



**Vanguard<sup>®</sup>**

# Effective risk management



Our holistic and disciplined risk management program is designed to mitigate risks at all levels of our business in order to protect our clients' interests.

# Vanguard's comprehensive view of risk

At Vanguard we take a holistic view of risk management that supports a proactive assessment of risk throughout the business. As one of the world's largest fund managers, we are able to leverage our global scale to implement leading-edge systems and processes. Our considered approach to risk fosters informed decision-making and supports the development and evolution of effective mitigation strategies.

At Vanguard we believe an effective risk management program is based on three guiding principles:

## Commitment

Dedication to making risk management a fundamental part of our business, expressed in a commitment of people, time, and resources.

## Resilience

Our proactive approach acknowledges that even when things appear certain, they can sometimes not go according to plan. Having well-considered contingency plans and the expertise to respond quickly and effectively to unplanned scenarios is critical to effective risk management.

## Execution

Define parameters for risk exposure, test assumptions and continually monitor the outcomes.

# Three lines of defence

Vanguard's risk management framework is based on a 'three lines of defence' system.



# 1st line of defence

## The business

All business units at Vanguard own risk mitigation for their particular area. Under this model each business understands its key controls and has processes in place to monitor their effectiveness. Some of our larger business units have embedded risk management teams who work side by side with their business areas to design and implement effective risk and control frameworks.

### Investment risk management

A key example of this is the investment risk management team that operates within the investment management group. While our portfolio managers operate with a focus on minimising risks that can impact portfolio performance, Vanguard demonstrates its strong commitment to risk management by having a team solely dedicated to investment specific risk.

This team independently monitors portfolio risk and positions against limits, undertakes attribution analysis of results and works with portfolio managers to ensure risks are identified and managed.

In addition, they manage operational risk within the investment management business focusing on reducing operational incidents, compliance breaches and trading errors.

Sitting within the broader investment management group allows the team to effectively contribute to superior outcomes for investment strategies which create a lasting and more reliable low-cost advantage for our clients.

Benefiting from Vanguard's global scale, the team collaborates closely with global investment risk colleagues. This collaboration has resulted in improved risk management due to the establishment of a proactive and forward-looking risk framework and an ability to leverage leading risk systems, processes and reporting capabilities. Against this backdrop, the team is able to identify risks before they occur and work with the business to manage the impact of these risks.

# 2nd line of defence

## Risk functions

The efforts of Vanguard's business units are supplemented by other risk groups including enterprise risk management, compliance and business contingency management. These groups are independent subject matter experts who perform various functions to support the business such as risk advice, event and project analysis, profile oversight and risk reporting to the governance committees.

### Enterprise risk management

The enterprise risk management (ERM) function at Vanguard is responsible for the implementation of Vanguard's risk management framework.

The framework is based on an integrated risk profile which takes a holistic view of Vanguard's operations and includes a defined risk appetite. A clear set of roles and responsibilities that embed a culture of risk awareness, ownership and mitigation throughout the business are then established.



In order to provide an accurate assessment of the firm's risk profile a series of risk identification and assessment activities are completed. These include risk and control self-assessments (bottom up and top down), project risk assessments, internal event or incident collection and analysis, monitoring of leading and lagging risk metrics and portfolio management issues.

The objectivity of the ERM function is one of the crucial elements of Vanguard's risk framework. Key attributes of this are segregation of risk and control, independent reporting channels, and oversight and governance.

### Compliance

Vanguard's compliance team creates and fosters a culture of compliance and ethics throughout the organisation. The team provides assurance that Vanguard abides by applicable rules and regulations and relevant industry body standards.

Above and beyond monitoring and reporting on business activities, the team makes significant

contributions to the investment trading and product development process.

Our Australian team has been able to leverage Vanguard's global compliance group to build out its capabilities. This has enabled more robust pre-trade controls, increased training and accountability of employees, as well as the development and ongoing enhancement of business processes in light of Vanguard's regulatory requirements. These elements have created a positive impact which is reflected in the continued compliance with rules and regulations across the organisation.

### Business contingency management

Vanguard's business contingency management (BCM) structure consists of four distinct elements that support each other in the event of an emergency or crisis scenario. These elements are crisis management, emergency management, business continuity and IT disaster recovery.

We believe the right level of operational resilience combined with appropriate business resumption capabilities is vital to ensuring that we meet our clients' expectations. In the event of a disaster each business unit's BCM plan aims to help minimise disruption to business and service operations and resume or continue critical operations as quickly as possible.

### Other risk functions

Other risk specialists who support our business lines include, information security, fraud prevention and data governance and privacy. These teams are subject matter experts who set policies and standards, implement tools for management and monitoring of their specific areas of risk and perform education and awareness across the business.

## 3rd line of defence

### Internal and external audit

Internal audit serve as an independent and objective oversight function with direct accountability to Vanguard's board of directors. They provide risk assurance by validating control function design and effectiveness across the organisation and highlighting improvement opportunities to business management.

Vanguard's commitment to internal audit is reflected in the resources dedicated to it. This function is covered by a specialist team of around 20 people in the United States and an additional three team members based in Australia.

Vanguard also engages an independent external auditing firm to audit the financial statements of Vanguard and the Vanguard funds which provides assurance over the financial statement reporting process and related controls.

## Experience, knowledge and long-term success

Vanguard's culture of continuous improvement and commitment to evolving and strengthening our risk management program leads to better knowledge and understanding of our business. We understand the risks we are taking and how they align with our objectives. This instils confidence in our approach and underpins our ability to continue managing our clients' assets well into the future.

## Our client-first approach

Through holistic and rigorous risk management our priority is to keep our clients' money safe and secure. In fact, everything we do at Vanguard is designed to give our clients the best chance of investment success.

What sets Vanguard apart—and lets Vanguard put investors first around the world—is the ownership structure of The Vanguard Group, Inc., in the US.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors. This unique mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard's stability and experience, low costs and client focus.





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