Private Equity at Vanguard

Paid non-client endorsement

Vanguard's mission is to take a stand for all investors, to treat them fairly, and to give them the best chance of investment success. For over 40 years, our firm has broadened access to world-class investment strategies – both active and index - designed to help investors achieve their long-term goals. Our decision to enter private equity follows that familiar playbook

Why consider private equity ?

Represents a distinct and **growing segment** of global equity markets that is not captured through public, listed equities.

Supports **portfolio risk diversification** through reduced equity correlations and expanded equity market coverage.

Unique market dynamics and liquidity premium offers **potential to earn excess returns** above public equities over the long-term

These benefits have historically eluded investors who lack the high levels of assets, resources, and relationships needed to access top-performing funds. Vanguard's entry into private equity seeks to solve for these challenges and continues our firm's 40-year history of bringing **institutional talent, solutions, and affordability to individual investors** in pursuit of improved investment outcomes.

What sets Vanguard apart?

Vanguard has used its resources as a leading global asset manager, expertise in manger selection, and relationships with world-class investment talent to deliver a broadly diversified private equity program that's designed to help improve long-term investor outcomes.

Aligned interests

Vanguard's time-tested, client-first philosophy means more than just affordable access to the highest quality funds and financial advice. We apply a long-term perspective, greater conviction, and a constant focus on low costs to the investment themes that are most important to you. **Our clients' best interests always come first**, a valuable attribute in any space, especially the complex and often opaque world of private markets.

Skill

Vanguard drew on its 40+ years of experience conducting manager diligence and sourcing investment talent to identify and partner with one of the world's most experienced and successful private equity managers, HarbourVest Partners. Vanguard's **expertise in identifying high-quality portfolio managers** combined with HarbourVest's powerful global platform deliver a diversified, global private equity solution with the Vanguard investor in mind. Consistent with the rest of our investment mandates, Vanguard will continuously evaluate fund and manager performance to ensure our clients achieve the best outcomes.

Access

Vanguard offers one of the largest and best-performing active fund lineups in the world*, with almost $2 trillion in actively managed assets alone. Our rich history of offering active strategies has resulted in long-term **relationships with top-tier external managers** and a deep bench of internal talent. Vanguard's selection of HarbourVest Partners to manage our first private equity offering draws on Vanguard's experience providing our clients access to sought-after investment opportunities, as well as the tools and services for which Vanguard is known.

Contact your Vanguard relationship team to learn more about investing in private equity.

*For the 10-year period ended December 31, 2021, 7 of 7 Vanguard money market funds, 39 of 44 Vanguard bond funds, 6 of 6 Vanguard balanced funds, and 29 of 37 Vanguard stock funds—for a total of 81 of 94 Vanguard funds—outperformed their Lipper peer-group averages. Results will vary for other time periods. Only actively managed funds with a minimum 10-year history were included in the comparison. Source: Lipper, a Thomson Reuters Company. *The competitive performance data shown represents past performance, which is not a guarantee of future results.*

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Private Equity ("PE") is a different asset class from public equity investments, and like any investment, it carries risk. Some is unique risk specific to PE, and some is shared with active public equity.

Private Equity and risk: a unique asset class

With private equity investments, there are five primary risk considerations: market, asset liquidity, funding liquidity, valuation, and selection. Certain risks are believed to be compensated risks in the form of higher long-term expected returns, with the possible exceptions being valuation risk and selection risk. For selection risk, excess returns would be the potential compensation, however, limited partners ("LPs") must perform robust diligence to identify and gain access to managers with the skill to outperform. PE investments are speculative in nature and may lose value.

Market risk: Private equity, as a form of equity capital, shares similar economic exposures as public equities. As such, investments in each can be expected to earn the equity risk premium, or compensation for assuming the nondiversifiable portion of equity risk. However, unlike public equity, private equity's sensitivity to public markets is likely greatest during the late stages of the fund's life because the level of equity markets around the time of portfolio company exits can negatively affect PE realizations. Though PE managers have the flexibility to potentially time portfolio company exits to complete transactions in more favorable market environments, there's still the risk of capital loss from adverse financial conditions.

Asset liquidity risk: Various attributes can influence a security's liquidity; specifically, the ability to buy and sell a security in a timely manner and at a fair price. Transaction costs, complexity, and the number of willing buyers and sellers are only a few examples of the factors that can affect liquidity. In the case of private equity, while secondary markets for PE fund interests exist and have matured, liquidity remains extremely limited and highly correlated with business conditions. LPs hoping to dispose of their fund interests early—especially during periods of market stress—are likely to do so at a discount.

Funding liquidity risk: The uncertainty of PE fund cash flows and the contractual obligation LPs have to meet their respective capital commitments—regardless of the market environment—make funding risk (also known as commitment risk) a key risk LPs must manage appropriately. LPs must be diligent about maintaining ample liquidity in other areas of the portfolio, or external sources, to meet capital calls upon request from the General Partners ("GPs").

Valuation risk: Relative to public equity, where company share prices are published throughout the day and are determined by market transactions, private equity NAVs are reported quarterly, or less frequently, and reflect GP and/or third-party valuation provider estimates of portfolio fair value. Though the private equity industry has improved its practices for estimating the current value of portfolio holdings, reported NAVs likely differ from what would be the current "market price," if holdings were transacted.

Selection risk: Whether making direct investments in private companies, PE funds, or outsourcing PE fund selection and portfolio construction to a third party, investors assume selection risk. This is because private equity doesn't have an investable index, or rather a passive implementation option for investors to select as a means to gain broad private equity exposure. While there are measures an investor can take to limit risk, such as broad diversification and robust manager diligence, this idiosyncratic risk can't be removed entirely or separated from other systematic drivers of return. Thus, in the absence of a passive alternative and significant performance dispersion, consistent access to top managers is essential for PE program success.

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Vanguard has introduced you to HarbourVest in connection with a prospective investment in one or more Vanguard HarbourVest Fund(s) ("VGHV Funds"). In connection with this introduction, please note the following:

- Vanguard is not a current client of, or investor in, any private fund managed by HarbourVest.
- The VGHV Funds are the only private equity funds that are made available by Vanguard to its clients.
- Vanguard will be compensated by its clients in connection with their investments in the VGHV Funds as in the VGHV Funds that are included as part of their advised portfolio described below:
    - Vanguard's Retail Investor Group clients, which include self-directed and Vanguard Personal Advisor Services ("PAS") clients, will pay Vanguard an annual Vanguard Servicing Fee ("Servicing Fee"), applicable to each VGHV vintage to which they are subscribed, of 0.30% on capital commitments equal to or greater than $500,000 but less than $2 million, 0.20% on capital commitments equal to or greater than $2 million but less than $10 million, or 0.10% on capital commitments equal to or greater than $10 million.
    - In addition to the Servicing Fee noted above, advised clients of PAS will also be assessed advisory fees on their investments in PAS.
    - Advised clients of Vanguard Institutional Advisory Services ("VIAS") will be assessed advisory fees on their investments in the VGHV Funds that are included as part of their advised portfolio in VIAS.

Consequently, Vanguard has a financial incentive to make available to self-directed clients and recommend to advised clients the VGHV Funds.

All investing is subject to risk, including the possible loss of the money you invest.

Diversification does not ensure a profit or protect against a loss.

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Private investments involve a high degree of risk and, therefore, should be undertaken only by prospective investors capable of evaluating and bearing the risks such an investment represents. Investors in private equity generally must meet certain minimum financial qualifications that may make it unsuitable for specific market participants.

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