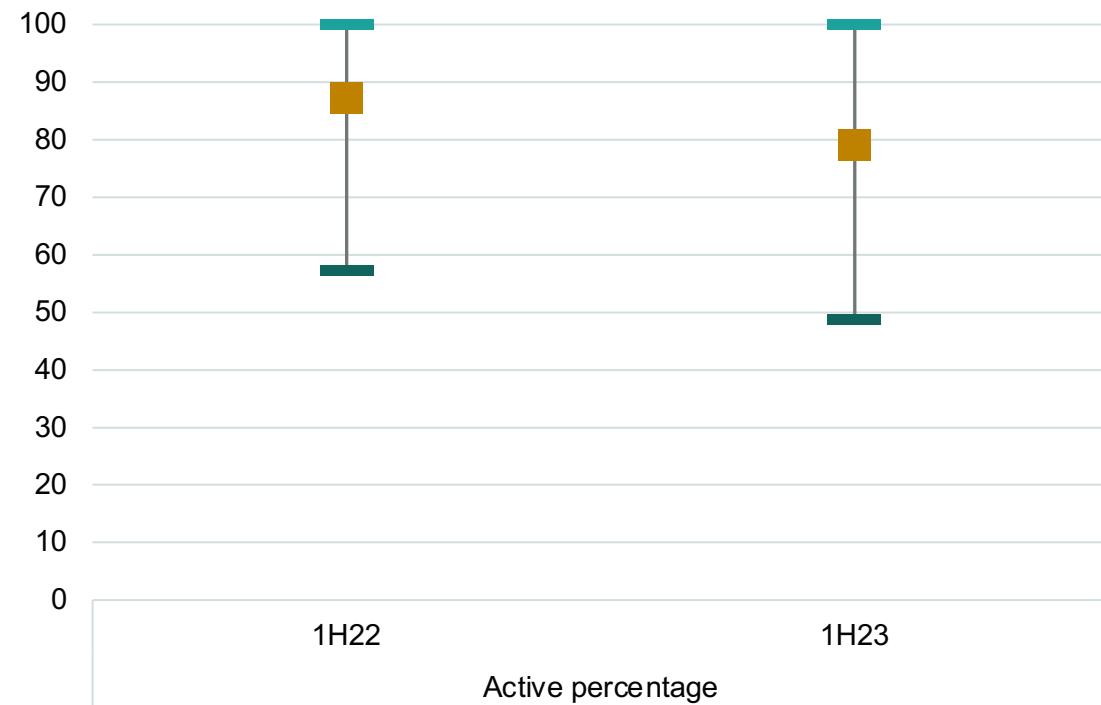
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Equity charts include all observed portfolios in each time period. Equity benchmark for both charts: Advisor blended benchmark 75% CRSP US Total Market TR USD and 25% FTSE Global All Cap ex US TR USD.

Note: 807 equity sleeves observed in period, with an average of 12 tickers per sleeve.

Advisor fixed income sleeve exposures

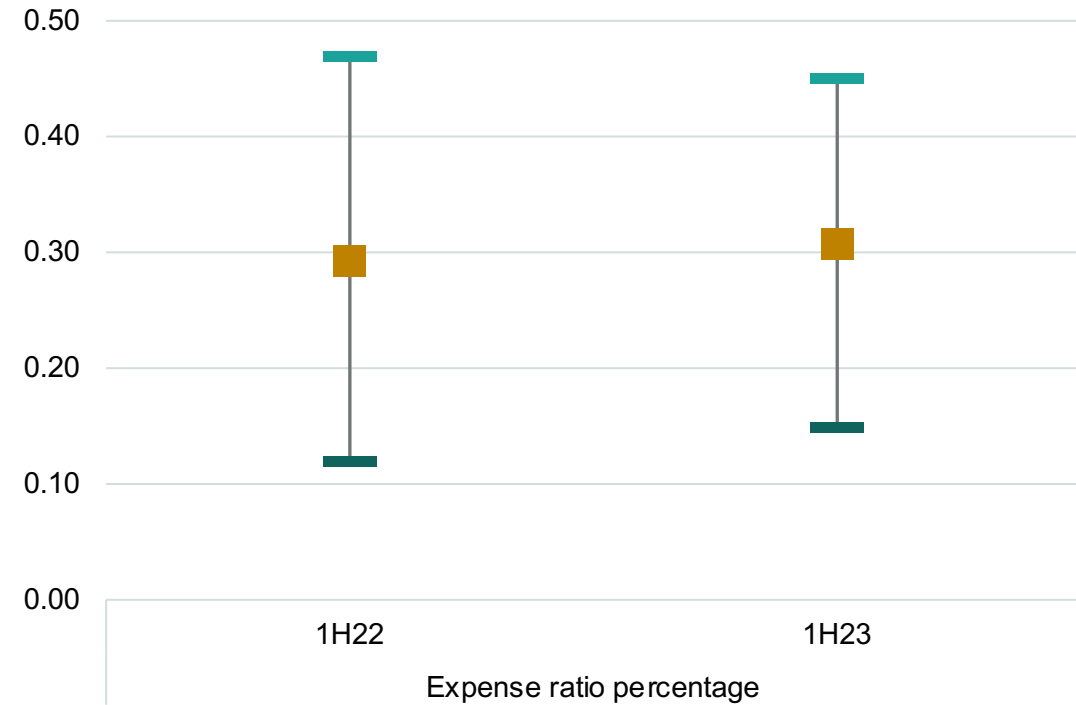
Active fund preferences

One in four portfolios is 100% active



Expenses

Fixed income sleeve costs remain steady



75th percentile 50th percentile 25th percentile

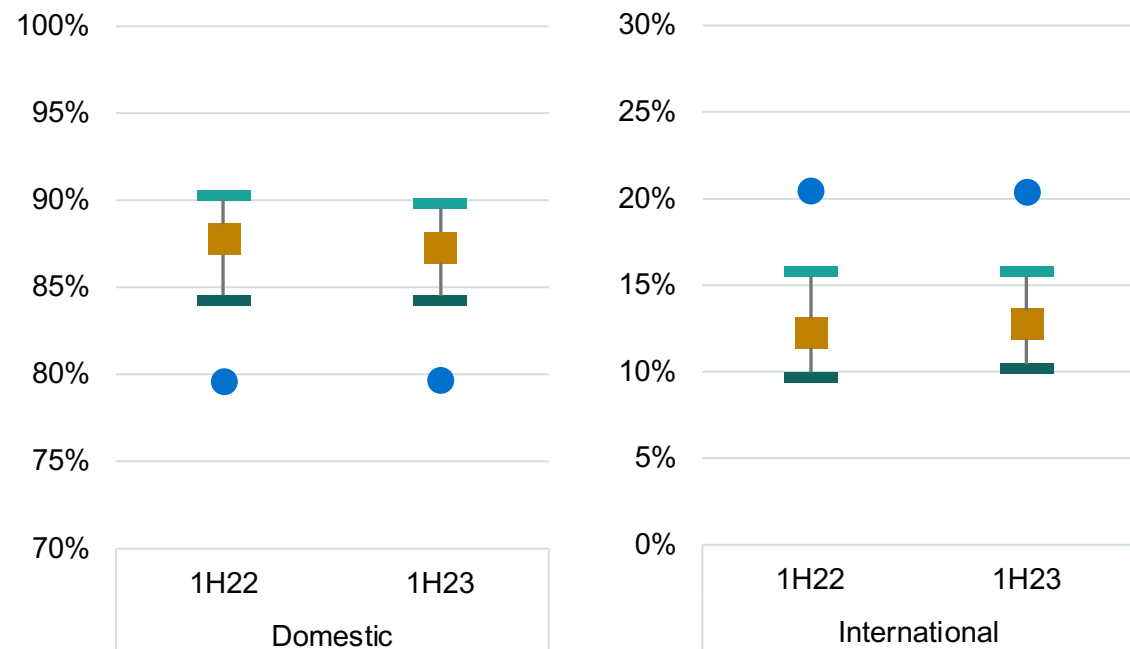
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Fixed income charts include all observed portfolios in each time period.

Note: 599 fixed income sleeves observed in period, with an average of 6 tickers per sleeve.

Advisor fixed income sleeve exposures

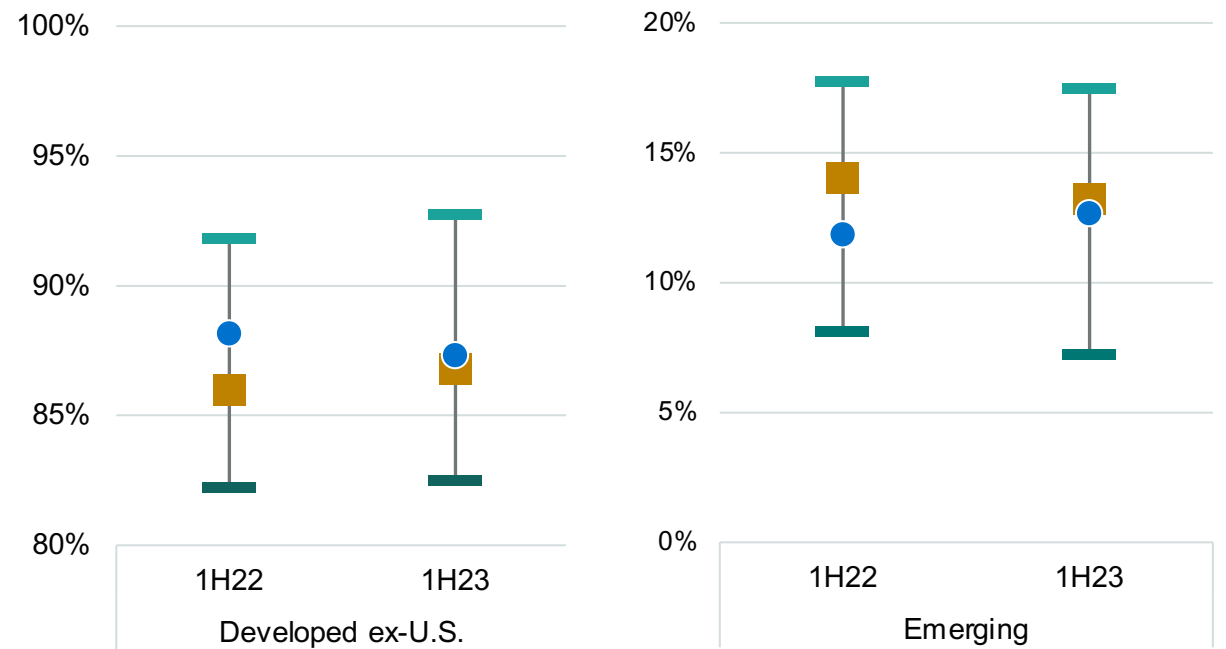
Domestic vs. international

On surface, advisors tend to underweight international bonds



International developed vs. emerging markets

Below surface, advisors more willing to allocate towards emerging markets bonds



■ 75th percentile
 ■ 50th percentile
 ■ 25th percentile
 ● Benchmark

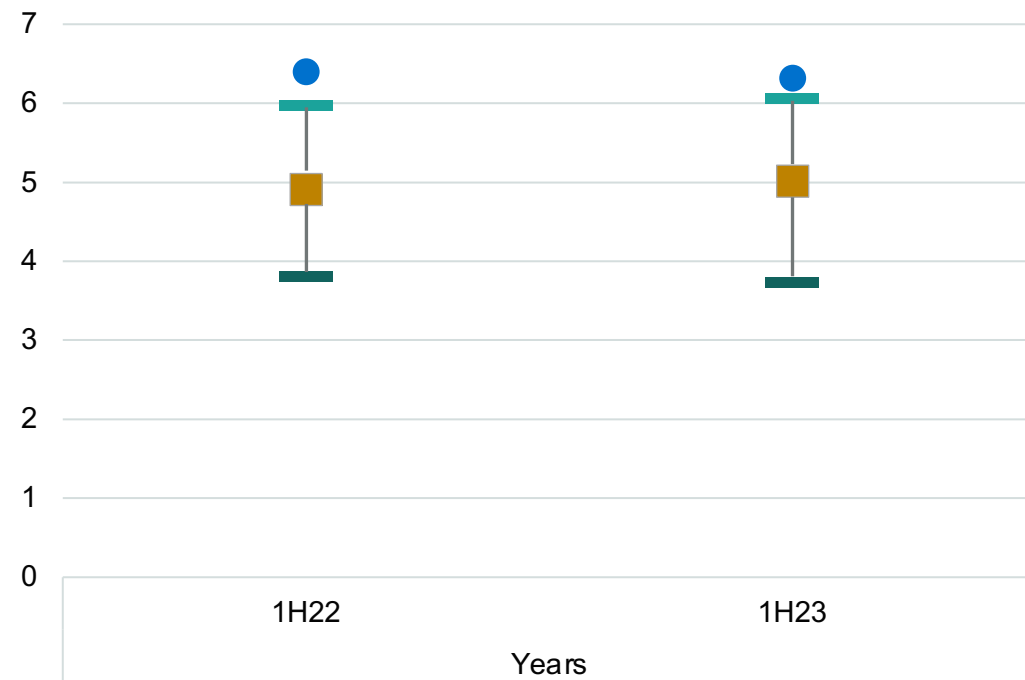
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Fixed income charts include all observed portfolios in each time period. Fixed income benchmark for domestic vs. international chart: Advisor blended benchmark of 85% Bbg US Aggregate fit-adj and 15% Bbg Global Aggregate Ex-US Float Adj RIC Capped. Fixed income benchmark for international developed vs. emerging markets chart: Bloomberg Global Aggregate Ex-US Float Adj RIC Capped.

Note: 599 fixed income sleeves observed in period, with an average of 6 tickers per sleeve.

Advisor fixed income sleeve exposures

Duration

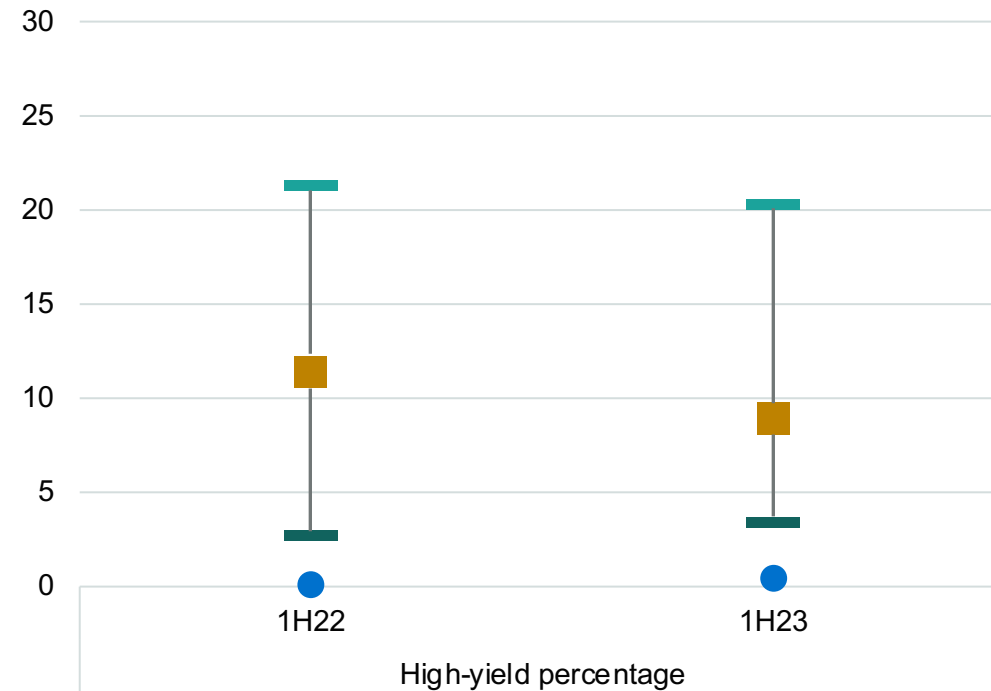
Three out of four advisors continue to underweight duration



■ 75th percentile
 ■ 50th percentile
 ■ 25th percentile
 ● Benchmark

High-yield

Advisors often favor high-yield bonds, but magnitude varies



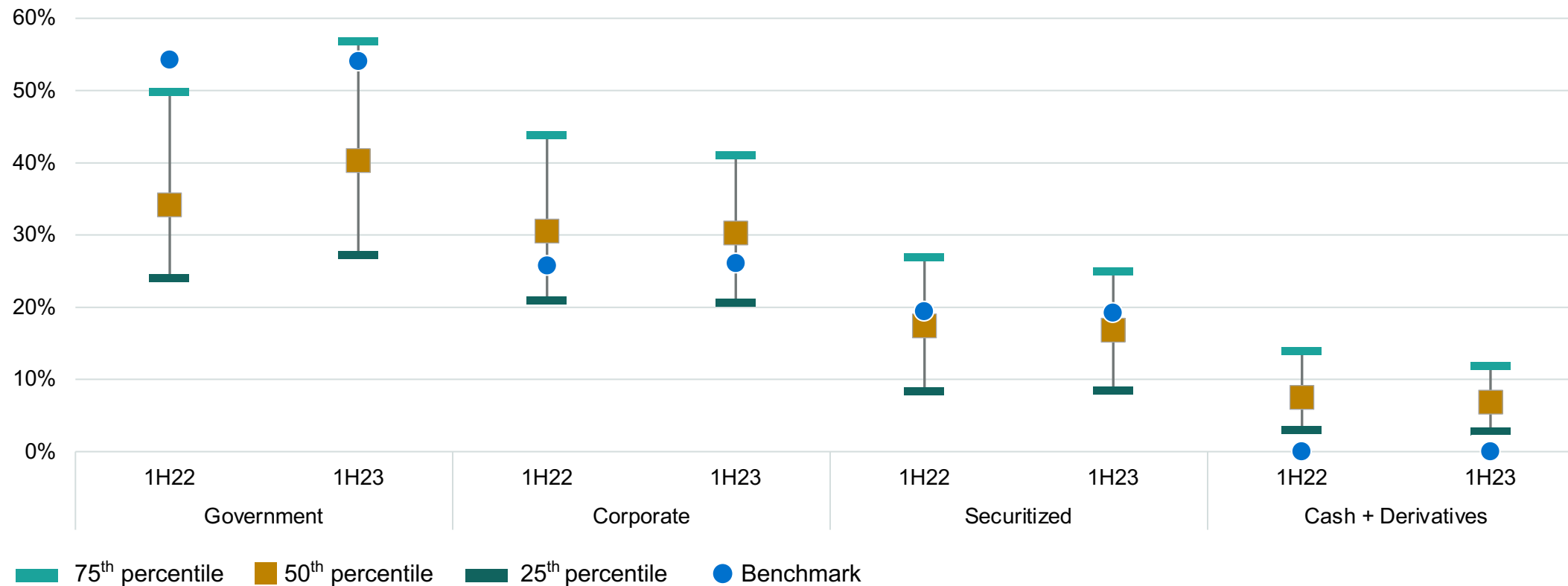
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Fixed income charts include all observed portfolios in each time period. Fixed income benchmark for duration chart: Bloomberg US Aggregate float-adjusted Index. Fixed income benchmark for high-yield chart: Bloomberg US Aggregate Float Adjusted Index, includes not-rated securities.

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Advisor fixed income sleeve exposures

Fixed income sectors

Advisors continue to overweight corporate bonds and cash, but one of four portfolios now overweight government bonds



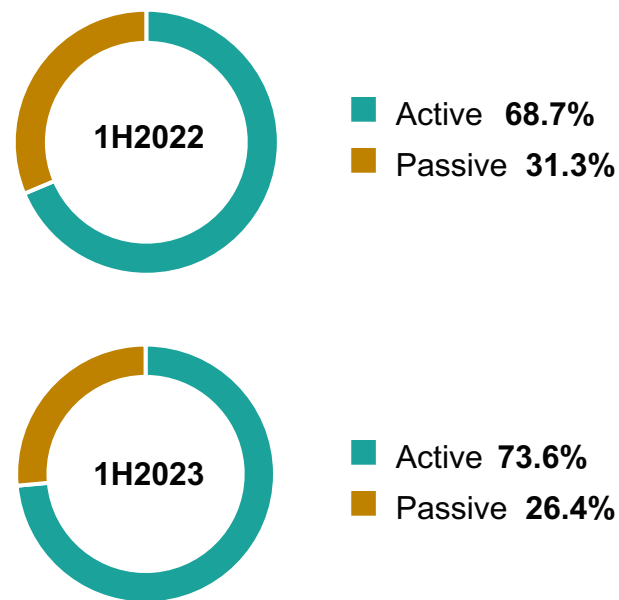
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Fixed income charts include all observed portfolios in each time period. Fixed income benchmark: advisor blended benchmark of 85% Bloomberg US Aggregate Float Adj and 15% Bloomberg Global Aggregate Ex-US Float Adj RIC Capped.

Note: 599 fixed income sleeves observed in period, with an average of 6 tickers per sleeve.

Advisor alternatives sleeve exposures

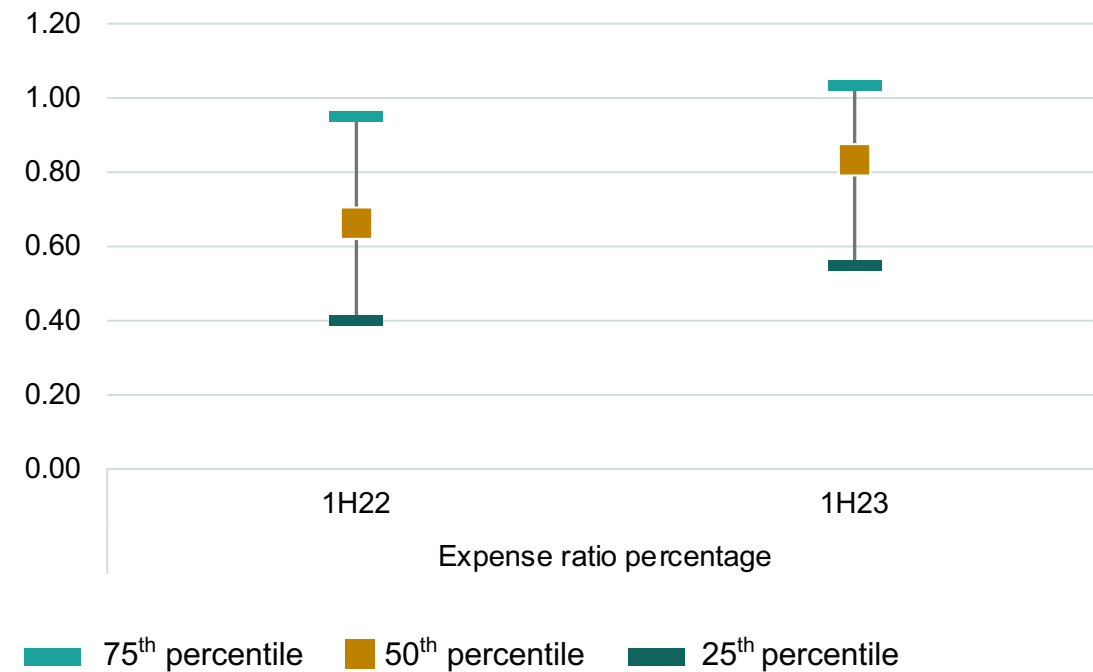
Average active vs. passive position sizing

Passive selections mainly comprised of broad and focused commodities funds



Expenses

Costs are not typically a deciding factor for advisors when selecting alternatives



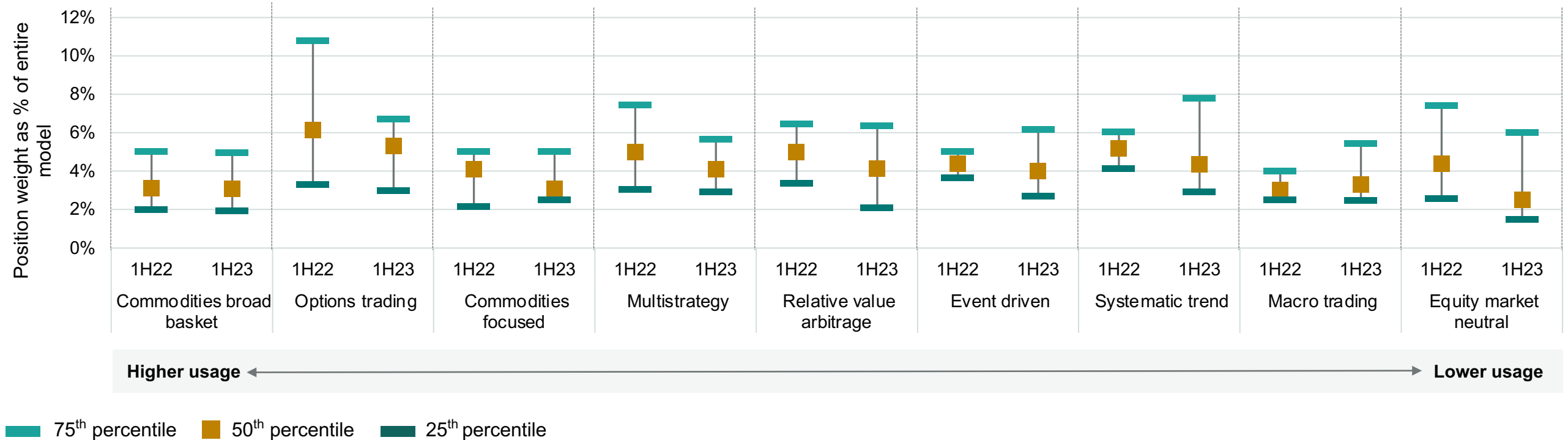
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Alternatives charts include all observed portfolios in each time period.

Note: 282 combined alternatives sleeves observed in period, with an average of 2 tickers per sleeve. 8% average weight of alternatives sleeve (only for portfolios that include alts). Alternatives included: options trading, equity market neutral, systematic trend, event driven, macro trading, multistrategy, relative value arbitrage. Commodities included: broad basket commodities, focused commodities. Categories not included (Morningstar classifies the following as "Modifiers"): equity long-short, derivative income, non-traditional bond real estate, global real estate. Categories excluded: digital assets due to lack of history. Morningstar reclassified its Alternatives Categories in 2021. See Alternatives Morningstar Global Liquid Alternatives Landscape 2021 paper/research for more detail. Though these categories are not officially categorized under Morningstar's Global Broad Category, some advisors tend to use them as "alternatives" to traditional equity and fixed income. Morningstar does not include Real Estate & Global Real Estate as modifiers.

Advisor alternatives sleeve exposures

Position sizing for alternatives and commodities funds

Options trading and equity market neutral target weights move lower



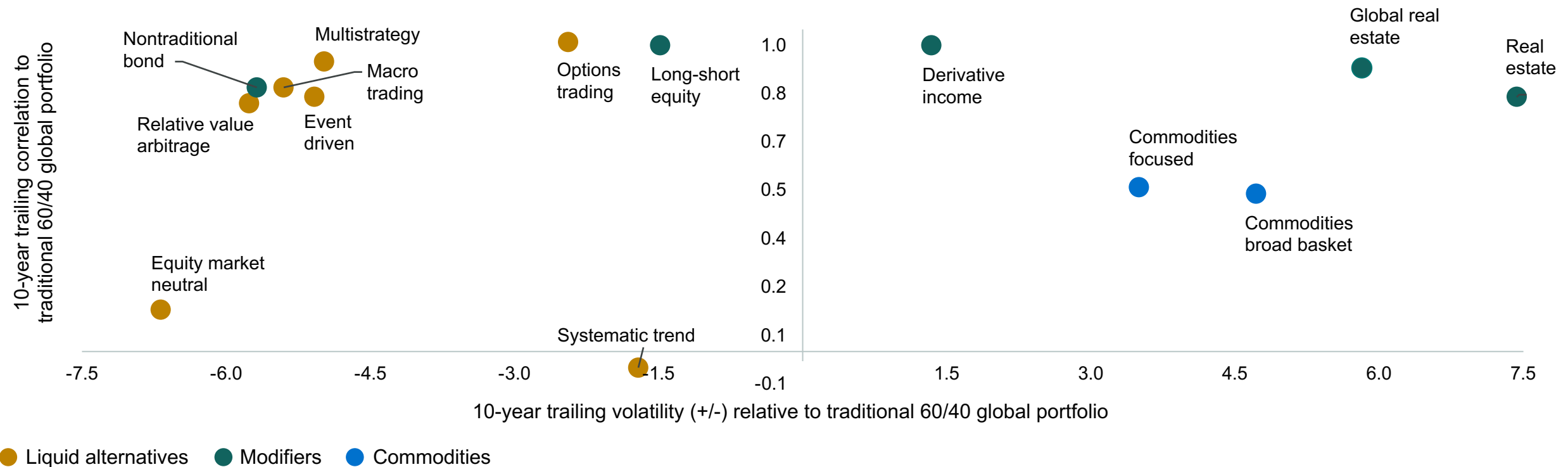
Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Alternatives charts include all observed portfolios in each time period.

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Advisor alternatives sleeve exposures

Popular categories advisors favor to diversify traditional exposures

Systematic trend and equity market neutral remain most efficient diversifiers of traditional beta



Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Alternatives charts include all observed portfolios in each time period.

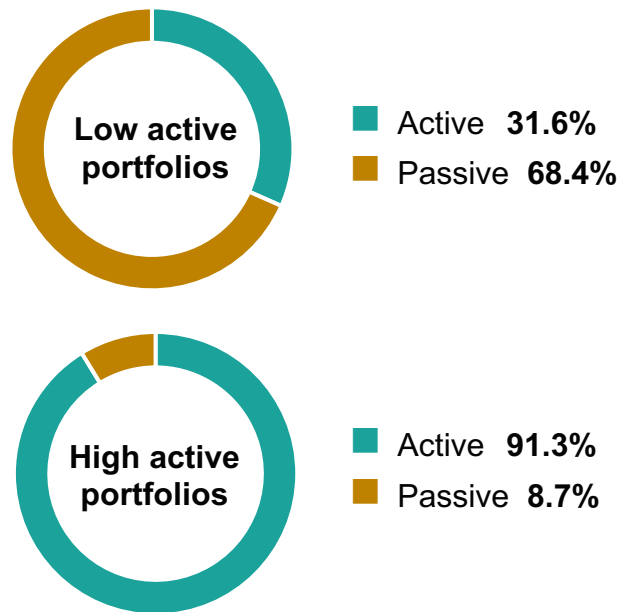
Note: 282 combined alternatives sleeves observed in period, with an average of 2 tickers per sleeve. 8% average weight of alternatives sleeve (only for portfolios that include alts). Benchmark: 36% CRSP US Total Market TR USD; 24% FTSE Global All Cap ex US TR USD; 28% Bloomberg US Aggregate flt-adj; 12% Bloomberg Global Aggregate Ex-US flt-adj RIC Capped. Modifiers included: equity long-short, derivative income, non traditional bond real estate, global real estate. Categories excluded: digital assets due to lack of history. Morningstar reclassified its Alternatives Categories in 2021. See Alternatives Morningstar Global Liquid Alternatives Landscape 2021 paper/research for more detail. Though these categories are not officially categorized under Morningstar's Global Broad Category, some advisors tend to use them as "alternatives" to traditional equity and fixed income. Morningstar does not include Real Estate & Global Real Estate as modifiers.

Portfolio construction highlight

Advisors remain "active" in sizing their passive fixed income positions

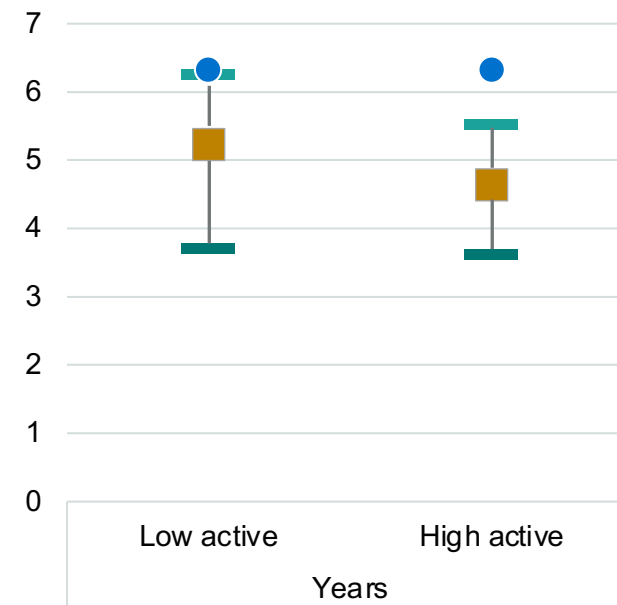
2023 fixed income portfolios

Sorting portfolios in half by active fund position sizing



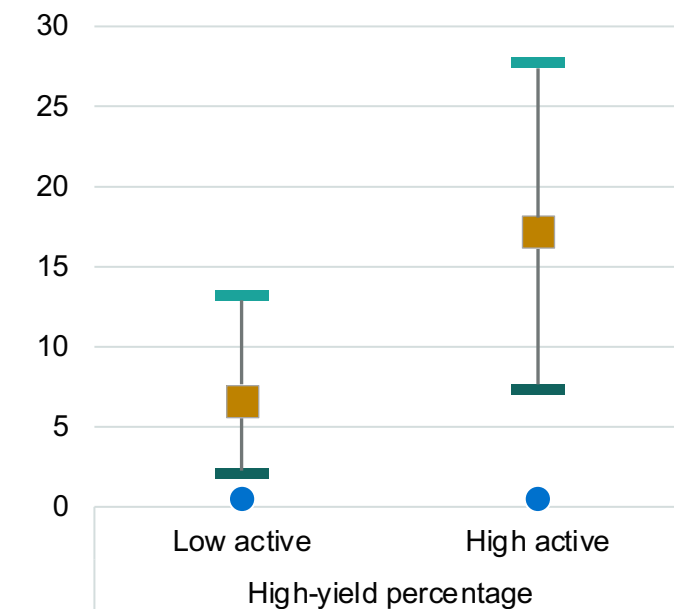
Duration positioning

Three out of four "low active" portfolios actively underweight duration



High-yield positioning

Three out of four "low active" portfolios actively overweight credit



75th percentile 50th percentile 25th percentile Benchmark

Sources: Vanguard and Morningstar, Inc., as of June 30, 2023. Fixed income charts include all observed portfolios in each time period. Fixed Income benchmark for 2023 fixed income portfolios chart: Bloomberg US Aggregate Float Adj, includes not-rated securities. Fixed income benchmark for duration and high-yield positioning charts: Bloomberg US Aggregate Float Adjusted Index.

Note: 285 fixed income sleeves were observed during the period, with an average of 7 tickers per fixed income sleeve. High- and low-active portfolios were selected by sorting the total portfolios from most to least active fund usage and taking the top half to be the high-active portfolios and the bottom half to be the low-active portfolios. This slide shows 2023 portfolios only.

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Get an objective overview of Vanguard's current thoughts on the economy and capital markets, and how these might impact your portfolios. Share your specific concerns to help us zoom in on what's most relevant to your practice.



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Implementation

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Portfolio analytics

We'll put your portfolios under the microscope and thoroughly review from all angles. Can you optimize risk and reward? Help your clients withstand a grinding recession or capitalize on growth opportunities? Our models can stress-test your portfolios through the specific conditions that keep you up at night.

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All investing is subject to risk, including the possible loss of principal. Diversification does not ensure a profit or protect against a loss. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

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Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest. High-yield bonds generally have medium- and lower-range credit-quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit-quality ratings. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks.

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