



HALIFAX HEALTH

Investment Committee

Monday, November 13, 2017

Meeting Location

Halifax Health

France Tower, Conference Room A

4:00 p.m.

HALIFAX HEALTH
INVESTMENT COMMITTEE
4:00 p.m., Monday, November 13, 2017

AGENDA

I. Call to Order

II. INVESTMENT COMMITTEE

1. Minutes portal page 3, **action requested**
 - August 14, 2017
2. Quarterly Review portal page 5, **information only**
 - Ashford Investment Advisors, *Mike Walsh*
3. Old Business
4. New Business
 - Manager Presentation – Vanguard, Brian *Lunney* portal page 51, **information only**
 - Manager Assessment, *Mike Walsh* portal page 135, **action requested**
 - Vanguard
 - Funding of Loan to HMS discussion, **information only**
 - 2018 Quarterly Timeline, Investment Committee portal page 141, **information only**
5. Informational Only portal page 142, **information only**
 - Investment Performance Report, September 2017

III. Next Meeting: Monday, February 12, 2018, 4:00 p.m. – Regular scheduled meeting.

IV. Open Discussion

V. Adjournment

Halifax Hospital Medical Center
Investment Committee Meeting, Sub Committee Audit & Finance Committee
France Tower, Conference Room A, 303 N. Clyde Morris Blvd., Daytona Beach, FL 32114
Monday, August 14, 2017

Present: Ted Serbousek, Chairman & Chairman, Audit & Finance Committee
Dan Francati, Member & Member, Audit & Finance Committee & Vice Chairman,
Board of Commissioners
Dave Graffagnino, Member
Greg Motto, Member, Audit & Finance Committee
Decker Youngman, Member, Audit & Finance Committee
Mike Walsh, Advisor

Via Phone: Susan Schandel, Member & Member, Audit & Finance Committee & Treasurer, Board
of Commissioners

Also Present: Jeff Feasel, President & Chief Executive Officer
Eric Peburn, Executive Vice President & Chief Financial Officer
Kent Bailey, Director of Finance
Lisa Tyler, Corporate Controller
Leslie Wojcik, Ashford Investments
Tom McGuire, Retirement Planners & Administrators, Inc.
Jim Charles, Dimensional Fund Advisors
Dave Kershner, Dimensional Fund Advisors

The meeting was called to order at 4:00 p.m. by Ted Serbousek. Mr. Serbousek introduced Mr. McGuire, who is the Halifax Health account representative with Retirement Planners & Administrators, Inc.

Manager Presentation

Discussion: Manager Presentation – Dimensional Fund Advisors
Jim Charles and Dave Kershner from Dimensional Fund Advisors (DFA) were introduced and presented the portfolio update (board portal).

Action: None required.

Minutes

Discussion: Minutes from the May 8, 2017 Investment Committee meeting were reviewed.

Action: Mr. Graffagnino moved to approve the May 8, 2017 Investment Committee minutes as presented. Mr. Youngman seconded the motion and it carried unanimously.

Manager Assessment and Quarterly Review

Discussion: Manager Assessment – DFA
Mr. Walsh presented the results of his comparative evaluation for DFA, supporting his recommendation to remain with DFA. Brief discussion ensued.

Action: Mr. Francati moved to remain with DFA. Mr. Graffagnino seconded the motion and it carried unanimously.

Discussion: Mr. Walsh, Ashford Investment Advisors, presented the investment review for the 2nd calendar quarter, ended 6/30/2017.

Action: None required.

Old Business

Discussion: None.

New Business

Discussion: Discuss Investment Allocations
Mr. Walsh reviewed the annual investment allocation review as information only.

Discussion: Annual Investment Policy Review Checklist
Mr. Bailey referred to the policy review checklist, stating that all requirements were reviewed since the last quarter. There are not any changes recommended at this time.

Action: Mr. Graffagnino moved to approve that the Annual Investment Policy Review Checklist. Mr. Youngman seconded the motion and it carried unanimously.

Discussion: Annual Investment Policies Review
Mr. Bailey reported that the investment policies of Halifax Hospital Medical Center, H.H. Holdings, Hospice, the Foundation and the Pension Plan were included for review; there are not any changes recommended at this time.

Action: Mr. Graffagnino moved to approve the Annual Investment Policies. Mr. Youngman seconded the motion and it carried unanimously.

Discussion: Annual Investment Charter Review
Mr. Bailey reported that the Investment Committee Charter was included for review; there are not any changes recommended at this time.

Action: Mr. Graffagnino moved to approve that the Annual Investment Charter. Mr. Motto seconded the motion and it carried unanimously.

Informational Only

Discussion: Investment Performance Report, June 2017

Action: None required.

Next Meeting: Monday, November 13, 2017, 4 p.m. – Regular scheduled meeting

Open Discussion

Discussion: None.

Adjournment

Ted Serbousek



Halifax Health Investment Accounts

Portfolio Reviews

Third Quarter 2017 Ended 9/30/2017

Prepared by:

Ashford Investment Advisors

**Halifax Health Investment Accounts
Third Quarter 2017
Performance Summary**

HH Holdings, Inc.	Balance as of 9/30/2017	3rd Quarter Performance
Vanguard Short-term Inv Grade	\$53,746,971	0.60%
<i>Benchmark: Barclay's 1-5 Year Gov't/Credit Index</i>		0.29%
*Ponder/Salem Short-term Gov't Bond	\$32,185,171	0.52%
<i>Benchmark: Barclay's US 1-5 Year Gov't/Credit Index</i>		0.43%
*Ponder/Salem U.S. Treasury	\$73,704,944	0.34%
<i>Benchmark: Barclay's 1-5 Year Gov't Bond Index</i>		0.29%

Liquid Assets

*Ponder/Salem Short-term Gov't Bond	\$42,416,447	0.30%
<i>Benchmark: Barclay's Intermediate Gov't Bond Index</i>		0.29%
Vanguard Short-term Gov't Bond	\$64,627	0.34%
<i>Benchmark: Barclay's 1-5 Year Gov't Bond Index</i>		0.29%

Debt & Self Insurance

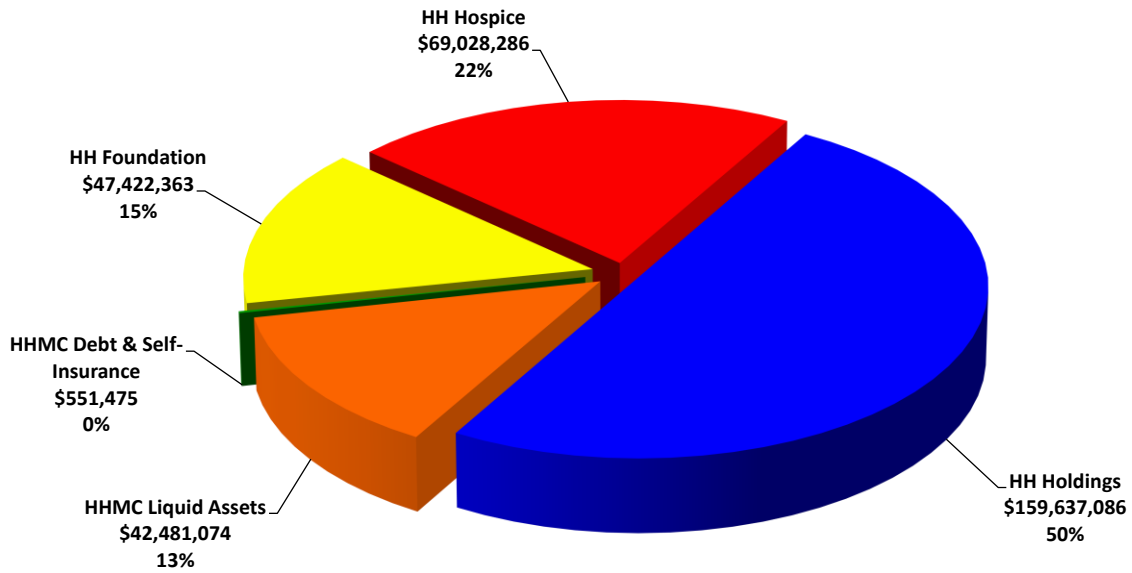
Wells Fargo Short-Term Gov't Bond	\$551,270	0.22%
<i>Benchmark: Barclay's 1-5 Year Gov't Bond Index</i>		0.29%
Wells Fargo Series 2016 Project	\$205	0.23%
<i>3 Month T-Bill</i>		0.23%

*Separately managed account.

**Halifax Health Investment Accounts
Third Quarter 2017
Performance Summary**

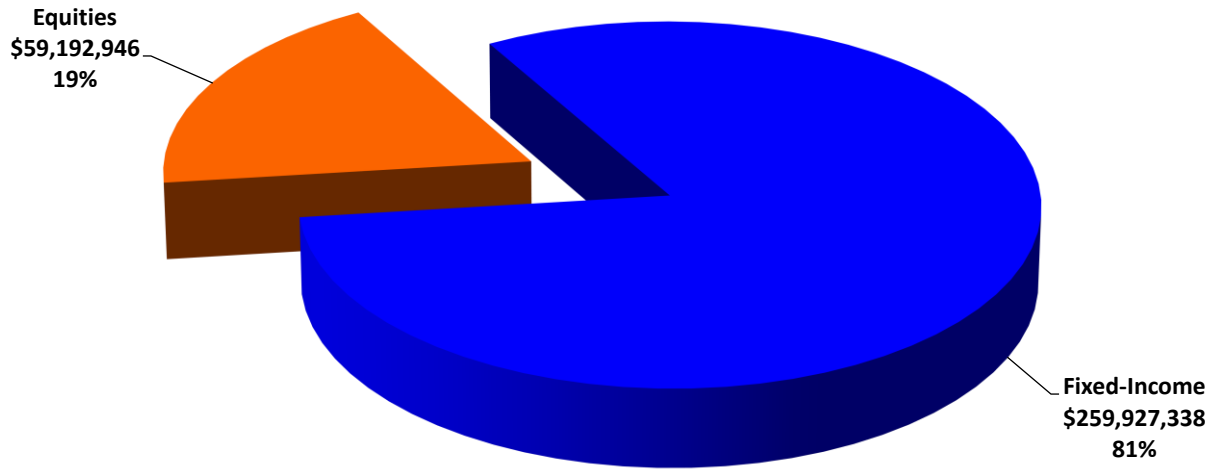
Foundation	Balance as of 9/30/2017	3rd Quarter Performance
Vanguard Short-term Inv Grade	\$23,063,990	0.57%
<i>Benchmark: Barclay's 1-5 Year Gov't/Credit Index</i>		0.43%
DFA	\$14,772,817	5.53%
<i>Benchmark: Composite of Small-Cap Value, Int'l Value, Emerging Mkts. & Large Cap Value</i>		4.22%
Vanguard	\$9,585,556	4.69%
<i>Benchmark: Composite of Energy, Lg-Cap Growth, Healthcare & Small-Cap Growth</i>		6.01%
Hospice		
Vanguard Short-term Inv Grade	\$34,193,713	0.60%
<i>Benchmark: Barclay's 1-5 Year Gov't/Credit Index</i>		0.29%
DFA	\$22,382,273	5.51%
<i>Benchmark: Composite of Small-Cap Value, Int'l Value and Emerging Mkts. & Large Cap Value</i>		4.25%
Vanguard	\$12,452,300	4.67%
<i>Benchmark: Composite of Energy, Lg-Cap Growth, Healthcare & Small-Cap Growth</i>		6.04%
Pension		
Vanguard Short-term Inv Grade	\$132,311,686	0.60%
<i>Benchmark: Barclay's 1-5 Year Gov't/Credit Index</i>		0.43%
DFA	\$88,048,841	6.50%
<i>Benchmark: Composite of Small-Cap Value, Int'l Value and Emerging Mkts. & Large Cap Value</i>		5.18%
Vanguard	\$45,694,474	4.47%
<i>Benchmark: Composite of Energy, Lg-Cap Growth, Healthcare & Small-Cap Growth</i>		5.95%

Halifax Health Investment Accounts
Value of Assets
as of 9/30/2017



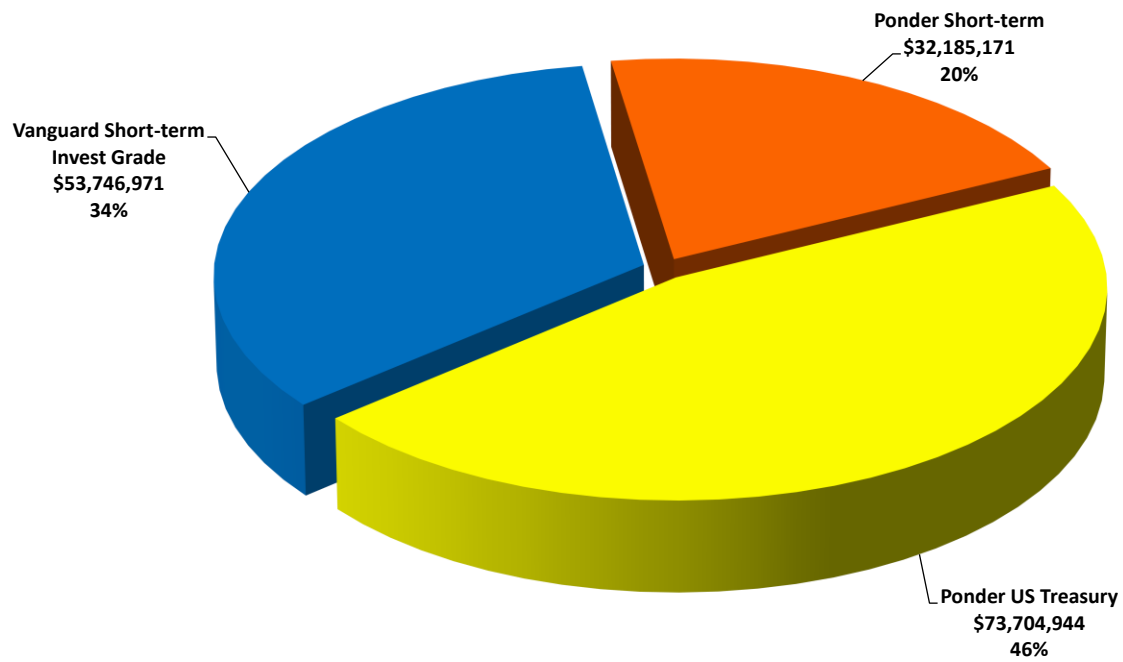
Total: \$319,120,284

Halifax Health Investment Accounts
Fixed-Income vs. Equity Assets
as of 9/30/2017



Total: \$319,120,284

**HH Holdings Accounts
Breakdown of Assets**
as of 9/30/2017



Total: \$159,637,086

HH Holdings, Inc.

Vanguard Account 88032962086 -- VFSIX
Short-term Investment Grade
HH Holdings, Inc.

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$53,427,383
Net Additions/Withdrawals	0
Investment Gain	+319,588
Ending Balance as of 9/30/2017	<u>\$53,746,971</u>
Net Return 3rd Quarter 2017	+60 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't/Credit Index	+43 bp

HH Holdings, Inc.

Ponder/Salem Account 3040000414
Short-term Govt/Corp Bond
HH Holdings, Inc.

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$32,025,133
Net Additions/Withdrawals	-7,063
Investment Gain	<u>+167,101</u>
Ending Balance as of 9/30/2017	<u>*\$32,185,171</u>
Net Return 3rd Quarter 2017	+52 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't/Credit Index	+43 bp

*Includes Accrued Interest

HH Holdings, Inc.

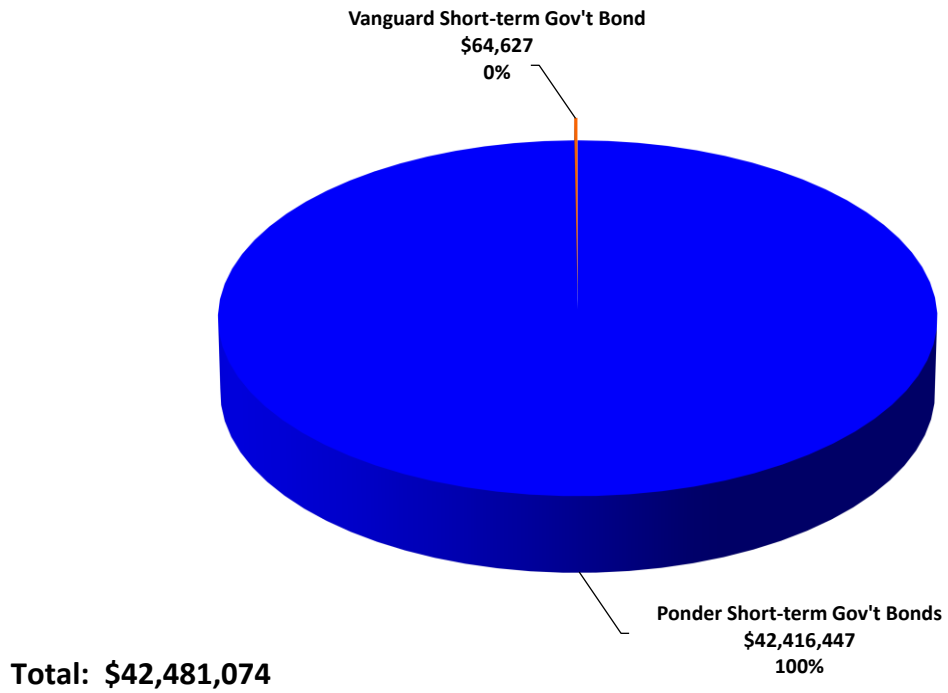
Ponder/Salem Account 3040000414
U.S. Treasury Account
Maturity Date 5/15/18
HH Holdings, Inc.

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$73,452,127
Net Additions/Withdrawals	0
Investment Gain	<u>+252,817</u>
Ending Balance as of 9/30/2017	<u>*\$73,704,944</u>
Net Return 3rd Quarter 2017	+34 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't Bond Index	+29 bp

*Includes Accrued Interest

HHMC Liquid Investments Accounts
Breakdown of Assets
as of 9/30/2017



HHMC Liquid Investment Account

Ponder/Salem Account 3040030258
Short-term Government Bond
HHMC Depreciation

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$42,293,751
Net Additions/Withdrawals	-3,043
Investment Gain	<u>+125,739</u>
Ending Balance as of 9/30/2017	<u>*\$42,416,447</u>
Net Return 3rd Quarter 2017	+30 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't Bond Index	+29 bp

*Includes accrued interest.

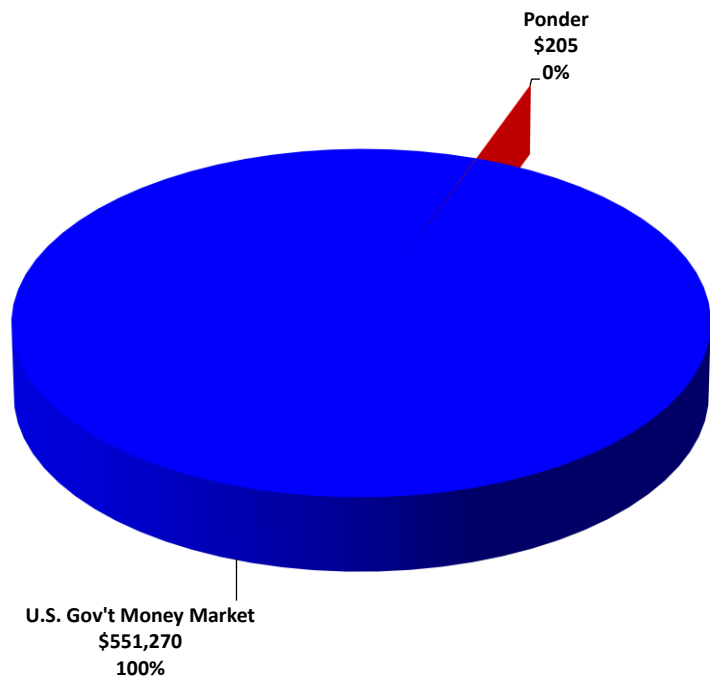
HHMC Liquid Investment Account

**Vanguard Account 88060843876 – VSGDX
Short-term Government Bond
Halifax Hospital Medical Center dba Halifax Health**

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$64,408
Net Additions/Withdrawals	0
Investment Gain	<u>+219</u>
Ending Balance as of 9/30/2017	<u>\$64,627</u>
Net Return 3rd Quarter 2017	+34 bp
Benchmark Performance: Barclay's 1-5 Year Gov't Bond Index	+29 bp

HHMC Debt & Self-Insurance Accounts
Breakdown of Fixed-Income Assets
as of 9/30/2017



Total: \$551,475

HHMC Debt & Self-Insurance Account

Wells Fargo Account 25564000
Short-term Government Bond
Halifax Hospital Trust
U/A DTD 12/11/87 Self-Insurance Fund

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$565,054
Net Additions/Withdrawals	-15,000
Investment Gain	<u>+1,216</u>
Ending Balance as of 9/30/2017	<u>\$551,270</u>
Net Return 3rd Quarter 2017	+22 bp
Benchmark Performance: Barclay's 1-5 Year Gov't Bond Index	+29 bp

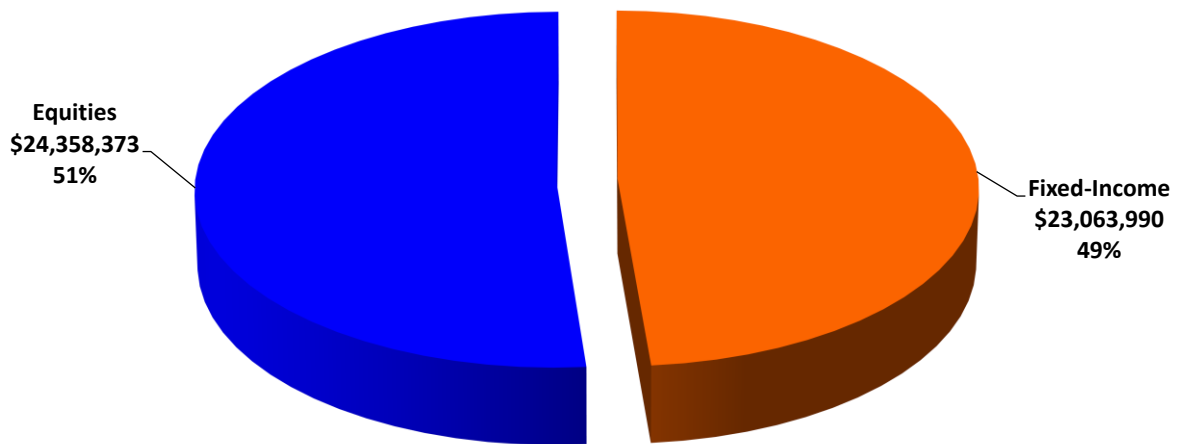
HHMC Debt & Self-Insurance Account

Wells Fargo Account 78933506
Hospital Revenue Refunding and Improvement Bonds
Series 2016 Project

Third Quarter 2017
Ended 9/30/2017

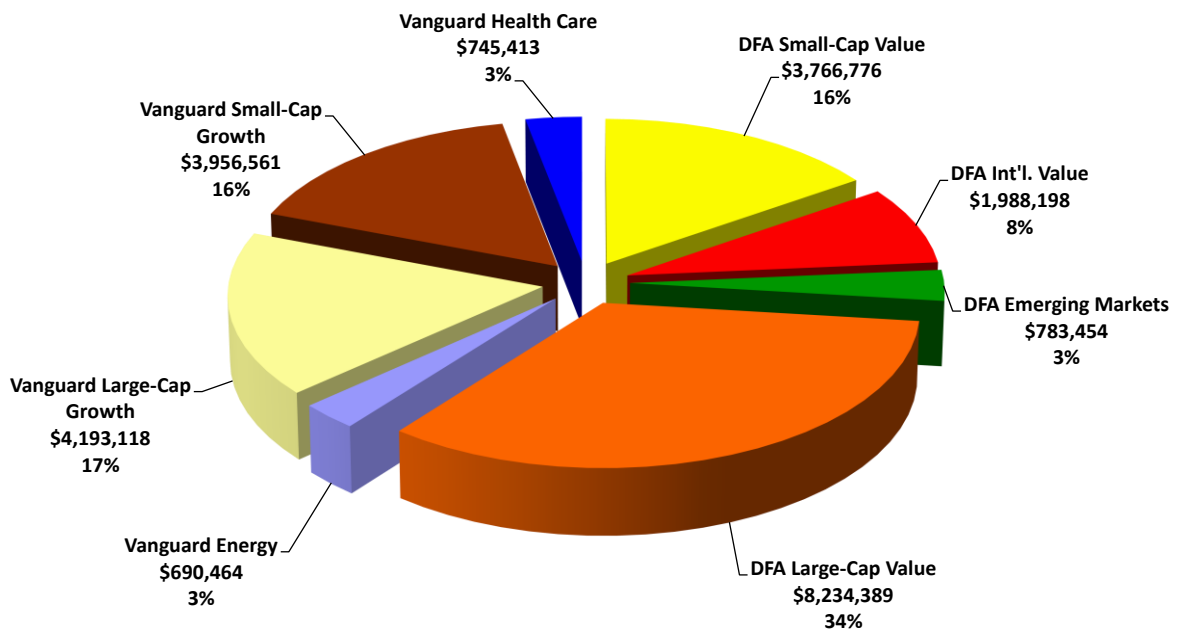
Beginning Balance as of 6/30/2017	\$7,231,295
Net Additions/Withdrawals	-7,247,580
Net Investment Gain	<u>+16,490</u>
Ending Balance as of 9/30/2017	<u>\$205</u>
Net Return 3rd Quarter 2017	+23 bp
Benchmark Performance: 3 Month T-Bill	+23 bp

HMC Foundation Accounts
Breakdown of Fixed-Income vs. Equity Assets
as of 9/30/2017



Total: \$47,422,363

HMC Foundation Accounts
Breakdown of Equity Assets
as of 9/30/2017



Total: \$24,358,373

HMC Foundation Account

**Vanguard Account 88038919211/88051689065 -- VFSIX
Short-term Investment Grade
Halifax Medical Center Foundation, Inc.**

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$22,430,238
Net Additions/Withdrawals	+500,000
Investment Gain	<u>+133,752</u>
Ending Balance as of 9/30/2017	<u>\$23,063,990</u>
Net Return 3rd Quarter 2017	+57 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't/Credit Index	+43 bp

HMC Foundation Account

**Dimensional (DFA) Account 10036
Halifax Medical Center Foundation, Inc.**

Third Quarter 2017
Ended 9/30/2017

Small Cap Value (DFSVX)

Beginning Balance as of 6/30/2017	\$3,554,537
Net Additions/Withdrawals	0
Investment Gain	<u>+212,239</u>
Ending Balance as of 9/30/2017	<u>\$3,766,776</u>
Net Return 3rd Quarter 2017	+5.97%
Benchmark Performance: Russell 2000 Small Value	+5.11%

International Value (DFIVX)

Beginning Balance as of 6/30/2017	\$2,068,043
Net Additions /Withdrawals	-250,000
Investment Gain	<u>+170,155</u>
Ending Balance as of 9/30/2017	<u>\$1,988,198</u>
Net Return 3rd Quarter 2017	+8.26%
Benchmark Performance: MSCI World ex USA Idx	+5.62%

Emerging Markets Value (DFEVX)

Beginning Balance as of 6/30/2017	\$742,182
Net Additions /Withdrawals	0
Investment Gain	<u>+41,272</u>
Ending Balance as of 9/30/2017	<u>\$783,454</u>
Net Return 3rd Quarter 2017	+5.56%
Benchmark Performance: MSCI EMID	+7.89%

Large Cap Value (DFLVX)

Beginning Balance as of 6/30/2017	\$7,871,359
Net Additions /Withdrawals	0
Investment Gain	<u>+363,030</u>
Ending Balance as of 9/30/2017	<u>\$8,234,389</u>
Net Return 3rd Quarter 2017	+4.61%
Benchmark Performance: Russell 1000 Large Value	+3.11%

Total: DFA Foundation 3rd Quarter 2017

Beginning Balance as of 6/30/2017	\$14,236,121
Net Additions /Withdrawals	-250,000
Investment Gain	<u>+786,696</u>
Ending Balance as of 9/30/2017	<u>\$14,772,817</u>
Combined Return 3rd Quarter 2017	+5.53%
Combined Benchmark Performance	+4.22%

HMC Foundation Account

Vanguard Accounts 88038919211/88051689065
Halifax Medical Center Foundation, Inc.

Third Quarter 2017
Ended 9/30/2017

Energy (VGELX)

Beginning Balance as of 6/30/2017	\$442,116
Net Additions/Withdrawals	0
Investment Gain	+33,835
Ending Balance as of 9/30/2017	<u>\$475,951</u>
Net Return 3rd Quarter 2017	+7.65%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Energy Index (VENAX)

Beginning Balance as of 6/30/2017	\$200,676
Net Additions/Withdrawals	0
Investment Gain	+13,837
Ending Balance as of 9/30/2017	<u>\$214,513</u>
Net Return 3rd Quarter 2017	+6.89%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Large-Cap Growth (VIGIX)

Beginning Balance as of 6/30/2017	\$3,998,887
Net Additions/Withdrawals	0
Investment Gain	+194,231
Ending Balance as of 9/30/2017	<u>\$4,193,118</u>
Net Return 3rd Quarter 2017	+4.86%
Benchmark Performance: Russell 1000 Large Growth	+5.90%

Health Care (VGHAX)

Beginning Balance as of 6/30/2017	\$738,142
Net Additions/Withdrawals	0
Investment Gain	+7,271
Ending Balance as of 9/30/2017	<u>\$745,413</u>
Net Return 3rd Quarter 2017	+99 bp
Benchmark Performance: MSCI All Country World Health Care	+2.44%

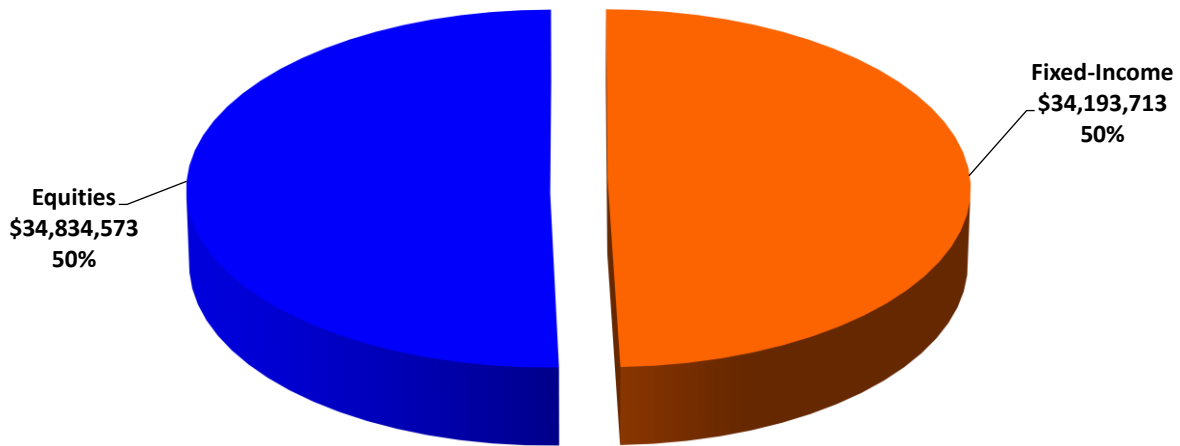
Small-Cap Growth (VSGIX)

Beginning Balance as of 6/30/2017	\$4,015,837
Net Additions/Withdrawals	-250,000
Investment Gain	+190,724
Ending Balance as of 9/30/2017	<u>\$3,956,561</u>
Net Return 3rd Quarter 2017	+4.76%
Benchmark Performance: Russell 2000 Small Growth	+6.22%

Total: Vanguard Foundation 3rd Quarter 2017

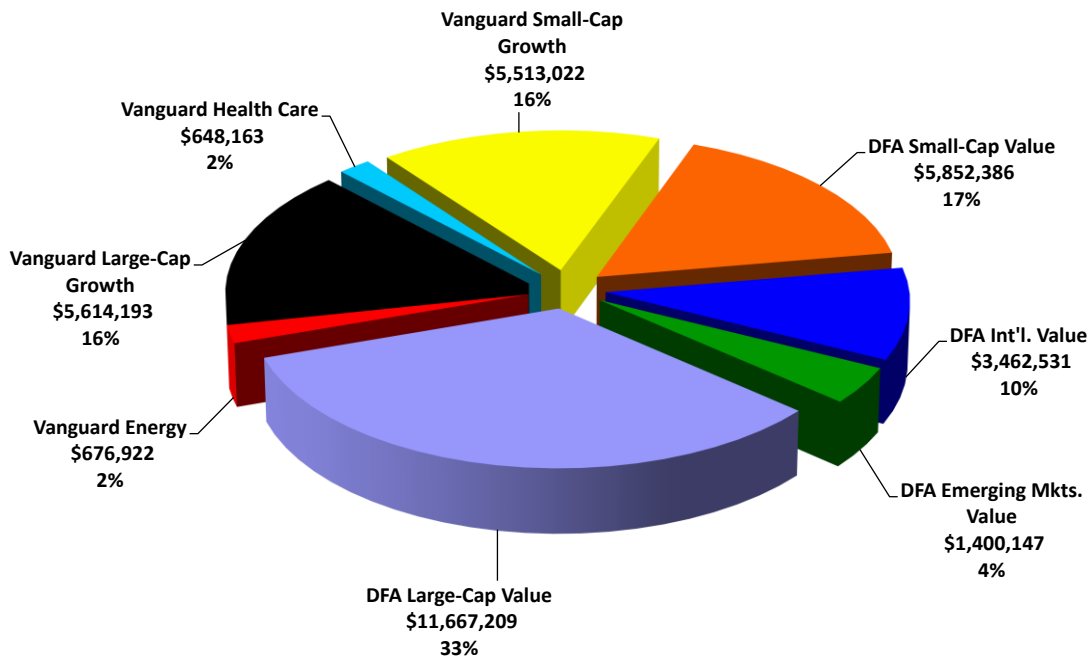
Beginning Balance as of 6/30/2017	\$9,395,658
Net Additions/Withdrawals	-250,000
Investment Gain	+439,898
Ending Balance as of 9/30/2017	<u>\$9,585,556</u>
Combined Net Return 3rd Quarter 2017	+4.69%
Combined Benchmark Return	+6.01%

Halifax Hospice Accounts
Breakdown of Fixed-Income vs. Equity Assets
as of 9/30/2017



Total: \$69,028,286

**Halifax Hospice Accounts
Breakdown of Equity Assets
as of 9/30/2017**



Total: \$34,834,573

Halifax Hospice Accounts

Vanguard Account 88038915859 -- VFSIX **Short-term Investment Grade** **Halifax Hospice**

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$34,487,493
Net Additions/Withdrawals	-500,000
Investment Gain	<u>+206,220</u>
Ending Balance as of 9/30/2017	<u>\$34,193,713</u>
Net Return 3rd Quarter 2017	+60 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't/Credit Index	+43 bp

Halifax Hospice Accounts

Dimensional (DFA) Accounts 10016 Halifax Hospice, Inc.

Third Quarter 2017
Ended 9/30/2017

Small Cap Value (DFSVX)

Beginning Balance as of 6/30/2017	\$5,522,633
Net Additions /Withdrawals	0
Investment Gain	<u>+329,753</u>
Ending Balance as of 9/30/2017	<u>\$5,852,386</u>
Net Return 3rd Quarter 2017	+5.97%
Benchmark Performance: Russell 2000 Small Value	+5.11%

International Value (DFIVX)

Beginning Balance as of 6/30/2017	\$3,197,280
Net additions/Withdrawals	0
Investment Gain	<u>+265,251</u>
Ending Balance as of 9/30/2017	<u>\$3,462,531</u>
Net Return 3rd Quarter 2017	+8.30%
Benchmark Performance: MSCI World ex USA Idx	+5.62%

Emerging Markets Value (DFEVX)

Beginning Balance as of 6/30/2017	\$1,326,388
Net additions/Withdrawals	0
Investment Gain	<u>+73,759</u>
Ending Balance as of 9/30/2017	<u>\$1,400,147</u>
Net Return 3rd Quarter 2017	+5.56%
Benchmark Performance: MSCI EMID Index	+7.89%

Large Cap Value (DFLVX)

Beginning Balance as of 6/30/2017	\$12,354,508
Net additions/Withdrawals	-1,250,000
Investment Gain	<u>+562,701</u>
Ending Balance as of 9/30/2017	<u>\$11,667,209</u>
Net Return 3rd Quarter 2017	+4.57%
Benchmark Performance: Russell 1000 Large Value	+3.11%

Total: DFA Hospice 3rd Quarter 2017

Beginning Balance as of 6/30/2017	\$22,400,809
Net Additions /Withdrawals	-1,250,000
Investment Gain	+1,231,464
Ending Balance as of 9/30/2017	<u>\$22,382,273</u>
Combined Net Return 3rd Quarter 2017	+5.51%
Combined Benchmark Return	+4.25%

Halifax Hospice Accounts

**Vanguard Account 88038915859
Halifax Hospice, Inc.**

Third Quarter 2017
Ended 9/30/2017

Energy (VGELX)

Beginning Balance as of 6/30/2017	\$97,694
Net Additions/Withdrawals	0
Investment Gain	+7,477
Ending Balance as of 9/30/2017	<u>\$105,171</u>
Net Return 3rd Quarter 2017	+7.65%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Energy Index (VENAX)

Beginning Balance as of 6/30/2017	\$534,867
Net Additions/Withdrawals	0
Investment Gain	+36,884
Ending Balance as of 9/30/2017	<u>\$571,751</u>
Net Return 3rd Quarter 2017	+6.89%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Large-Cap Growth (VIGIX)

Beginning Balance as of 6/30/2017	\$6,554,488
Net additions/Withdrawals	-1,250,000
Investment Gain	+309,705
Ending Balance as of 9/30/2017	<u>\$5,614,193</u>
Net Return 3rd Quarter 2017	+4.76%
Benchmark Performance: Russell 1000 Large Growth	+5.90%

Health Care (VGHAX)

Beginning Balance as of 6/30/2017	\$641,840
Net Additions/Withdrawals	0
Investment Gain	+6,323
Ending Balance as of 9/30/2017	<u>\$648,163</u>
Net Return 3rd Quarter 2017	+99 bp
Benchmark Performance: MSCI All Country World Health Care	+2.44%

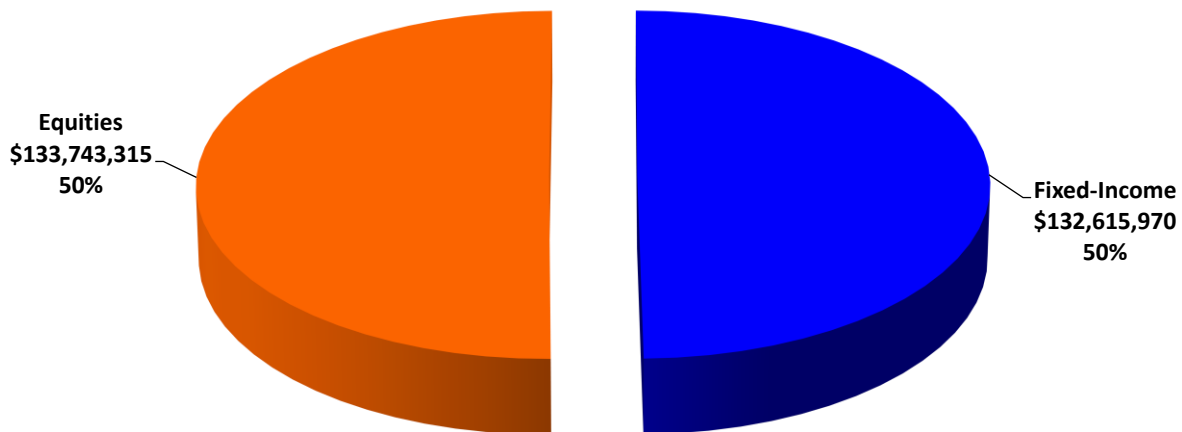
Small-Cap Growth (VSGIX)

Beginning Balance as of 6/30/2017	\$5,837,886
Net Additions/Withdrawals	-600,000
Investment Gain	+275,136
Ending Balance as of 9/30/2017	<u>\$5,513,022</u>
Net Return 3rd Quarter 2017	+4.73%
Benchmark Performance: Russell 2000 Small Growth	+6.22%

Total: Vanguard Hospice 3rd Quarter 2017

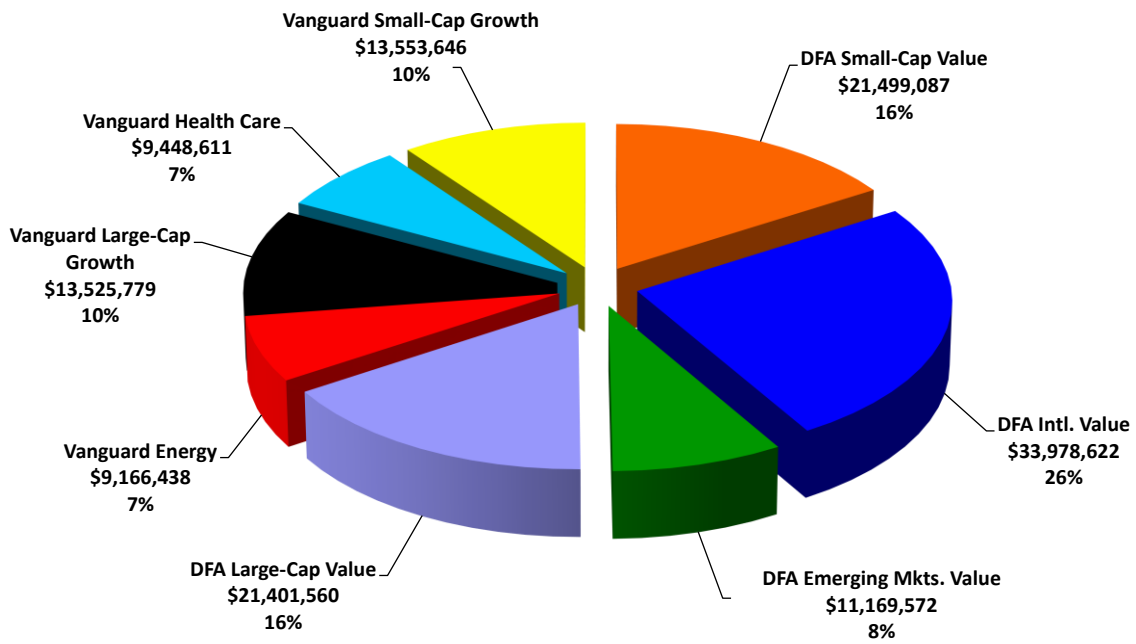
Beginning Balance as of 6/30/2017	\$13,666,775
Net Additions/Withdrawals	-1,850,000
Investment Gain	+635,525
Ending Balance as of 9/30/2017	<u>\$12,452,300</u>
Combined Net Return 3rd Quarter 2017	+4.67%
Combined Benchmark Return	+6.04%

Halifax Staffing Pension Accounts
Breakdown of Fixed-Income vs. Equity Assets
as of 9/30/2017



Total: \$266,359,285

**Halifax Staffing Pension Accounts
Breakdown of Equity Assets
as of 9/30/2017**



Total: \$133,743,315

Halifax Staffing Pension Account

**Vanguard Account 20304802 -- VFSIX
Short-term Investment Grade
Halifax Staffing, Inc.**

Third Quarter 2017
Ended 9/30/2017

Beginning Balance as of 6/30/2017	\$127,899,510
Net Additions/Withdrawals	+3,650,000
Investment Gain	<u>+762,176</u>
Ending Balance as of 9/30/2017	<u>\$132,311,686</u>
Net Return 3rd Quarter 2017	+60 bp
Benchmark Performance: Barclay's US 1-5 Year Gov't/Credit Index	+43 bp

Halifax Staffing Pension Account

Dimensional (DFA) Account Pension 10037 Halifax Staffing, Inc.

Third Quarter 2017
Ended 9/30/2017

Small Cap Value (DFSVX)

Beginning Balance as of 6/30/2017	\$20,287,718
Net Additions/Withdrawals	0
Investment Gain	<u>+1,211,369</u>
Ending Balance as of 9/30/2017	<u>\$21,499,087</u>
Net Return 3rd Quarter 2017	+5.97%
Benchmark Performance: Russell 2000 Small Value	+5.11%

International Value (DFIVX)

Beginning Balance as of 6/30/2017	\$34,082,747
Net Additions/Withdrawals	-2,900,000
Investment Gain	<u>+2,795,875</u>
Ending Balance as of 9/30/2017	<u>\$33,978,622</u>
Net Return 3rd Quarter 2017	+8.26%
Benchmark Performance: MSCI World ex USA Idx	+5.62%

Emerging Markets Value (DFEVX)

Beginning Balance as of 6/30/2017	\$10,581,161
Net Additions/Withdrawals	0
Investment Gain	<u>+588,411</u>
Ending Balance as of 9/30/2017	<u>\$11,169,572</u>
Net Return 3rd Quarter 2017	+5.56%
Benchmark Performance: MSCI EMID	+7.89%

Large Cap Value (DFLVX)

Beginning Balance as of 6/30/2017	\$20,458,027
Net Additions/Withdrawals	0
Investment Gain	<u>+943,533</u>
Ending Balance as of 9/30/2017	<u>\$21,401,560</u>
Net Return 3rd Quarter 2017	+4.61%
Benchmark Performance: Russell 1000 Large Value	+3.11%

Total: DFA Pension 3rd Quarter 2017

Beginning Balance as of 6/30/2017	\$85,409,653
Net Additions/Withdrawals	-2,900,000
Investment Gain	<u>+5,539,188</u>
Ending Balance as of 9/30/2017	<u>\$88,048,841</u>
Combined Net Return 3rd Quarter 2017	+6.50%
Combined Benchmark Return	+5.18%

Halifax Staffing Pension Account

Vanguard Account 20304802 Halifax Staffing, Inc.

Third Quarter 2017
Ended 9/30/2017

Energy Fund Admiral (VGELX)

Beginning Balance as of 6/30/2017	\$4,076,867
Net Additions/Withdrawals	0
Investment Gain	+312,014
Ending Balance as of 9/30/2017	<u>\$4,388,881</u>
Net Return 3rd Quarter 2017	+7.65%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Energy Index (VENAX)

Beginning Balance as of 6/30/2017	\$4,469,354
Net Additions/Withdrawals	0
Investment Gain	+308,203
Ending Balance as of 9/30/2017	<u>\$4,777,557</u>
Net Return 3rd Quarter 2017	+6.89%
Benchmark Performance: MSCI All Country World Energy	+9.43%

Large-Cap Growth (VIGIX)

Beginning Balance as of 6/30/2017	\$13,857,972
Net Additions/Withdrawals	-1,000,000
Investment Gain	+667,807
Ending Balance as of 9/30/2017	<u>\$13,525,779</u>
Net Return 3rd Quarter 2017	+4.83%
Benchmark Performance: Russell 1000 Large Growth	+5.90%

Health Care (VGHAX)

Beginning Balance as of 6/30/2017	\$9,356,430
Net Additions/Withdrawals	0
Investment Gain	+92,181
Ending Balance as of 9/30/2017	<u>\$9,448,611</u>
Net Return 3rd Quarter 2017	+99 bp
Benchmark Performance: MSCI All Country World Health Care	+2.44%

Small-Cap Growth (VSGIX)

Beginning Balance as of 6/30/2017	\$13,415,111
Net Additions/Withdrawals	-500,000
Investment Gain	<u>+638,535</u>
Ending Balance as of 9/30/2017	<u>\$13,553,646</u>
Net Return 3rd Quarter 2017	+4.77%
Benchmark Performance: Russell 2000 Small Growth	+6.22%

Total: Vanguard Pension 3rd Quarter 2017

Beginning Balance as of 6/30/2017	\$45,175,734
Net Additions/Withdrawals	-1,500,000
Investment Gain	<u>+2,018,740</u>
Ending Balance as of 9/30/2017	<u>\$45,694,474</u>
Combined Net Return 3rd Quarter 2017	+4.47%
Combined Benchmark Performance	+5.95%

Halifax Health Portfolios Performance of Benchmarks

*Third Quarter 2017
Ended 9/30/2017*

<u>Benchmark</u>	<u>3rd Q 2017 Performance</u>
Barclay's 1-5 Year Gov't Bond Index	+0.29%
Barclay's 1-5 Year Gov't/Credit	+0.43%
MSCI All Country World Energy Index	+9.43%
MSCI All Country World Health Care Index	+2.44%
MSCI World ex USA Index	+5.62%
MSCI Emerging Markets EMID Index	+7.89%
Russell 1000 Large Growth Index	+5.90%
Russell 1000 Large Value Index	+3.11%
Russell 2000 Small Growth Index	+6.22%
Russell 2000 Small Value Index	+5.11%
S&P 500 Index	+4.48%
3 Month T-Bill	+0.23%

Halifax Health Portfolio

*Investment Account Balances
as of September 30, 2017*

Halifax Health Investment Accounts

HH Holdings

<i>IM/Account Title/Account #</i>	Balance as of 9/30/2016	Balance as of 6/30/2017	Balance as of 8/31/2017	Balance as of 9/30/2017	Change 3rd Quarter 2017
<i>Vanguard/HH Holdings 0858-88032962086 Short-term Inv-Gr</i>	\$ 53,021,630	\$ 53,427,383	\$ 53,820,844	\$ 53,746,971	\$ 319,588
<i>Ponder/HH Holdings 3040000414 Short-term Gov't/Corporate</i>	32,095,931	32,025,133	32,248,460	32,185,171	160,038
<i>Ponder/HH Holdings 3040000414 US Treasury Account 5/15/18 Maturity</i>	80,382,921	73,452,127	73,644,996	73,704,944	252,817
Totals:	\$ 165,500,482	\$ 158,904,643	\$ 159,714,300	\$ 159,637,086	\$ 732,443

HHMC Liquid Investment Accounts

<i>Ponder/Hal Med Ctr Deprec 3040030258 Short-term Gov't Bond</i>	\$ 42,312,322	\$ 42,293,751	\$ 42,485,362	\$ 42,416,447	\$ 122,696
<i>Vanguard/Hal Hosp Med Ctr dba HH 88060843876 Short-term Gov't Bond</i>	64,542	64,408	64,798	64,627	219
Totals:	\$ 42,376,864	\$ 42,358,159	\$ 42,550,160	\$ 42,481,074	\$ 122,915

HHMC Debt & Self-Insurance Accounts

Account/Account	Balance as of 9/30/2016	Balance as of 6/30/2017	Balance as of 8/31/2017	Balance as of 9/30/2017	Change 3rd Quarter 2017
<i>Wells Fargo</i> Hal Hos Tr Sif Ins fd 25564000	\$ 611,746	\$ 565,054	\$ 555,872	\$ 551,270	\$ (13,784)
<i>Ponder</i> /2016 Project Fund HHMC Rev Ref & Improv Bds Series 2016 Project	12,670,146	7,231,295	7,243,528	205	(7,231,090)
Totals:	\$ 13,281,892	\$ 7,796,349	\$ 7,799,400	\$ 551,475	\$ (7,244,874)

HH Foundation Accounts

Account/Account	Balance as of 9/30/2016	Balance as of 6/30/2017	Balance as of 8/31/2017	Balance as of 9/30/2017	Change 3rd Quarter 2017
<i>Vanguard</i> HMC Foundation Inc. Short-Term Invest-Gr Inst.	\$ 21,250,683	\$ 22,430,238	\$ 22,595,423	\$ 23,063,990	\$ 633,752
<i>Dimensional (DFA)</i> HMC Foundation Inc.					
Small-Cap Value	3,572,033	3,554,537	3,490,421	3,766,776	212,239
International Value	1,781,973	2,068,043	2,162,458	1,988,198	(79,845)
Emerging Markets Value	638,213	742,182	801,430	783,454	41,272
Large-Cap Value	7,302,763	7,871,359	7,929,111	8,234,389	363,030
<i>Vanguard</i> HMC Foundation Inc.					
Energy	682,649	642,792	633,566	690,464	47,672
Large-Cap Growth	3,499,467	3,998,887	4,149,961	4,193,118	194,231
Health Care	666,040	738,142	738,803	745,413	7,271
Small-Cap Growth	3,598,540	4,015,837	4,052,994	3,956,561	(59,276)
Totals:	\$ 42,992,361	\$ 46,062,017	\$ 46,554,167	\$ 47,422,363	\$ 1,360,346

Account/Account	Balance as of 9/30/2016	Balance as of 6/30/2017	Balance as of 8/31/2017	Balance as of 9/30/2017	Change 3rd Quarter 2017
<i>Vanguard</i>					
Halifax Hospice Inc.					
Short-Term Invest-Gr Inst	\$ 32,711,882	\$ 34,487,493	\$ 34,741,472	\$ 34,193,713	\$ (293,780)
<i>Dimensional (DFA)</i>					
Halifax Hospice Inc.					
Small-Cap Value	5,527,105	5,522,633	5,423,018	5,852,386	329,753
International Value	2,755,004	3,197,280	3,343,250	3,462,531	265,251
Emerging Markets Value	1,140,580	1,326,388	1,432,272	1,400,147	73,759
Large-Cap Value	10,747,263	12,354,508	12,445,152	11,667,209	(687,299)
<i>Vanguard</i>					
Halifax Hospice Inc.					
Energy	682,237	632,561	614,885	676,922	44,361
Large-Cap Growth	5,735,899	6,554,488	6,802,111	5,614,193	(940,295)
Health Care	579,146	641,840	642,415	648,163	6,323
Small-Cap Growth	5,951,751	5,837,886	5,891,901	5,513,022	(324,864)
Totals:	\$ 65,830,867	\$ 70,555,077	\$ 71,336,476	\$ 69,028,286	\$ (1,526,791)

HH Portfolio Totals with Third Quarter 2017 Changes

HH Holdings	\$ 165,500,482	\$ 158,904,643	\$ 159,714,300	\$ 159,637,086	\$ 732,443
HHMC Liquid Investments Accounts	42,376,864	42,358,159	42,550,160	42,481,074	122,915
HHMC Debt & Self-Insurance Accounts	13,281,892	7,796,349	7,799,400	551,475	(7,244,874)
HH Foundation Accounts	42,992,361	46,062,017	46,554,167	47,422,363	1,360,346
HH Hospice Accounts	65,830,867	70,555,077	71,336,476	69,028,286	(1,526,791)
Totals:	\$ 329,982,466	\$ 325,676,245	\$ 327,954,503	\$ 319,120,284	\$ (6,555,961)

HH Pension Accounts

<i>IM/Account/Account #</i>	Balance as of 9/30/2016	Balance as of 6/30/2017	Balance as of 8/31/2017	Balance as of 9/30/2017	Change 3rd Quarter 2017
<i>Vanguard</i>					
Halifax Staffing Inc. DB Pension Plan					
Short-Term Invest-Gr Inst	\$ 114,381,463	\$ 127,899,510	\$ 128,491,396	\$ 132,311,686	\$ 4,412,176
<i>Dimensional (DFA)</i>					
Halifax Staffing Inc. DB Pension Plan					
Small-Cap Value	17,634,891	20,287,718	19,921,774	21,499,087	1,211,369
International Value	29,845,051	34,082,747	35,235,598	33,978,622	(104,125)
Emerging Markets Value	10,236,036	10,581,161	11,425,844	11,169,572	588,411
Large-Cap Value	18,304,014	20,458,027	20,608,127	21,401,560	943,533
<i>Vanguard</i>					
Halifax Staffing Inc. DB Pension Plan					
Energy	8,948,940	8,546,221	8,377,668	9,166,438	620,217
Large-Cap Growth	13,587,011	13,857,972	14,381,514	13,525,779	(332,193)
Health Care	8,190,421	9,356,430	9,364,810	9,448,611	92,181
Small-Cap Growth	14,424,625	13,415,111	13,539,234	13,553,646	138,535
Wells Fargo Government Money Market	0	1,980	1,981	1,982	2
<i>Wells Fargo</i>					
Halifax Staffing Inc. DB Pension Plan					
Cash & Cash Equivalents	4,591,685	5,043,873	1,737,938	302,302	(4,741,571)
Totals:	\$ 240,144,137	\$ 263,530,750	\$ 263,085,884	\$ 266,359,285	\$ 2,828,535

Total Assets: Pension and Investment Accounts

Totals with Third Quarter 2017 Changes

Pension Accounts	\$ 240,144,137	\$ 263,530,750	\$ 263,085,884	\$ 266,359,285	2,828,535
All Other Accounts	329,982,466	325,676,245	327,954,503	319,120,284	(6,555,961)
Grand Total:	\$ 570,126,603	\$ 589,206,995	\$ 591,040,387	\$ 585,479,569	\$ (3,727,426)

Halifax Foundation Accounts
Asset Allocation as of 9/30/2017

ASSET CLASS	RANGE	TARGET	9/30/2017	ACTUAL
FIXED				
Short-Term Invest Gr	0-60%	50%	\$23,063,990	49%
Cash Equivalents				0%
Total Fixed	30-60%	50%	\$23,063,990	49%
EQUITIES				
Large-Cap Value	10%-30%	17%	\$8,234,389	17%
Small-Cap Value	5%-15%	8%	\$3,766,776	8%
International Value	0%-15%	4%	\$1,988,198	4%
Emerging Markets Value	0%-5%	2%	\$783,454	2%
Large-Cap Growth	5%-15%	8%	\$4,193,118	9%
Small-Cap Growth	5%-15%	8%	\$3,956,561	8%
Specialty: <i>Healthcare</i> <i>Energy</i>	0%-11%	3%	\$1,435,877 \$745,413 \$690,464	3%
Total Equity	40-70%	50%	\$24,358,373	51%
Total Portfolio		100%	\$47,422,363	100%

Halifax Hospice Accounts
Asset Allocation as of 9/30/2017

ASSET CLASS	RANGE	TARGET	9/30/2017	ACTUAL
FIXED				
Short-Term Invest Gr	0-60	50%	\$34,193,713	50%
Cash			\$0	0%
Total Fixed	30-60%	50%	\$34,193,713	50%
EQUITIES				
Large-Cap Value	10%-30%	17%	\$11,667,209	17%
Small-Cap Value	5%-15%	8%	\$5,852,386	8%
International Value	0%-15%	4%	\$3,462,531	5%
Emerging Markets Value	0%-5%	2%	\$1,400,147	2%
Large-Cap Growth	5%-15%	8%	\$5,614,193	8%
Small-Cap Growth	5%-15%	8%	\$5,513,022	8%
Specialty (Healthcare/Energy)	0%-11%	3%	\$1,325,085	2%
<i>Healthcare</i>			\$648,163	
<i>Energy</i>			\$676,922	
Total Equity	40-70%	50%	\$34,834,573	50%
Total Portfolio		100%	\$69,028,286	100%

Halifax Pension Accounts
Asset Allocation as of 9/30/2017

ASSET CLASS	RANGE	TARGET	9/30/2017	ACTUAL
FIXED				
Short-Term Invest Gr	0-60%	50%	\$132,311,686	50%
Cash			\$304,284	0%
Total Fixed	30-60%	50%	\$132,615,970	50%
EQUITIES				
Large-Cap Value	7%-13%	8%	\$21,401,560	8%
Small-Cap Value	7%-13%	8%	\$21,499,087	8%
International Value	11%-19%	13%	\$33,978,622	13%
Emerging Markets Value	3%-7%	4%	\$11,169,572	4%
Large-Cap Growth	4%-10%	5%	\$13,525,779	5%
Small-Cap Growth	4%-8%	5%	\$13,553,646	5%
Specialty (Healthcare/Energy)	0%-11%	7%	\$18,615,049	7%
<i>Healthcare</i>			\$9,448,611	
<i>Energy</i>			\$9,166,438	
Total Equity	40-70%	50%	\$133,743,315	50%
Total Portfolio		100%	\$266,359,285	100%

Halifax Health Investment Accounts Portfolio Monitoring

Third Quarter 2017: Ended 9/30/2017

Vanguard Short-Term Investment-Grade (VFSIX) ****

Short-Term Bond Fund

The Vanguard Short-Term Bond Fund is a short-term corporate bond fund with an average duration of 2.6 years. There are 2,150 bond holdings with an average credit quality of A. The fund is in the top 10% in category over a five year period and was up 0.60% for the quarter, ahead of its benchmark. The fund takes average risks and produces above average returns.

Vanguard Short-term Federal Admiral Fund (VSGDX) *****

Short-Term Gov Bond Fund

The Vanguard Short-term Federal fund is a short-term government bond fund with an average duration of 2.4 years. 99% of the fund is invested in AAA government securities. The fund invests in agency bonds, agency mortgages and treasuries. The fund is in the top 10% in its category over 5 years and was up 0.34% for the quarter, right as its benchmark. The fund takes average risks and provides above average returns.

DFA US Small Cap Value Fund (DFSVX) ***

Small Value

The DFA Small Cap Value Fund invests in Small Cap Value stocks, and its diversification is the best in the Small Cap Value category with over 1100 individual holdings. Dimensional Fund Advisors may well have the best academic approach to investing in the securities industry. The DFA Small Cap was up 5.97% for the quarter. The fund is in the top 37% in its category, its Sharpe Ratio is low and risk ratings are average.

DFA Emerging Markets Value Fund (DFEVX) **

Emerging Markets Value

This fund invests in Emerging Market stocks around the world. The DFA Emerging Markets was up 5.56% for the quarter. Its Sharpe Ratio is +0.30 and its rank in category is 63 for 5 years.

DFA International Value Fund (DFIVX) ***

Foreign Large Value

This fund invests in companies from 22 developed markets outside the United States. The fund is run by a deep and experienced management team that selects companies with high book value relative to market price. DFA International was up 8.30% for the quarter. It is in the top 20% of funds in its category over a 5-year period. Its Sharpe Ratio is low and its risk characteristics have improved.

DFA Large-Cap Value Fund (DFLVX) *******Large-Cap Value**

The US Large-Cap Value portfolio purchases a broad and diverse group of US companies determined by Dimensional to be value stocks. The portfolio invests in securities of companies with market capitalizations within the largest 90% of the market or larger than the 1000 largest US companies. This fund was up 4.61% for the quarter, above its Russell 1000 Value Benchmark. It is in the top 10% of large-value funds with a low expense ratio and a sharp ratio of +0.77.

Vanguard Health Care Admiral Fund (VGHAX) *******Specialty: Health**

This fund maintains exposure to five areas of the Health Care industry: international health, pharmaceuticals, services, devices, and a small allocation to biotechnology. The fund was up 0.99% for the quarter. Vanguard Health Care is in the top 45% in its category. It has a Sharpe Ratio of +0.77, and takes average risks for average returns in its category.

Vanguard Energy Admiral Fund (VGELX) *******Specialty: Energy**

Vanguard Energy is a diversified equity energy fund with 122 energy companies in the fund. Vanguard Energy was up 7.65% for the quarter. The Fund is in the top 10% in its category on a 5-year basis. Vanguard Energy has a low Sharpe Ratio of -0.20, and average risk ratings. This is a high volatility specialty fund.

Vanguard Energy Index Fund (VENAX) *******Specialty: Energy**

This fund is 100% American energy companies vs. the VGELX fund. This energy index fund was up 6.90% for the quarter. It is in the top 9% in category. It has a Sharpe Ratio of -0.31 and average risk ratings.

Vanguard Growth Index Institutional Fund (VIGIX) *******Large Growth**

This large growth fund has over 350 holdings and invests in the large growth portion of the Russell 1000. Since growth stocks are companies with higher valuations, 25% of this fund is comprised of technology stocks. This fund was up 4.86% for the quarter, which was higher than its benchmark. It is in the top 40% in category and has excellent risk ratings. The fund has an expense ratio of .05%.

Vanguard Small-Cap Growth Index Institutional Fund (VSGIX) *******Small-Cap Growth**

This is a small-cap growth fund with 740 holdings and an average market cap of \$1.5 billion. Vanguard Small Cap was up 4.78% for the quarter. The fund has a low expense ratio of .06% and a Sharpe ratio of +0.77.

Prepared for

Halifax Health

November 13, 2017



Vanguard

Agenda

- I. Asset summary and performance
 - II. Market and economic outlook
 - III. Fund pages
 - IV. Vanguard business update
- Appendix
- Vanguard leadership transitions
 - Vanguard proxy overview

Presented by:
Brian Lunney, CAIA, CIMA®
Relationship Executive
Institutional Investor Group

Asset summary and performance

Asset summary as of September 30, 2017

Vanguard Fund	H H Holdings	Halifax Health	Halifax Hospital Medical Staff Services	Halifax Hospice, Inc.	Halifax Medical Center Foundation FBO Halifax Medical Center	Halifax Medical Center Foundation Inc.	Grand Total
Fixed income							
Short-Term Investment-Grade Fund Institutional Shares	\$53,746,971			\$34,193,714	\$1,374,792	\$21,689,199	\$111,004,676
Short-Term Federal Fund Admiral™ Shares		64,628	356,132				420,760
Subtotal							\$111,425,436
Equity							
Growth Index Fund Institutional Shares				\$5,614,193	\$2,305,043	\$1,888,076	\$9,807,313
Small-Cap Growth Index Fund Institutional Shares				5,513,022	1,658,025	2,298,536	9,469,584
Health Care Fund Admiral™ Shares				648,164	745,414		1,393,578
Energy Fund Admiral™ Shares				105,171	391,141	84,811	581,123
Energy Index Fund Admiral™ Shares				571,751	44,846	169,668	786,266
Subtotal							\$22,037,863
Grand Total	\$53,746,971	\$64,628	\$356,132	\$46,646,016	\$6,519,260	\$26,130,292	\$133,463,299

Investment performance returns

Fund/Index/Average	Expense ratio* (%)	Three months (%)	Year-to-date (%)	One year (%)	Annualized (as of 09/30/2017)			
					Three years (%)	Five years (%)	Ten years (%)	Since inception (%)
Vanguard Short-Term Investment-Grade Fund Institutional Shares (09/30/1997)	0.07	0.60	2.20	1.37	2.14	1.96	3.18	4.17
<i>BloomBarc US 1-5 Year Credit Index</i>		0.70	2.46	1.54	2.14	1.97	3.71	—
<i>1-5 Year Inv-Grade Debt Funds Avg</i>		0.49	1.78	1.26	1.38	1.17	2.12	—
Vanguard Short-Term Federal Fund Admiral™ Shares (02/12/2001)	0.10	0.34	0.98	0.13	1.15	0.83	2.44	3.20
<i>BloomBarc US 1-5 Yr Government Idx</i>		0.29	1.09	-0.06	1.17	0.83	2.38	—
<i>Short-Intermed US Gov't Funds Avg</i>		0.22	0.91	-0.22	0.72	0.32	2.09	—
Vanguard Growth Index Fund Institutional Shares (05/14/1998)	0.05	4.86	20.32	19.82	11.51	14.45	8.87	6.38
<i>Spliced Growth Index ¹</i>		4.86	20.37	19.86	11.56	14.50	8.91	—
<i>Large-Cap Growth Funds Average</i>		5.48	21.53	20.03	10.75	13.68	7.24	—
Vanguard Small-Cap Growth Index Fund Institutional Shares (05/24/2000)	0.06	4.78	15.29	16.93	9.57	12.78	8.42	9.15
<i>Spliced Small Cap Growth Index ²</i>		4.76	15.25	16.85	9.48	12.66	8.27	—
<i>Small-Cap Growth Funds Average</i>		5.51	16.57	19.59	10.57	12.56	6.73	—
Vanguard Health Care Fund Admiral™ Shares (11/12/2001)	0.32	0.99	18.99	11.92	9.69	17.59	11.46	10.86
<i>Spliced Health Care Index ³</i>		2.44	18.65	12.17	6.56	13.70	8.94	—
<i>Global Health/Biotech Funds Avg</i>		2.78	20.06	12.88	7.69	16.12	9.78	—
Vanguard Energy Fund Admiral™ Shares (11/12/2001)	0.33	7.65	-2.99	2.30	-5.33	0.35	-0.00	9.37
<i>Spliced Energy Index ⁴</i>		9.43	-0.04	7.41	-5.67	-0.84	-1.33	—
<i>Global Natural Resources Funds Avg</i>		8.38	1.35	5.06	-6.93	-1.82	-3.72	—
Vanguard Energy Index Fund Admiral™ Shares (10/07/2004)	0.10	6.90	-8.28	-1.33	-7.58	0.06	0.56	6.49
<i>Spliced US IMI Energy 25/50 ⁵</i>		6.89	-8.25	-1.27	-7.40	0.22	0.58	—
<i>Natural Resources Funds Average</i>		6.72	-9.77	-3.60	-10.51	-1.73	-1.72	—

The performance data shown represent past performance. Past performance is no 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 our website at vanguard.com/performance. Some funds assess purchase, redemption, and/or account maintenance fees. The performance data shown do not reflect deduction of these fees. If they did, performance would be lower. Details on these fees and adjusted performance figures can be found in the fund detail section.

Source: Data derived from Lipper, a Thomson Reuters Company.

For some funds, fees are levied on purchases or redemptions to offset the costs of buying and selling portfolio securities. For others, fees are assessed on redemptions made within certain time periods after a purchase to discourage short-term trading. All purchase or redemption fees are paid directly to the fund to compensate long-term shareholders for the costs of trading activity. Note that one-year performance figures are not fee-adjusted for fees incurred on shares held less than one year.

* Expense ratio data is as of the fund's most recent prospectus.

References

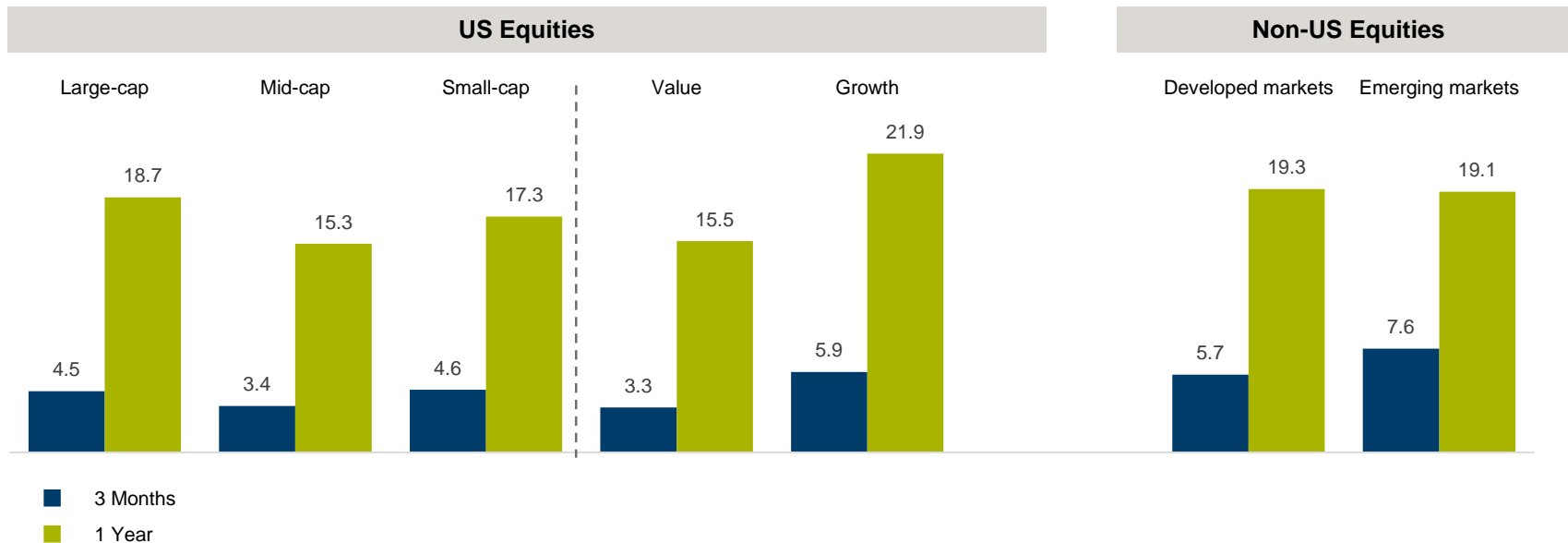
- 1 S&P 500 Growth Index (formerly known as the S&P 500/Barra Growth Index) through May 16, 2003; MSCI US Prime Market Growth Index through April 16, 2013; CRSP US Large Cap Growth Index thereafter.
- 2 S&P SmallCap 600 Growth Index (formerly known as the S&P SmallCap 600/Barra Growth Index) through May 16, 2003; MSCI US Small Cap Growth Index through April 16, 2013; CRSP US Small Cap Growth Index thereafter.
- 3 S&P 500 Index through December 31, 2001; S&P Health Care Index through May 31, 2010; MSCI All Country World Health Care Index thereafter.
- 4 S&P 500 Index through November 30, 2000; S&P Energy Sector Index through May 31, 2010; MSCI All Country World Energy Index thereafter.
- 5 MSCI US Investable Market Energy Index through February 26, 2010; MSCI US Investable Market Energy 25/50 Index thereafter.

Market and economic outlook

Positive global equity returns across market capitalizations and styles

- U.S. small-cap stocks have marginally outperformed U.S. large-cap stocks in the trailing 3 months while large-cap stocks lead the way over the trailing 12 months
- U.S. growth stocks extended their rally this year by outperforming value stocks for the last 3 and 12 months, led by strong results in Information Technology
- International equities have had a positive year for both developed and emerging markets investors

Global equity market returns as of September 30, 2017 (%)



Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

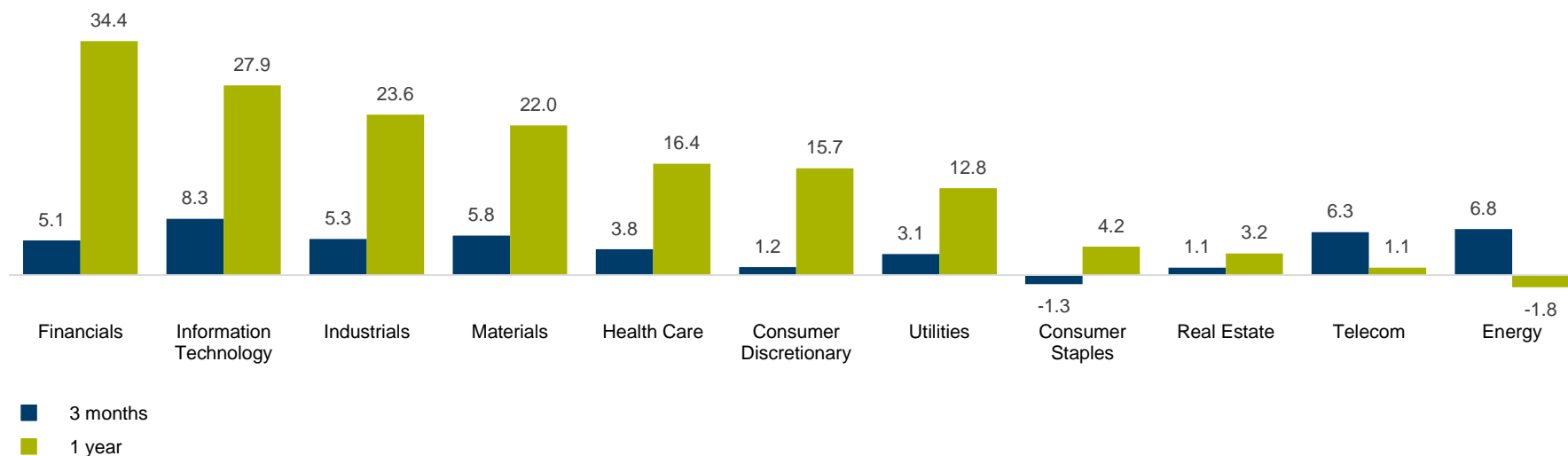
Sources: Barclays, FTSE, MSCI, Russell, and Dow Jones.

Large-cap (CRSP US Large Cap Index), Mid-cap (CRSP US Mid Cap Index), Small-cap (CRSP US Small Cap Index); Value (Russell 3000 Value Index), Growth (Russell 3000 Growth Index); Developed markets (FTSE Developed All Cap ex-US Index), Emerging markets (FTSE Emerging Markets All Cap China A Inclusion Index)

U.S. sector performance – most sectors positive for prior 3 and 12 months

- Financials were the best performing sector over the trailing 12 months as investors expect higher rates to benefit banks and other financial institutions
- Information Technology was the best performing sector over the trailing 3 months as investors search for companies with higher growth and innovation prospects
- Energy has struggled in the trailing 12 months as OPEC has not materially reduced oil supply

U.S. equity sector returns as of September 30, 2017 (%)



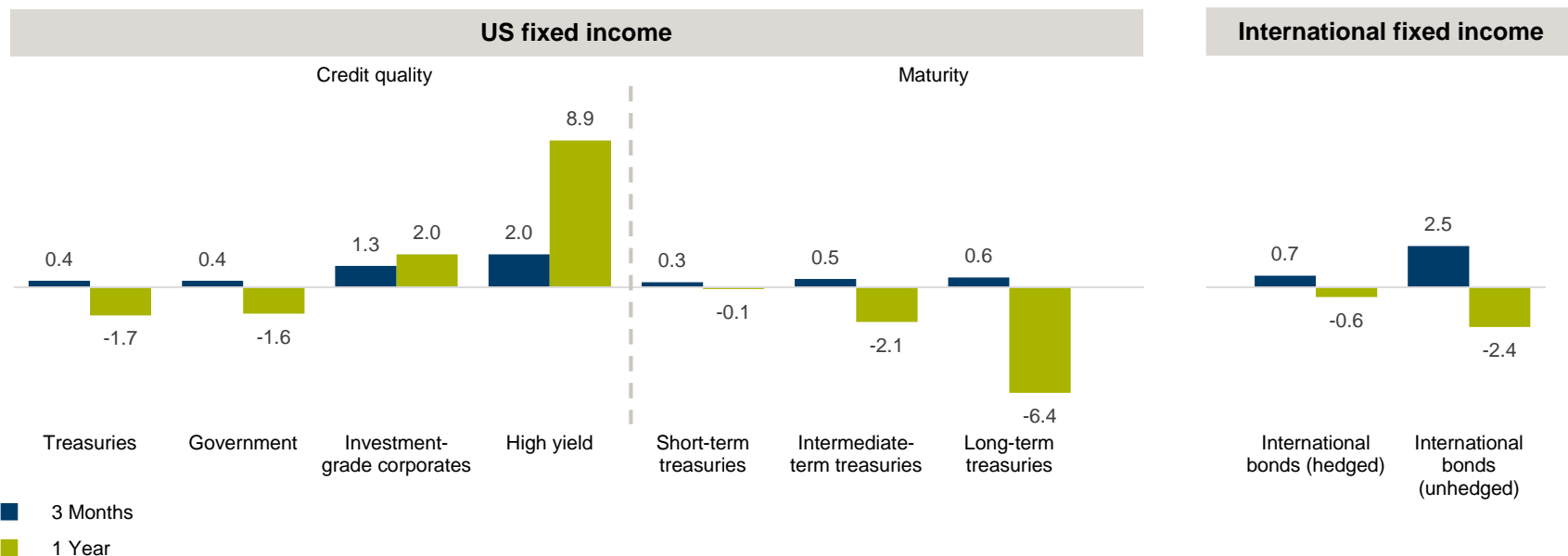
Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: FactSet and Vanguard.
 U.S. markets measured by CRSP US Total Market Index, and international markets represented by FTSE All-Cap ex US Index. Past performance is no guarantee of future returns.

Global bond returns remain muted as low yields persist

- Higher growth and inflation expectations paired with three increases to the Fed Funds rate have caused a parallel shift upward across the yield curve during the trailing 12 months
- “Soft” inflation data has helped keep intermediate and long-term bonds within a tight yield range during the past quarter
- Hedged international bonds returned a small loss over the past 12 months, despite positive returns in the last quarter. Unhedged international bonds are displaying more return volatility due to currency fluctuations, with a weaker U.S. dollar enhancing the past quarter return

Global fixed income market returns as of September 30, 2017 (%)

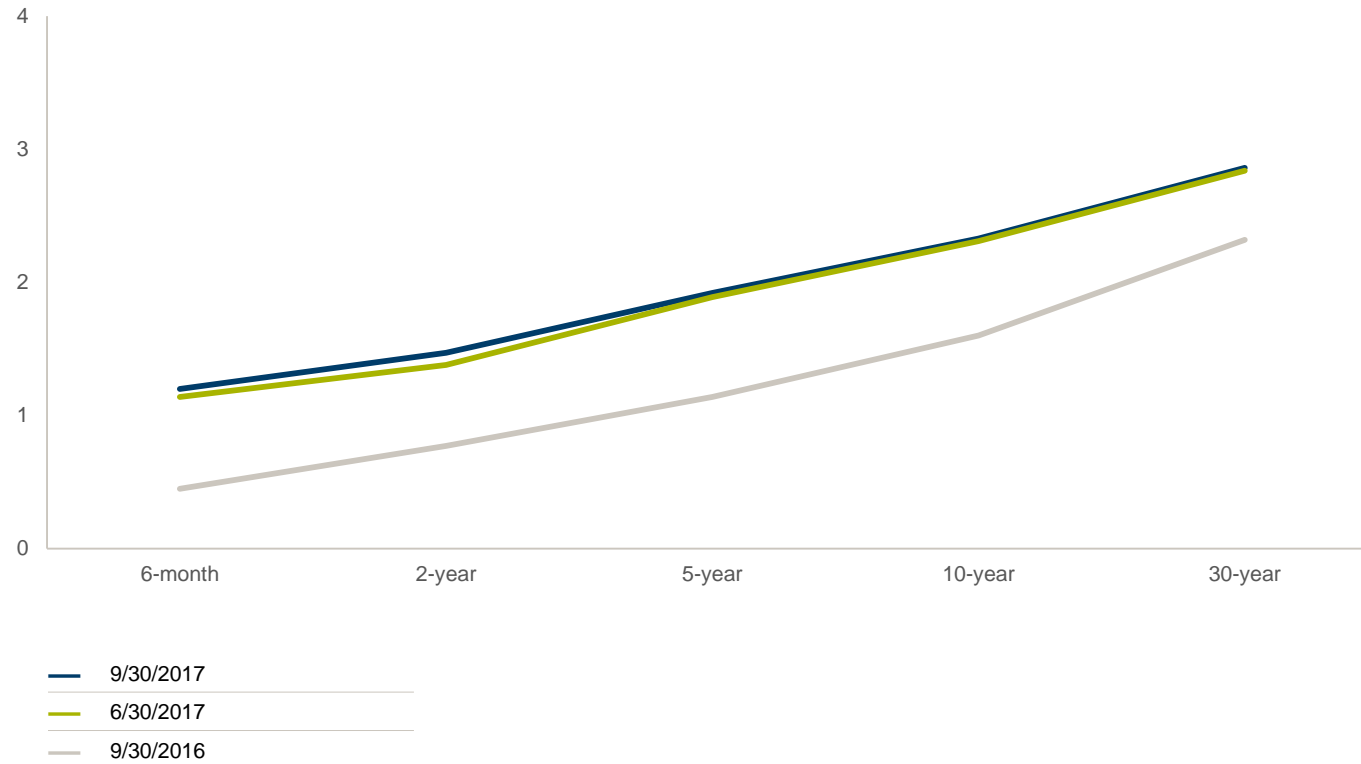


Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Sources: Barclays, FTSE, MSCI, Russell, and Dow Jones.
 Treasuries-Government-Investment Grade Corporates-High Yield (Barclays US Treasury/Government/Credit/Corporate High Yield Indices); Short-Inter-Long-term Treasuries (Barclays US 1-5/5-10/Long Year Treasury Indices)
 International Bonds Hedged (Barclays Global Aggregate ex-USD Float Adj. RIC Cap Index hedged) Unhedged (Barclays Global Aggregate ex-USD Index)

U.S. Treasury yield curve – Slight flattening of the yield curve over the last 3 months

Yield (%) and change (bps)		6 month	2 year	5 year	10 year	30 year
—	Current Yield (%)	1.20	1.47	1.92	2.33	2.86
—	3 Mo. Δ	6	9	3	2	2
—	12 Mo. Δ	75	70	78	73	54



Market leadership changes

- The positions of the various asset classes change meaningfully over the last 10-years, which points to the value of diversification
- Emerging markets equities appeared at both the top and bottom multiple times, demonstrating the relatively high volatility level of single asset classes
- The balanced portfolio generally falls near the middle, demonstrating the volatility dampening effect of high-grade fixed income

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	10-Year Average
Emg	41.7	5.7	85.2	28.5	8.7	18.1	38.8	30.4	5.1	21.3	8.3
Dev	12.9	5.2	58.2	26.9	7.8	17.8	34.2	13.2	2.5	18.4	7.5
Grw	11.4	1.8	37.0	19.8	5.0	17.5	33.1	12.7	1.4	17.1	7.1
Cmd	11.1	-23.3	36.7	17.6	3.9	17.4	32.7	12.4	0.9	12.1	7.1
Bal	8.9	-24.6	28.6	16.7	2.2	16.4	20.5	8.8	0.5	11.4	5.8
Bnd	7.0	-26.2	28.4	16.2	1.5	16.4	16.8	6.4	0.0	10.3	5.4
Lrg	5.8	-33.8	27.2	16.1	0.1	15.8	7.4	6.0	-0.6	8.6	5.0
T-Bill	4.7	-36.3	24.7	15.1	-0.1	15.2	6.7	4.9	-1.8	7.4	4.4
IB	4.3	-36.6	19.8	12.1	-0.9	12.7	2.5	2.6	-3.6	7.3	4.3
HF	4.2	-37.6	18.7	11.2	-4.2	6.5	1.2	2.5	-4.1	4.9	2.6
HY	1.9	-38.0	13.4	6.5	-8.9	4.2	0.1	0.0	-4.4	3.1	1.4
Val	-1.0	-38.4	5.9	5.2	-12.7	3.5	-2.0	-0.6	-4.5	2.6	0.7
Sml	-1.6	-44.2	4.4	3.3	-13.4	0.1	-3.2	-4.4	-13.5	2.5	-0.6
REIT	-16.8	-54.2	0.2	0.1	-20.0	-1.1	-9.6	-17.0	-24.7	0.3	-6.2

Val	Value oriented U.S. based stocks (Russell 3000 Value Index)
Grw	Growth oriented U.S. based stocks (Russell 3000 Growth Index)
Lrg	Large U.S. based stocks (Russell 1000 Index)
Sml	Small U.S. based stocks (Russell 2000 Index)
Dev	International stocks from developed countries (FTSE Developed All Cap ex US Index)
Emg	International stocks from emerging countries (FTSE Emerging ACap CN A Includ Idx)
Bnd	Investment-grade U.S. bonds (BloomBarc US Aggregate Bond Index)
HY	High-yield U.S. bonds (BloomBarc US Corp High Yield Index)
IB	Investment-grade international bonds (BloomBarc GA ex-USD Index Hedged)
T-Bill	Short-term Treasury rates (Citigroup 3-Month US T-Bill Index)
REIT	U.S. public equity real estate (REIT) (MSCI US REIT Index)
Cmd	Commodities (Bloomberg Commodity Index)
HFI	Hedge funds (HFRX Global Hedge Fund Index*)
Bal	Balanced Static Composite (39% U.S. stocks**, 26% Int'l stocks [†] , 24.5% Invest-grade U.S. bonds ^{††} , 10.5% Invest-grade Int'l bonds ^{††})

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard. Last observation: December 31, 2016; 10-year average performance from December 31, 2007 through December 31, 2016.

* Source: Hedge Fund Research, Inc.

** U.S. stocks: MSCI US Broad Market Index.

[†] International Stocks: FTSE Global All Cap ex-US Index.

^{††} Bonds: BloomBarc US Aggregate Bond Index and BloomBarc GA ex-USD Index Hedged.

Headwinds for active equity mutual fund managers

Percentage of actively managed funds underperforming their style benchmarks

Ten-year: December 31, 2016

	Value		Growth
Large	84%	94%	94%
Mid	88%	90%	87%
Small	89%	91%	91%

International

81%	79%	71%
Developed	Emerging markets	Global

Key

≥ 75%	≥ 50%	≥25%	< 25%
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Vanguard active equity and balanced funds

Ten-year: December 31, 2016

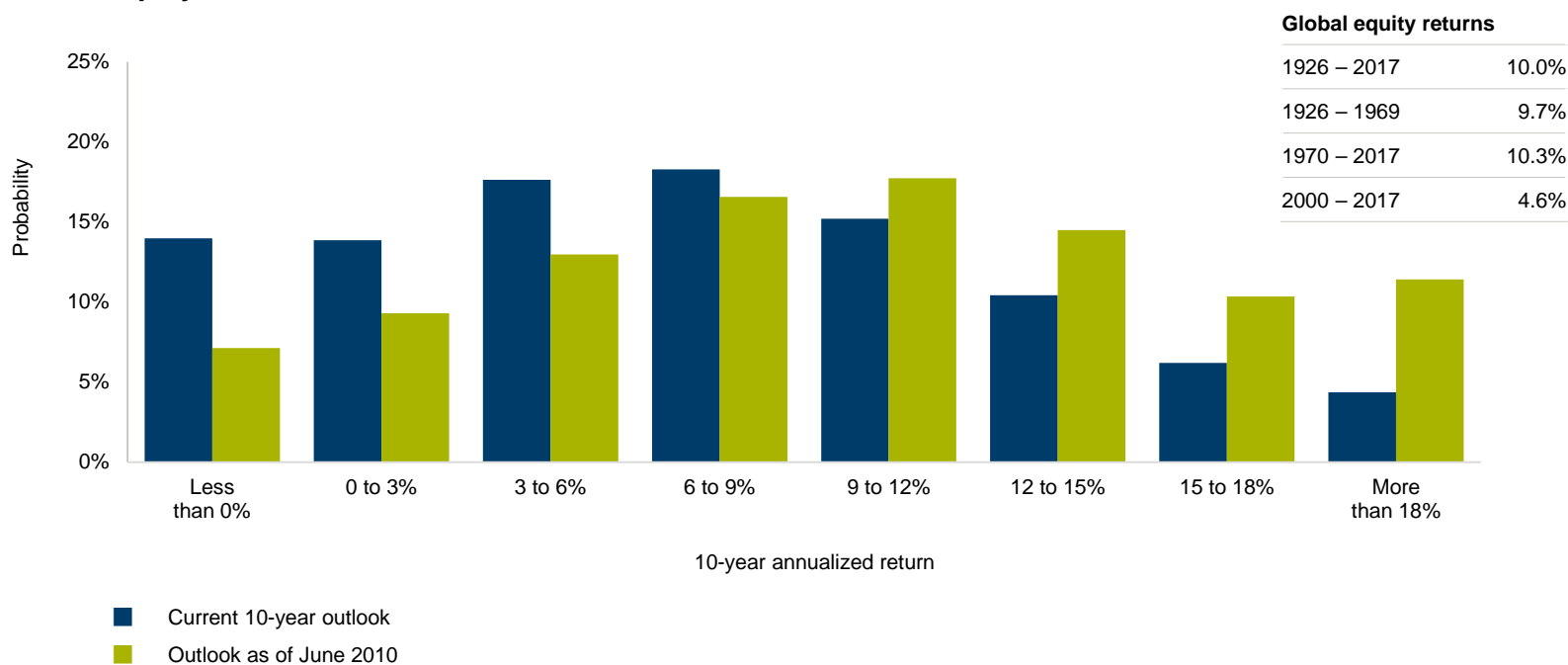
	Below benchmark	Above benchmark
Above peer group average	38%	58%
Below peer group average	4%	0%

Note: Performance data reflect periods ending December 31, 2016. Sources: Vanguard calculations, using data from Morningstar, Inc. Equity benchmarks are represented by the following indexes—Large blend: MSCI US Prime Market 750 Index through January 30, 2013, CRSP US Large Cap Index thereafter; Large growth: S&P 500/Barra Growth Index through May 16, 2003, MSCI US Prime Market Growth Index through April 16, 2013, CRSP US Large Cap Growth Index thereafter; Large value: S&P 500/Barra Value Index through May 16, 2003, MSCI US Prime Market Value Index through April 16, 2013, CRSP US Large Cap Value Index thereafter; Mid blend: S&P MidCap 400 Index through May 16, 2003, MSCI US Mid Cap 450 Index through January 30, 2013, CRSP US Mid Cap Index thereafter; Mid growth: MSCI US Mid Cap Growth Index through April 16, 2013, CRSP US Mid Cap Growth Index thereafter; Mid value: MSCI US Mid Cap Value Index through April 16, 2013, CRSP US Mid Cap Value Index thereafter; Small blend: Russell 2000 Index through May 16, 2003, MSCI US Small Cap 1750 Index through January 30, 2013, CRSP US Small Cap Index thereafter; Small growth: S&P SmallCap 600/Barra Growth Index through May 16, 2003, MSCI US Small Cap Growth Index through April 16, 2013, CRSP US Small Cap Growth Index thereafter; Small value: S&P SmallCap 600/Barra Value Index through May 16, 2003, MSCI US Small Cap Value Index through April 16, 2013, CRSP US Small Cap Value Index. International and global benchmarks are represented by the following indexes: Global—Total International Composite Index through August 31, 2006, MSCI EAFE + Emerging Markets Index through December 15, 2010, MSCI ACWI ex USA IMI Index through June 2, 2013, FTSE Global All Cap ex US Index thereafter; Developed—MSCI World ex USA Index; Emerging markets: MSCI Emerging Markets Index.

Projected global equity ten-year return outlook

VCMM-simulated distribution of expected average annualized nominal return of global equity market as of June 2010 and March 2017

Global equity 60% US / 40% Global Ex US



IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for global equity returns in USD. Simulations are as of March 31, 2017. Results from the model may vary with each use and over time. For more information, please see the important information slide.

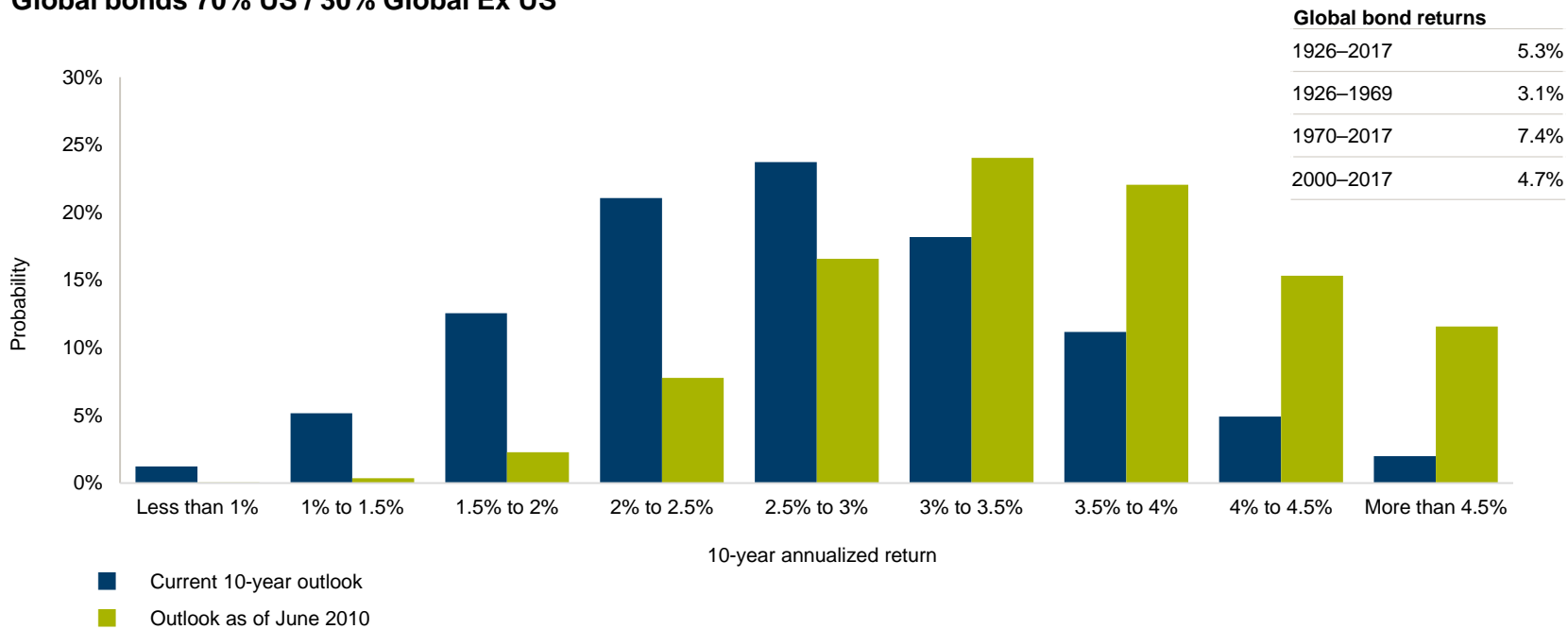
Sources: Vanguard.

Notes: Figure displays projected range of potential returns for portfolios of 60% U.S./40% ex-U.S. equities unhedged in USD, rebalanced annually. For details on benchmarks used for historical returns, see "Indexes used in our historical calculations," on page 5 of 2017 economic and market outlook: Stabilization, not stagnation (Davis et. al 2016).

Projected global fixed income ten-year return outlook

VCMM-simulated distribution of expected average annualized nominal return of total fixed income market as of June 2010 and March 2017

Global bonds 70% US / 30% Global Ex US

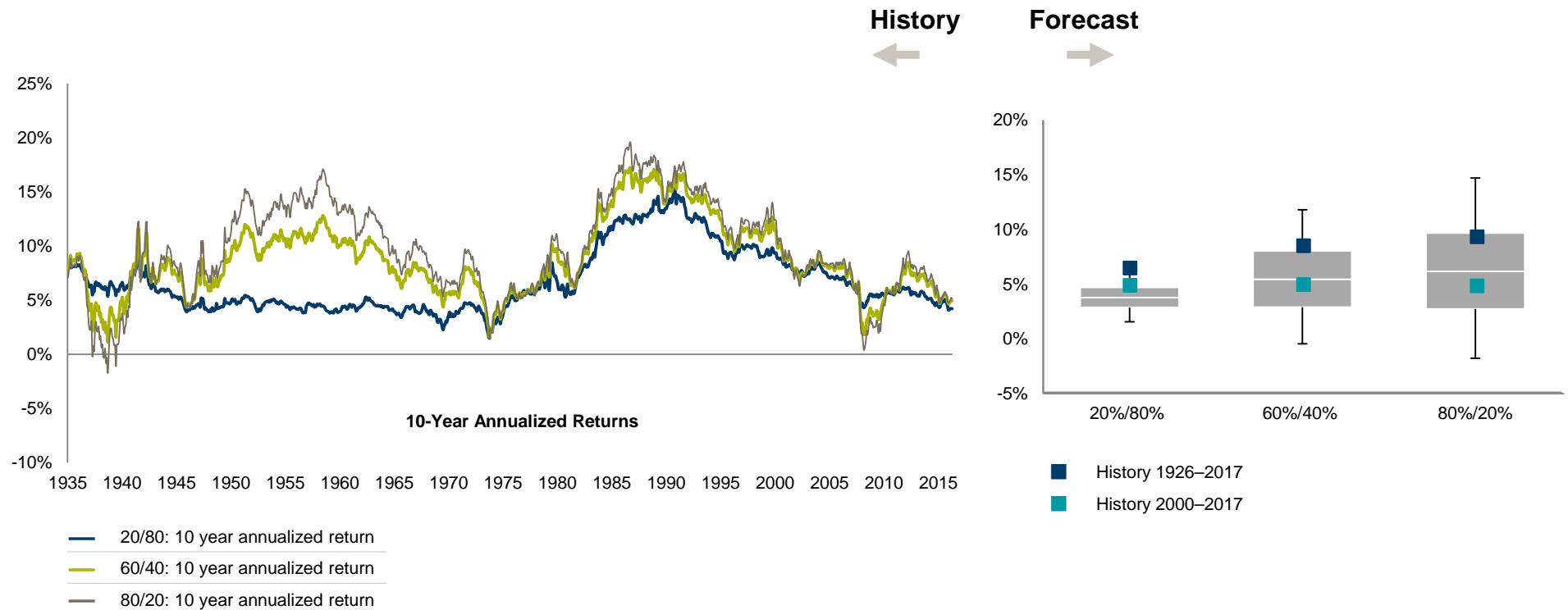


IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM, derived from 10,000 simulations for global equity returns and fixed income returns in USD. Simulations as of March 31, 2017. Results from the model may vary with each use and over time. For more information, please see the Important information slide.

Note: Figure displays projected range of returns for a portfolio of 70% U.S. bonds and 30% ex-U.S. bonds, rebalanced quarterly. For details, see Vanguard's economic and investment outlook (Davis, Aliaga-Diaz, Westaway, Wang, Patterson, and Ahluwalia 2016). Source: Vanguard.

Global Asset Returns: A guarded view given global crosscurrents of low yields and equity valuations

Historical and projected ten-year nominal return outlook for balanced portfolios



IMPORTANT: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class in USD. Simulations are as of March 31, 2017. Results from the model may vary with each use and over time. For more information, please see the important information slide.

Sources: Vanguard.

Notes: Forecast displays 5th/25th/50th/75th/95th percentile ranges of 10,000 VCMM simulations for projected ten-year annualized nominal returns in USD. The equity portfolio is 60% U.S. equity and 40% global ex-U.S. equity. The bond portfolio is 70% U.S. bonds and 30% global ex-U.S. bonds. Data used for historical returns is as of March 31, 2017. For details on benchmarks used for historical returns, see "Indexes used in our historical calculations," on page 5 of 2017 economic and market outlook: Stabilization, not stagnation (Davis et. al 2016).

Important information

IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More importantly, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

Fund pages

Vanguard Short-Term Investment-Grade Fund (VFSIX)

Investment approach

- Short-term, investment-grade fixed income securities.
- Seeks current income with limited price volatility.
- At least 80% invested in short-term and intermediate-term investment-grade fixed income securities, primarily corporate bonds; invests primarily in high-quality (investment-grade) corporate bonds.
- Approach focused on intensive credit analysis and risk control.
- Lower interest rate volatility than the broad U.S. fixed income market.

Key facts

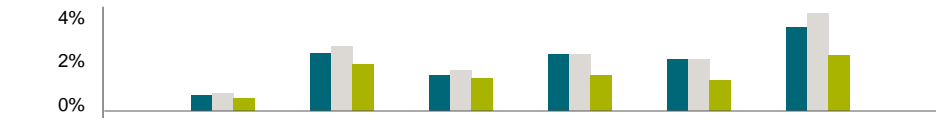
Expense ratio as of 05/26/2017 7 bps As reported in the most recent prospectus.	
Designation	Investment-grade corporate short-term
Inception date	10/29/1982
Institutional Shares inception date	09/30/1997
Total net assets as of 09/30/2017 (\$M)	\$63,245
Net fund assets for VFSIX as of 09/30/2017 (\$M)	\$11,857
Holdings	1,980
Benchmarked to	Bloomberg Barclays U.S. 1-5 Year Credit Bond Index (LD18TRUU)
Turnover rate (fiscal year-end 01/31/2017)	68.4%
CUSIP	922031877

Risk and volatility

	R ²	Beta
Primary benchmark	0.97	0.89
Broad-based benchmark	0.74	0.38

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.
Broad-based benchmark: Bloomberg Barclays U.S. Aggregate Bond Index.

Performance



	Annualized					
	Quarter-end	Year-to-date	1-year	3-year	5-year	10-year
Fund	0.60%	2.20%	1.37%	2.14%	1.96%	3.18%
Benchmark	0.70%	2.46%	1.54%	2.14%	1.97%	3.71%
1-5 Year Inv-Grade Debt Funds Avg	0.49%	1.78%	1.26%	1.38%	1.17%	2.12%

Performance versus competitors

Percentage of 1-5 Year Inv-Grade Debt Funds outperformed by VFSIX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 482; 3-year, 426; 5-year, 360; 10-year, 245. Results will vary for other time periods.

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 our website at vanguard.com/performance.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Fund advisors



- 100% Vanguard Fixed Income Group

Vanguard Fixed Income Group—Firm overview

Key facts

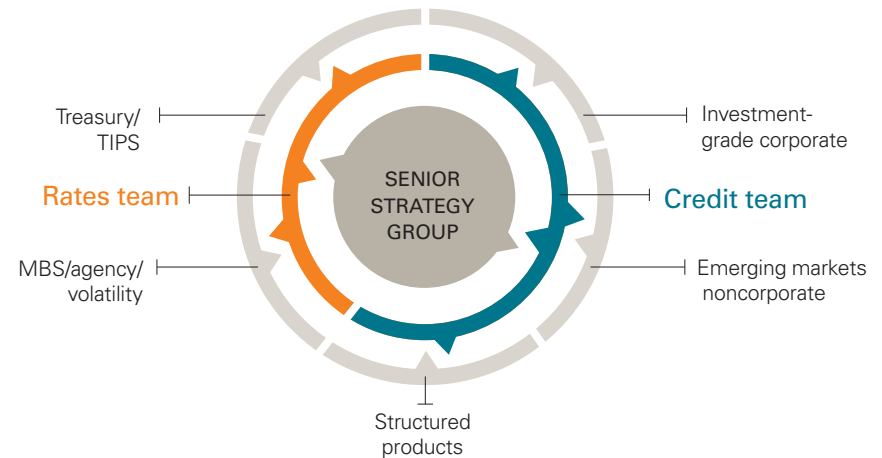
- Client-owned.*
- Headquartered in Malvern, Pennsylvania with offices around the world, including London, England, and Melbourne, Australia.
- More than \$1 trillion in assets under management globally.
- More than 154 portfolio managers, traders, analysts, researchers, and support staff.

Portfolio management

Gregory S. Nassour, CFA, Principal

- Portfolio manager.
- Advised the fund since 2008.
- Worked in investment management since 1992.
- B.S., West Chester University.
- M.B.A., Saint Joseph's University.

Each mandate is influenced by our entire team



Hub: Senior strategy group

- Establishes investment policy and strategic outlook.
- Develops overall, credit, and rates risk budgets.
- Oversees investment process and monitors risk budgets.
- Team:
 - John Hollyer
 - Joe Davis
 - Chris Alwine
 - Ron Reardon
 - Paul Jakubowski
 - Rodney Comegys
 - Anne Mathias

Rates team

- Allocates and monitors risk across rates teams.

Credit team

- Allocates and monitors risk across credit teams.

Satellite: Specialist teams

- Execute subsector portfolio construction and research.
- Identify and invest in attractive subsectors, issuers, and individual securities.
- Satellite teams are composed of portfolio managers, credit and quant analysts and traders.

Source: Vanguard, as of September 30, 2017.

* Vanguard is owned by the Vanguard funds, which, in turn, are owned by their shareholders.
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Vanguard Short-Term Investment-Grade Fund (VFSIX)

Fixed income characteristics

	VFSIX	Benchmark
Number of bonds	1,980	2,352
Average duration	2.6 years	2.8 years
Average effective maturity	3.0 years	3.0 years
Turnover (fiscal year end)	68.4%	—
Short-term reserves	4.4%	N/A

Distribution by issuer type

	% of total net assets
Finance	26.3%
Industrial	25.8%
Treasury/Agency	17.5%
Commercial Mortgage-Backed	8.8%
Asset-Backed	7.3%
Foreign	6.0%
Short-Term Reserves	4.4%
Utilities	3.5%
Other	0.3%
Government Mortgage-Backed	0.1%

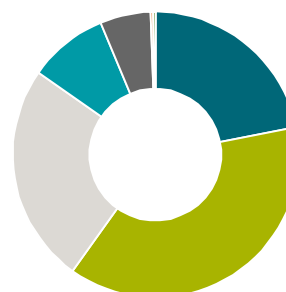
Hedged non-U.S. dollar-denominated bonds are included in the sector of issuer, not as part of the foreign category.

Risk and volatility

	R-squared	Beta	Alpha	Standard deviation	Sharpe ratio
VFSIX	N/A	N/A	0.02	1.26	1.48
Primary benchmark	0.97	0.89	N/A	1.39	1.34
Broad-based benchmark	0.74	0.38	N/A	2.86	0.85

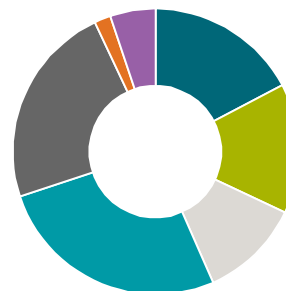
R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: Bloomberg Barclays U.S. Aggregate Bond Index.

Distribution by effective maturity as a % of funds



Under 1 Year	21.9%
1 - 3 Years	38.0
3 - 5 Years	24.8
5 - 7 Years	9.0
7 - 10 Years	5.7
10 - 20 Years	0.3
20 - 30 Years	0.3
Over 30 Years	0.0

Distribution by credit quality as a % of funds



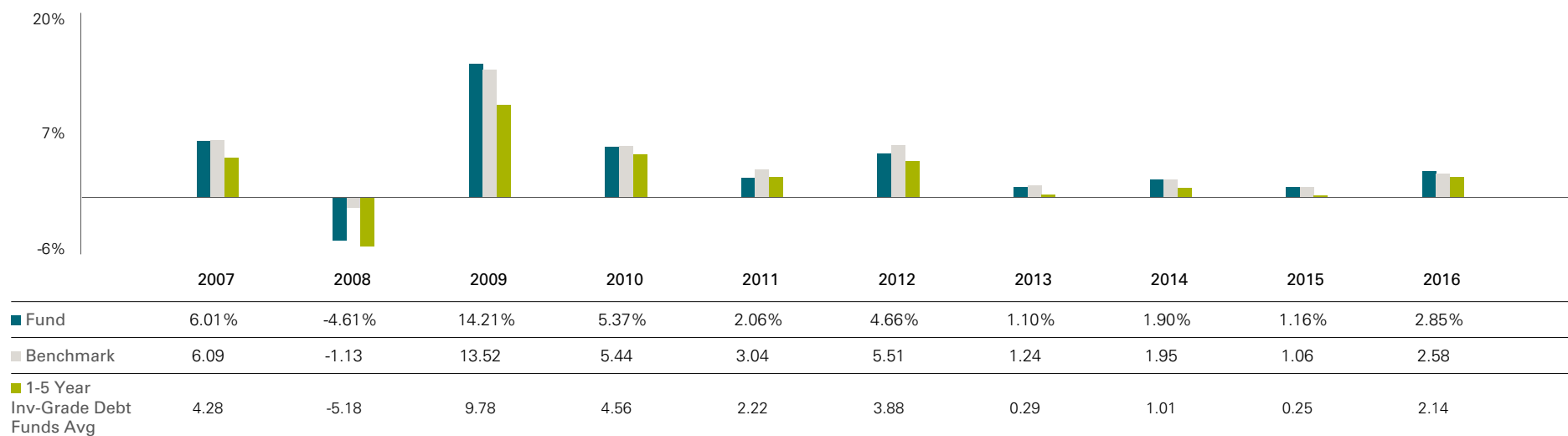
U.S. Government	17.3%
Aaa	14.7
Aa	11.4
A	26.5
Baa	23.1
Ba	1.8
B	0.0
Caa	0.0
Ca	0.0
C	0.0
Not Rated	5.2

Credit-quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). "NR" is used to classify securities for which a rating is not available. NR securities may include a fund's investment in Vanguard Market Liquidity Fund or Vanguard Municipal Cash Management Fund, each of which invests in high-quality money market instruments and may serve as a cash management vehicle for the Vanguard funds, trusts, and accounts. U.S. Treasury, U.S. Agency, and U.S. Agency mortgage-backed securities appear under "U.S. Government." Credit-quality ratings for each issue are obtained from Barclays using ratings derived from Moody's Investors Service (Moody's), Fitch Ratings (Fitch), and Standard & Poor's (S&P). When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Vanguard Short-Term Investment-Grade Fund (VFSIX)

Total returns: Institutional Shares

Calendar-year performance



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 our website at vanguard.com/performance.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

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Vanguard Short-Term Investment-Grade Fund (VFSIX)

Investment commentary as of 9/30/2017

- The short-term domestic taxable bond market rose modestly over the quarter ended September 30. Continuing the trend from the first half of the year, returns increased with duration as the U.S. yield curve flattened. Short-term interest rates rose slightly, while intermediate- and long-term yields held mostly steady as investors awaited signs of strengthening economic growth. Corporate bonds outperformed both government bonds and securitized products as credit spreads compressed slightly, particularly for BBB-rated securities. The Federal Reserve confirmed its previously outlined plan for unwinding its balance sheet starting in October, drawing minimal market reaction. At quarter-end, investor excitement grew as Congress shifted its focus to discussing tax reform. Against this backdrop, the Bloomberg Barclays U.S. Aggregate Bond Index returned 0.85% and the Bloomberg Barclays U.S. Treasury Index returned 0.38%.
- Yields inside of five years rose slightly over the quarter as the Fed maintained its commitment to gradual interest rate increases. The 3-month yield rose 3 basis points to 1.04%, the 2-year yield rose 10 basis points to 1.48%, and the 5-year yield increased 5 basis points to 1.94%. Longer maturities moved up slightly, as the 10-year yield rose 3 basis points to 2.33% and the 30-year yield rose the same amount to 2.86%. In this environment, Vanguard Short-Term Investment-Grade Fund modestly underperformed its benchmark index, the Bloomberg Barclays U.S. 1–5 Year Credit Index (+0.70%), but outperformed the average return of its peers (+0.49%).
- The fund maintains several structural differences from its benchmark that reflect a higher-quality bias and broader sector exposure within the short-term investment-grade universe. Like its benchmark, the fund has diversified exposure to the market's short-term corporate and agency sectors, but it also has a consistent allocation to other investment-grade sectors, namely asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), and Treasuries. The fund's duration also differs structurally from its benchmark's; at 2.6 years, it is consistently shorter than the benchmark's 2.8 years.
- During the quarter, the fund's structural underweighting of corporate bonds and its higher-quality bias detracted as lower-quality corporates continued to outperform. Positive selection among foreign agency securities and investment-grade corporates, particularly banks, helped offset the fund's credit underweighting. Out-of-benchmark allocations to CMBS also provided a boost. The fund's structurally shorter duration was not a contributing factor, as the effect of shorter duration and carry offset each other.
- For the 12 months ended September 30, Treasury yields rose markedly across the shorter end of the curve. The 3-month yield increased 77 basis points, the 2-year yield increased 72 basis points, and the 5-year yield rose 79 basis points. The fund underperformed its benchmark (+1.54%) and its peer average (+1.26%). Over the 12 months, positive security selection in the financial sector, specifically in banking and insurance, along with strong selection among foreign agency securities contributed most to performance. Out-of-benchmark allocations to TIPS, CMBS, and ABS also helped. Offsetting these contributions was the fund's overall structural underweighting of corporate bonds, and more specifically of BBB-rated issuers.

Vanguard Short-Term Federal Fund (VSGDX)

Investment approach

- Short-term debt securities issued by the U.S. government and its agencies and instrumentalities.
- Seeks current income with limited price volatility.
- Average maturity of 1–4 years.
- Structured to protect capital and preserve the income stream.

Key facts

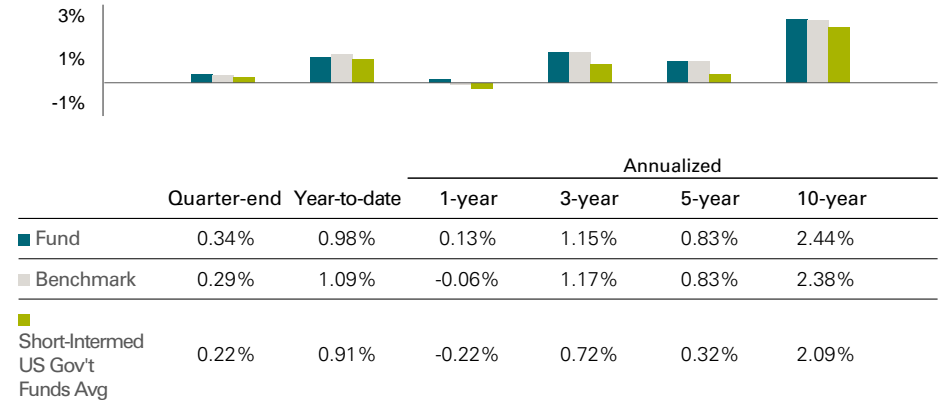
Expense ratio as of 05/26/2017	10 bps
As reported in the most recent prospectus.	
Designation	Treasury/agency/blend short-term
Inception date	12/31/1987
Admiral Shares inception date	02/12/2001
Total net assets as of 09/30/2017 (\$M)	\$5,351
Net fund assets for VSGDX as of 09/30/2017 (\$M)	\$4,580
Holdings	107
Benchmarked to	Bloomberg Barclays U.S. 1–5 Year Government Bond Index
Turnover rate (fiscal year-end 01/31/2017)	304.4%
CUSIP	922031844

Risk and volatility

	R ²	Beta
Primary benchmark	0.96	0.75
Broad-based benchmark	0.79	0.33

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: Bloomberg Barclays U.S. Aggregate Bond Index.

Performance



Performance versus competitors

Percentage of Short-Intermed US Gov't Funds outperformed by VSGDX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 28; 3-year, 28; 5-year, 27; 10-year, 23. Results will vary for other time periods.

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Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

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Fund advisors



- 100% Vanguard Fixed Income Group

Vanguard Short-Term Federal Fund (VSGDX)

Fixed income characteristics

	VSGDX	Benchmark
Number of bonds	107	376
Average duration	2.4 years	2.7 years
Average effective maturity	2.8 years	2.8 years
Turnover (fiscal year end)	304.4%	—
Short-term reserves	0.3%	N/A

Distribution by issuer type

	% of total net assets
Treasury/Agency	88.4%
Government Mortgage-Backed	11.3%
Short-Term Reserves	0.3%
Asset-Backed	0.0%
Commercial Mortgage-Backed	0.0%
Finance	0.0%
Foreign	0.0%
Industrial	0.0%
Utilities	0.0%

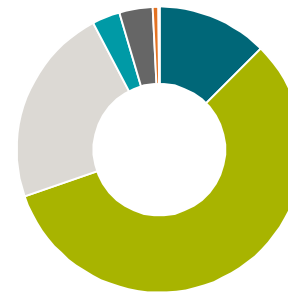
Hedged non-U.S. dollar-denominated bonds are included in the sector of issuer, not as part of the foreign category.

Risk and volatility

	R-squared	Beta	Alpha	Standard deviation	Sharpe ratio
VSGDX	N/A	N/A	0.02	1.06	0.82
Primary benchmark	0.96	0.75	N/A	1.39	0.64
Broad-based benchmark	0.79	0.33	N/A	2.86	0.85

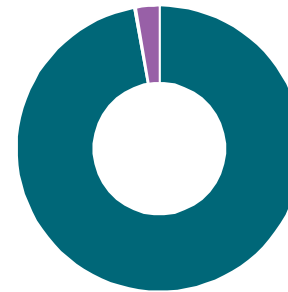
R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: Bloomberg Barclays U.S. Aggregate Bond Index.

Distribution by effective maturity as a % of funds



Under 1 Year	12.5%
1 - 3 Years	57.2
3 - 5 Years	22.6
5 - 7 Years	3.1
7 - 10 Years	3.8
10 - 20 Years	0.6
20 - 30 Years	0.2
Over 30 Years	0.0

Distribution by credit quality as a % of funds



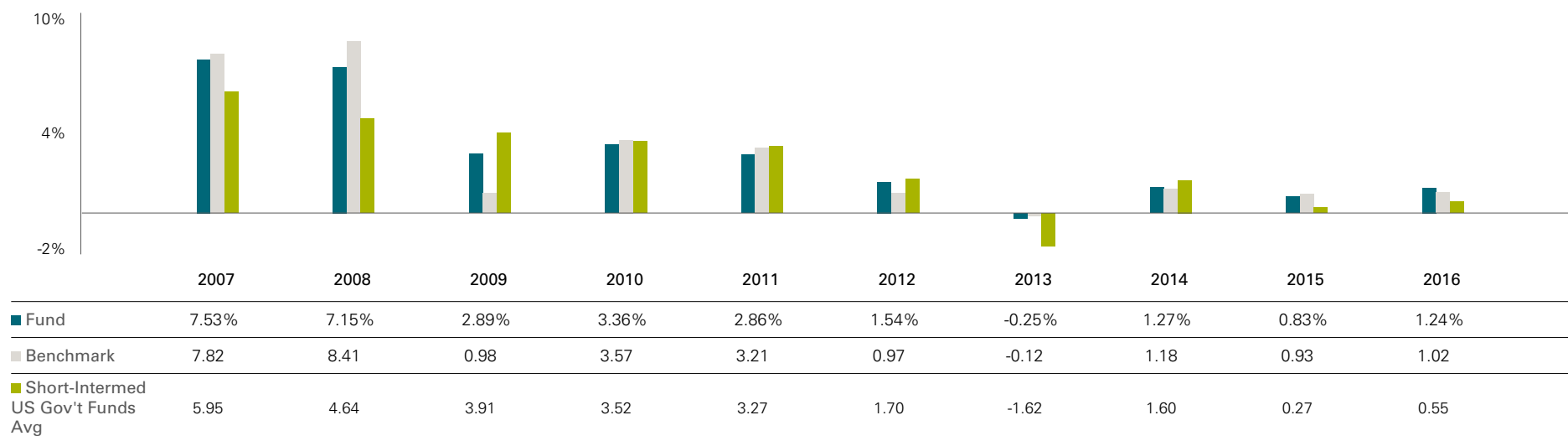
U.S. Government	97.1%
Aaa	0.0
Aa	0.2
A	0.0
Baa	0.0
Ba	0.0
B	0.0
Caa	0.0
Ca	0.0
C	0.0
Not Rated	2.7

Credit-quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). "NR" is used to classify securities for which a rating is not available. NR securities may include a fund's investment in Vanguard Market Liquidity Fund or Vanguard Municipal Cash Management Fund, each of which invests in high-quality money market instruments and may serve as a cash management vehicle for the Vanguard funds, trusts, and accounts. U.S. Treasury, U.S. Agency, and U.S. Agency mortgage-backed securities appear under "U.S. Government." Credit-quality ratings for each issue are obtained from Barclays using ratings derived from Moody's Investors Service (Moody's), Fitch Ratings (Fitch), and Standard & Poor's (S&P). When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Vanguard Short-Term Federal Fund (VSGDX)

Total returns: Admiral Shares

Calendar-year performance



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Vanguard Short-Term Federal Fund (VSGDX)

Investment commentary as of 9/30/2017

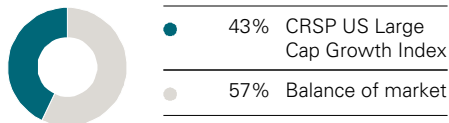
- The domestic taxable bond market provided a modest positive return over the quarter ended September 30. Continuing the trend from the first half of the year, returns increased with duration as the U.S. yield curve flattened. Short-term interest rates rose slightly while intermediate- and long-term yields held mostly steady. Corporate bonds outperformed both government bonds and securitized products as credit spreads compressed slightly, particularly for BBB-rated securities. The Federal Reserve confirmed its previously outlined plan for unwinding its balance sheet starting in October, drawing minimal market reaction. Toward quarter-end, investor excitement grew as Congress shifted its focus to initiating dialogue on tax reform. In this benign interest rate environment, the Bloomberg Barclays U.S. Aggregate Bond Index returned 0.85%, and the Bloomberg Barclays U.S. Treasury Index returned 0.38%.
- Yields inside of five years rose slightly during the quarter as the Federal Reserve maintained its commitment to gradual interest rate increases. The 3-month yield rose 3 basis points to 1.04%, the 2-year yield rose 10 basis points to 1.48%, and the 5-year yield increased by 5 basis points to 1.94%. In this environment, Vanguard Short-Term Federal Fund slightly outperformed its benchmark, the Bloomberg Barclays U.S. 1–5 Year Government Index (+0.29%), and the average return of its peer group (+0.22%).
- The benchmark index was 93.9% Treasury securities and 6.1% agency debt securities at quarter-end. The fund continues to favor agency debt securities and mortgage-backed securities (MBS) relative to the benchmark.
- The fund's duration of 2.4 years is structurally shorter than that of the benchmark index, which at quarter-end was about 2.8 years. The fund retains the flexibility to adjust its duration around its target. The impact from a shorter duration was modestly positive over the quarter. Additionally, the fund's greater exposure to agency debt and MBS helped returns over the quarter as both sectors slightly outpaced treasury securities.
- For the 12 months ended September 30, Treasury yields rose markedly across the curve. At the short end, the 3-month yield increased 77 basis points, the 2-year yield increased 72 basis points, and the 5-year yield rose 79 basis points. The Short-Term Federal Fund surpassed its benchmark (–0.06%) and its peer average (–0.22%). The fund's overweight allocation to agencies and its structurally shorter duration added value as short-term rates increased and agencies outperformed Treasuries.

Vanguard Growth Index Fund (VIGIX)

Investment approach

- Seeks to track the performance of the CRSP US Large Cap Growth Index.
- Large-cap growth equity.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.

Share of U.S. stock market (%)



As measured by the MSCI US Broad Market Index.

Key facts

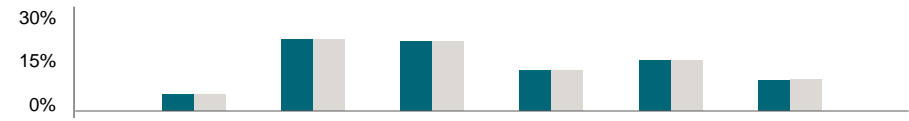
Expense ratio as of 04/27/2017	5 bps
As reported in the most recent prospectus.	
Designation	Domestic large-cap growth
Inception date	11/02/1992
Institutional Shares inception date	05/14/1998
Total net assets as of 09/30/2017 (\$M)	\$68,447
Net fund assets for VIGIX as of 09/30/2017 (\$M)	\$11,895
Holdings	317
Indexed to	CRSP US Large Cap Growth Index (CRSPLCGT)
Turnover rate (fiscal year-end 12/31/2016)	10.7%
CUSIP	922908868
Investment manager	Vanguard Equity Index Group

Risk and volatility

	R ²	Beta
Primary benchmark	1.00	1.00
Broad-based benchmark	0.89	1.03

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Performance



	Annualized					
	Quarter-end	Year-to-date	1-year	3-year	5-year	10-year
Fund	4.86%	20.32%	19.82%	11.51%	14.45%	8.87%
Benchmark	4.86%	20.37%	19.86%	11.56%	14.50%	8.91%
+/- Benchmark	0.00%	-0.05%	-0.04%	-0.05%	-0.05%	-0.04%

Spliced Growth Index: S&P 500 Growth Index (formerly known as the S&P 500/Barra Growth Index) through May 16, 2003; MSCI US Prime Market Growth Index through April 16, 2013; CRSP US Large Cap Growth Index thereafter.

Performance versus competitors

Percentage of Large-Cap Growth Funds outperformed by VIGIX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 638; 3-year, 574; 5-year, 517; 10-year, 379. Results will vary for other time periods.

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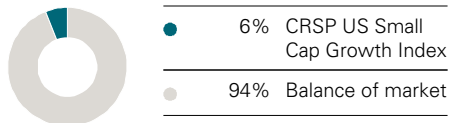
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Vanguard Small-Cap Growth Index Fund (VSGIX)

Investment approach

- Seeks to track the performance of the CRSP US Small Cap Growth Index.
- Small-cap growth equity.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.

Share of U.S. stock market (%)



As measured by the MSCI US Broad Market Index.

Key facts

Expense ratio as of 04/27/2017	6 bps
As reported in the most recent prospectus.	
Designation	Domestic small-cap growth
Inception date	05/21/1998
Institutional Shares inception date	05/24/2000
Total net assets as of 09/30/2017 (\$M)	\$20,066
Net fund assets for VSGIX as of 09/30/2017 (\$M)	\$3,584
Holdings	676
Indexed to	CRSP US Small Cap Growth Index (CRSPSCGT)
Turnover rate (fiscal year-end 12/31/2016)	27.0%
CUSIP	922908819
Investment manager	Vanguard Equity Index Group

Risk and volatility

	R ²	Beta
Primary benchmark	1.00	1.00
Broad-based benchmark	0.82	1.10

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.
Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Performance



	Annualized					
	Quarter-end	Year-to-date	1-year	3-year	5-year	10-year
Fund	4.78%	15.29%	16.93%	9.57%	12.78%	8.42%
Benchmark	4.76%	15.25%	16.85%	9.48%	12.66%	8.27%
+/- Benchmark	0.02%	0.04%	0.08%	0.09%	0.12%	0.15%

Spliced Small-Cap Growth Index: S&P SmallCap 600 Growth Index (formerly known as the S&P SmallCap 600/Barra Growth Index) through May 16, 2003; MSCI US Small Cap Growth Index through April 16, 2013; CRSP US Small Cap Growth Index thereafter.

Performance versus competitors

Percentage of Small-Cap Growth Funds outperformed by VSGIX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 534; 3-year, 480; 5-year, 435; 10-year, 329. Results will vary for other time periods.

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Vanguard Health Care Fund (VGHAX)

Investment approach

- Health care sector fund.
- Seeks long-term capital appreciation.
- Diversified across industry subsectors and market capitalizations.
- Invests in health care companies based in the United States and abroad.
- Fundamental approach.
- More conservatively positioned and geographically diversified than most competitors.

Key facts

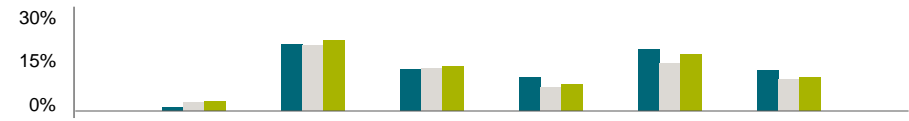
Expense ratio as of 05/25/2017	32 bps
As reported in the most recent prospectus.	
Designation	Sector/specialized
Inception date	05/23/1984
Admiral Shares inception date	11/12/2001
Total net assets as of 09/30/2017 (\$M)	\$48,109
Net fund assets for VGHAX as of 09/30/2017 (\$M)	\$37,880
Holdings	81
Benchmarked to	MSCI All Country World Health Care Index
Turnover rate (fiscal year-end 01/31/2017)	12.3%
CUSIP	921908885

Risk and volatility

	R ²	Beta
Primary benchmark	0.91	1.02
Broad-based benchmark	0.54	0.92

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.
 Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Performance



	Annualized					
	Quarter-end	Year-to-date	1-year	3-year	5-year	10-year
Fund	0.99%	18.99%	11.92%	9.69%	17.59%	11.46%
Benchmark	2.44%	18.65%	12.17%	6.56%	13.70%	8.94%
Global Health/Biotech Funds Avg	2.78%	20.06%	12.88%	7.69%	16.12%	9.78%

Spliced Health Care Index: S&P 500 Index through December 31, 2001; S&P Health Care Index through May 31, 2010; MSCI All Country World Health Care Index thereafter.

Performance versus competitors

Percentage of Global Health/Biotech Funds outperformed by VGHAX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 40; 3-year, 37; 5-year, 37; 10-year, 31. Results will vary for other time periods.

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Fund advisors



- 100% Wellington Management Company LLP

All data as of September 30, 2017, unless otherwise noted.

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Wellington Management Company LLP—Firm overview

Key facts

- Founded in 1928.
- Headquartered in Boston, Massachusetts.
- More than \$979 billion in assets under management as of December 31, 2016.
- More than 2,000 employees worldwide.
- Serves as an investment advisor to nearly 2,000 institutions.
- Investment strategies offered include equity, fixed income, and multistrategy/alternative asset classes.

Portfolio management

Jean M. Hynes, CFA, Senior Managing Director, Global Industry Analyst

- Portfolio manager.
- Advised the fund since 2008.
- Worked in investment management since 1991.
- B.A., Wellesley College.

Manager highlights

- Jean Hynes assumed sole portfolio manager responsibilities in 2013 after spending nearly 20 years working alongside the former leader portfolio manager, and including 5 years as associate portfolio manager.
- The Portfolio Manager is supported by the broad investment resources at Wellington, including seven global industry analysts dedicated to the fund, each covering a particular health care segment.

Investment focus

Asset class	Investment style	Portfolio turnover (target range)	Number of holdings (target range)	Investment theme
Global health care	Value	5%–15%	85–100	Contrarian approach; “Value investors in a growth sector.”

Investment philosophy/process

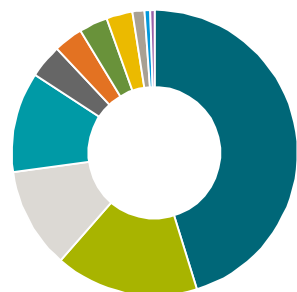
- The portfolio features benchmark-agnostic, bottom-up security selection, based on fundamental analysis that relies on the team's deep knowledge of health care science and technology.
- Wellington divides the health care space into five segments: major pharmaceuticals, mid-cap pharma/biotech, small-cap/specialty pharma/biotech, medical products, and health services.
- Research focuses on company attributes—product developments, quality of management, and financial management—emphasizing different ones depending on the stock's subsector.
- The portfolio is more conservatively positioned and geographically diverse than competitor funds, and has lower turnover.

Vanguard Health Care Fund (VGHAX)

Equity characteristics

	VGHAX	Benchmark
Number of stocks	81	176
Median market cap	\$47.9B	\$94.2B
P/E ratio (trailing earnings)	22.0x	22.9x
P/B ratio	3.3x	3.7x
Return on equity (5-year average)	15.0%	16.4%
Earnings growth rate (5-year)	2.2%	6.7%
Equity yield (dividend)	1.4%	1.9%
Foreign holdings	22.9%	33.6%
Turnover (fiscal year end)	12.3%	—
Short-term reserves	2.9%	N/A

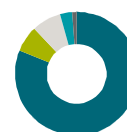
Subindustry diversification as a % of common stock



Sector	VGHAX	Benchmark
Pharmaceuticals	45.2%	46.2%
Biotechnology	16.2	17.7
Health Care Equipment	11.4	14.5
Managed Health Care	11.4	8.2
Health Care Distributors	3.8	2.0
Health Care Facilities	3.3	1.3
Health Care Technology	3.2	0.7
Life Sciences Tools & Services	3.0	4.2
Consumer Staples	1.3	0.0
Health Care Supplies	0.7	2.1
Health Care Services	0.5	3.1

Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.

Market-cap breakdown



Market capitalization	VGHAX	Benchmark
More than \$25	81.2%	86.5%
\$20 to \$25	6.8	4.6
\$7 to \$20	7.6	7.0
\$4 to \$7	3.1	1.6
Below \$4	1.3	0.4

Risk and volatility

	R-squared	Beta	Alpha	Standard deviation	Sharpe ratio
VGHAX	N/A	N/A	0.24	12.74	0.74
Primary benchmark	0.91	1.02	N/A	11.94	0.53
Broad-based benchmark	0.54	0.92	N/A	10.24	1.02

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.
Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Ten largest holdings

	% of total net assets
Bristol-Myers Squibb Co.	6.7%
UnitedHealth Group Inc.	5.5
Eli Lilly & Co.	5.0
AstraZeneca plc	5.0
Allergan plc	4.8
Merck & Co. Inc.	3.9
Vertex Pharmaceuticals Inc.	3.1
Medtronic plc	2.7
Regeneron Pharmaceuticals Inc.	2.7
McKesson Corp.	2.6
Top ten as a % of total net assets	42.0%

The holdings listed exclude any temporary cash investments and equity index products.

Vanguard Health Care Fund (VGHAX)

3-month attribution

	Portfolio			Benchmark			Attribution		Total effect
	Average weight	3-month return	Contribution to return	Average weight	3-month return	Contribution to return	Allocation effect	Select effect	
Health Care Equipment	11.0%	0.3%	0.0%	14.2%	0.3%	0.1%	0.1%	0.0%	0.1%
Health Care Services	0.6	-28.3	-0.2	3.2	-6.2	-0.2	0.2	-0.2	0.1
Managed Health Care	11.5	6.4	0.7	8.2	6.3	0.5	0.1	0.0	0.1
Cash	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Care Supplies	0.5	-8.9	0.0	2.2	0.7	0.0	0.0	0.0	0.0
Health Care Technology	3.1	3.2	0.1	0.7	3.5	0.0	0.0	0.0	0.0
Drug Retail	1.4	-0.9	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1
Life Sciences Tools & Services	3.0	10.2	0.3	4.2	9.0	0.4	-0.1	0.0	-0.1
Health Care Distributors	3.8	-8.6	-0.4	2.2	-9.2	-0.2	-0.2	0.0	-0.2
Health Care Facilities	3.4	-8.3	-0.3	1.5	-6.8	-0.1	-0.2	-0.1	-0.2
Biotechnology	16.0	7.6	1.2	17.1	9.7	1.6	-0.1	-0.3	-0.4
Pharmaceuticals	44.5	-0.7	-0.4	46.6	1.1	0.5	0.0	-0.8	-0.8
Total	100.0%	1.1%	1.1%	100.0%	2.5%	2.5%	0.0%	-1.4%	-1.4%

The portfolio attribution data shown above is provided by FactSet based on information provided by Vanguard about the fund's daily portfolio holdings as of the market close. Because the fund buys and sells stocks throughout the trading day and not necessarily at the market close, the attribution data shown above is an estimate and may not precisely reflect actual attribution information. Information noted above does not reflect fair-value adjustments to prices of foreign securities held in the portfolio.

Vanguard Health Care Fund (VGHAX)

12-month attribution

	Portfolio			Benchmark			Attribution		Total effect
	Average weight	12-month return	Contribution to return	Average weight	12-month return	Contribution to return	Allocation effect	Select effect	
Biotechnology	15.4%	33.3%	4.8%	17.1%	20.3%	3.3%	0.0%	1.8%	1.8%
Managed Health Care	11.5	43.3	4.6	7.6	43.3	3.1	1.3	0.0	1.3
Health Care Services	0.7	-28.7	-0.2	3.4	-3.0	-0.1	0.4	-0.2	0.3
Health Care Equipment	10.5	14.1	1.4	13.7	13.1	1.8	-0.1	0.1	0.0
Health Care Technology	3.0	11.6	0.3	0.6	2.5	0.0	-0.3	0.3	0.0
Health Care Facilities	3.6	0.2	0.1	1.5	-8.8	-0.2	-0.5	0.4	-0.1
Health Care Supplies	0.4	11.0	0.1	2.0	17.8	0.4	-0.1	0.0	-0.1
Drug Retail	1.5	-2.5	0.0	0.0	0.0	0.0	-0.2	0.0	-0.2
Life Sciences Tools & Services	3.3	21.0	0.6	3.8	23.8	0.9	-0.1	-0.1	-0.2
Cash	1.4	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	-0.3
Health Care Distributors	3.8	-8.7	-0.4	2.4	-5.4	-0.2	-0.3	-0.1	-0.4
Pharmaceuticals	45.0	2.4	1.1	47.8	7.9	3.6	0.2	-2.4	-2.3
Total	100.0%	12.4%	12.4%	100.0%	12.7%	12.7%	-0.3%	0.0%	-0.3%

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Vanguard Health Care Fund (VGHAX)

Top contributors—3 month

	3-month return	Total effect	Ending weight	Benchmark weight
Alnylam Pharmaceuticals Inc	47.3%	0.6%	2.0%	0.0%
Bristol-Myers Squibb Company	15.2	0.6	6.9	2.2
Vertex Pharmaceuticals Incorporated	18.0	0.4	3.1	0.8
Johnson & Johnson	-1.1	0.3	0.0	7.2
GlaxoSmithKline plc	-4.8	0.2	0.0	2.0

Top contributors—12 month

	12-month return	Total effect	Ending weight	Benchmark weight
Vertex Pharmaceuticals Incorporated	74.3%	1.2%	3.1%	0.8%
Alnylam Pharmaceuticals Inc	73.3	0.8	2.0	0.0
UnitedHealth Group Incorporated	42.1	0.8	5.7	3.9
Incyte Corporation	23.8	0.5	2.3	0.4
Bristol-Myers Squibb Company	21.5	0.5	6.9	2.2

Top detractors—3 month

	3-month return	Total effect	Ending weight	Benchmark weight
Allergan plc	-15.4%	-0.7%	4.9%	1.4%
AbbVie Inc.	23.6	-0.5	0.0	2.9
Mylan N.V.	-19.2	-0.5	2.0	0.3
Teva Pharmaceutical Industries Limited	-46.8	-0.3	1.0	0.3
Regeneron Pharmaceuticals Inc.	-9.0	-0.3	2.7	0.7

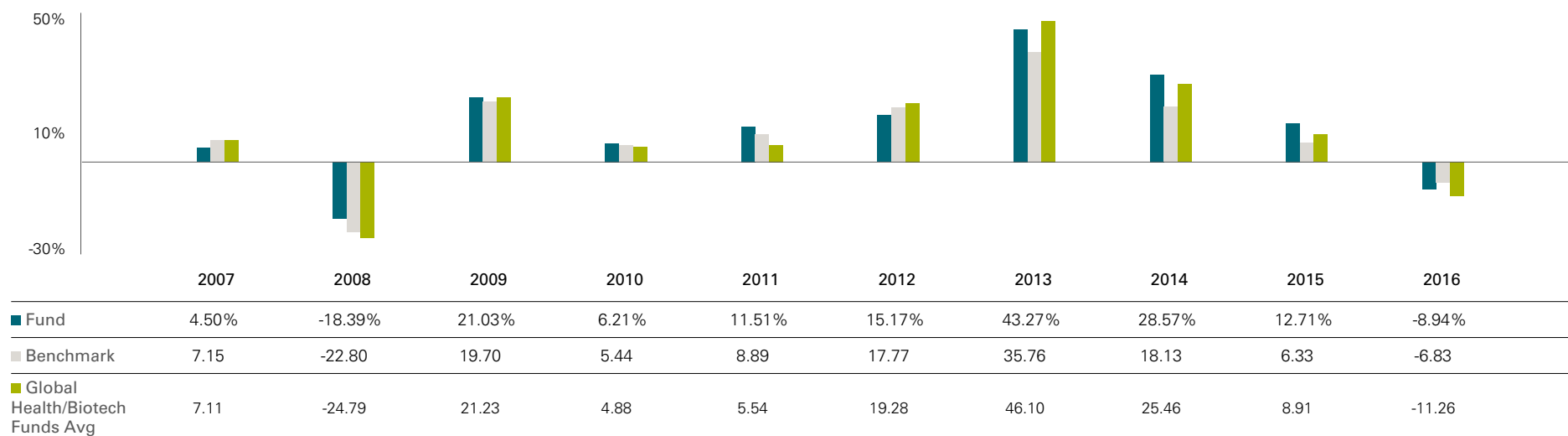
Top detractors—12 month

	12-month return	Total effect	Ending weight	Benchmark weight
Allergan plc	-10.2%	-0.8%	4.9%	1.4%
AbbVie Inc.	46.4	-0.7	0.0	2.9
Mylan N.V.	-17.7	-0.6	2.0	0.3
Bayer AG	38.9	-0.5	0.0	2.3
Eisai Co. Ltd.	-15.2	-0.5	1.6	0.3

Vanguard Health Care Fund (VGHAX)

Total returns: Admiral Shares

Calendar-year performance



Spliced Health Care Index: S&P 500 Index through December 31, 2001; S&P Health Care Index through May 31, 2010; MSCI All Country World Health Care Index thereafter.

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 our website at vanguard.com/performance.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Vanguard Health Care Fund (VGHAX)

Investment commentary as of 9/30/2017

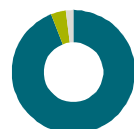
- For the first nine months of 2017, the MSCI All Country World Index returned 17.25%, its best year-to-date performance in eight years. For the quarter ended September 30, the index returned 5.18%, its 17th positive performance in the last 20 quarters. In the United States, larger-capitalization stocks, as measured by the Russell 1000 Index (+4.48%), underperformed smaller-caps, as measured by the Russell 2000 Index (+5.67%). The MSCI All Country World Health Care Index, the benchmark for Vanguard Health Care Fund, returned 2.44% in its third consecutive quarterly advance. Vanguard Health Care Fund lagged its benchmark as well as the average return of its peers (+2.78%).
- Stock selection in pharmaceuticals continued to weigh on relative results for the quarter. Notable detractors included Allergan (–15%), which is embroiled in a federal patent trial in its effort to protect eye-care drug Restasis, and Mylan (–19%), which missed on earnings for the second quarter and endured litigation in September following two potential cases of patent infringement. A lack of exposure to strong benchmark holding Novo Nordisk (+13%) also hurt.
- On the other side of the ledger, an overweighted allocation to the managed health care subindustry boosted the fund. Allocations to strong performers Cigna (+12%) and UnitedHealth Group (+6%) buoyed returns. Underweighting the health care equipment subindustry also helped, as benchmark returns for the group were nearly flat (+0.3%). Avoiding DexComm (–33%) was positive as the stock’s share price dropped on the announcement of FDA approval for competitor Abbot’s innovative new diabetes measurement device.
- For the 12 months ended September 30, Vanguard Health Care Fund narrowly trailed its benchmark (+12.17%) and peers (+12.88%). Poor stock selection in pharmaceuticals —specifically, overweighted allocations to Allergan (–10%) and Mylan (–18%)—dragged on returns. Missing biotechnology stock AbbVie (+46%) also detracted. The fund struggled with stock selection outside the United States, and the European and Pacific regions both restrained performance. In particular, missing strong French and German names Sanofi (+35%) and Bayer (+39%) significantly diminished relative results. Positive selection in the biotechnology and managed health care subindustries nearly balanced out returns; Vertex Pharmaceuticals (+73%), UnitedHealth Group (+42%), and Alnylam (+73%) stood out.

Vanguard Energy Fund (VGELX)

Investment approach

- Energy sector fund.
- Multi-cap equity.
- Seeks long-term capital appreciation.
- Multimanager structure.

Fund advisors



●	94%	Wellington Management Company LLP
●	4%	Vanguard Quantitative Equity Group
●	2%	Cash investments

Key facts

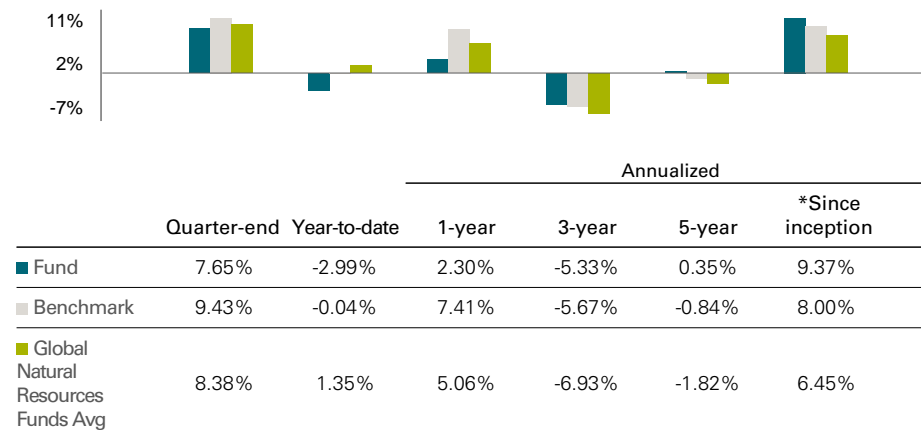
Expense ratio as of 05/25/2017	33 bps
As reported in the most recent prospectus.	
Designation	Sector/specialized
Inception date	05/23/1984
Admiral Shares inception date	11/12/2001
Total net assets as of 09/30/2017 (\$M)	\$9,482
Net fund assets for VGELX as of 09/30/2017 (\$M)	\$6,511
Holdings	136
Benchmarked to	MSCI ACWI Energy Index
Turnover rate (fiscal year-end 01/31/2017)	28.6%
CUSIP	921908802

Risk and volatility

	R ²	Beta
Primary benchmark	0.96	1.05
Broad-based benchmark	0.27	1.01

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Performance



Spliced Energy Index: S&P 500 Index through November 30, 2000; S&P Energy Sector Index through May 31, 2010; MSCI All Country World Energy Index thereafter.

* Since fund's inception, November 12, 2001.

Performance versus competitors

Percentage of Global Natural Resources Funds outperformed by VGELX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 104; 3-year, 100; 5-year, 91; 10-year, 60. Results will vary for other time periods.

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 our website at vanguard.com/performance. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

All data as of September 30, 2017, unless otherwise noted.

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Energy Fund—Managers

The fund employs a multimanager approach. By combining high-caliber managers who have differentiated strategies, the fund seeks to improve the relative predictability of outperformance.

Fund managers

	Vanguard Quantitative Equity Group	Wellington Management Company LLP
Manager start date	2005	1984
Portfolio manager (start date)	James P. Stetler (2012) Binbin Guo (2010)	Gregory LeBlanc (2015)
Current allocation (as of September 30, 2017)	4%	94%
Investment focus	Global all-cap energy equity	Global large- and mid-cap energy equity
Investment style	Quantitative—fundamental	Contrarian value
Characteristics	<ul style="list-style-type: none"> The quantitative investment process results in a diversified risk-controlled portfolio. Attractive securities are identified based on variables that include valuation, quality, sentiment, and management decisions. 	<ul style="list-style-type: none"> Wellington takes a long-term, low-turnover approach, with bottom-up fundamental stock selection. It focuses on companies with sustainable earnings through cyclical market fluctuations. The investment process emphasizes company fundamentals, management, and valuation. All else equal, Wellington tends to trim on strength and add on weakness.

Vanguard Quantitative Equity Group—Firm overview

Key facts

- Founded in 1975.
- Headquartered in Malvern, Pennsylvania.
- Active equity AUM of more than \$29 billion as of December 31, 2016.
- Approximately 25-member team dedicated to modeling, fund management, and analysis.
- Vanguard Equity Investment Group is led by Greg Davis, CIO of Vanguard, and John Ameriks, Ph.D., principal and head of the Quantitative Equity Group.

Portfolio management

James P. Stetler, Principal

- Portfolio manager.
- Advised the fund since 2012.
- Worked in investment management since 1996.
- B.S., Susquehanna University.
- M.B.A., Saint Joseph's University.

Binbin Guo, Principal, Head of Equity Research and Portfolio Strategies

- Portfolio manager.
- Advised the fund since 2010.
- Worked in investment management since 1998.
- B.S. and M.S., Tsinghua University.
- Ph.D. and M.Phil., Yale University.

Manager highlights

- The portfolio managers use a disciplined, risk-controlled process that chooses quality companies with below-average valuation, above-average earnings growth, and good momentum.
- Models are focused on measuring the fundamental economic prospects of firms and the business foundation for future returns.

Investment focus

Asset class	Investment style	Portfolio turnover (target range)	Number of holdings (target range)	Investment theme
Global all-cap energy equities	Quantitative	50%–100%	75–125	The portfolio exhibits discounted valuations and a higher-quality bias relative to its benchmark.

Investment philosophy/process

- Vanguard Quantitative Equity Group uses a quantitative investment process that attempts to provide a long-term return greater than that of the benchmark while tightly controlling risk.
- Attractive securities are identified based on variables that include valuation, quality, growth, sentiment, and management decisions.
- The manager aims to achieve outperformance through stock selection, as exposures to common risk factors are neutralized.

Stock selection model overview



Wellington Management Company LLP—Firm overview

Key facts

- Founded in 1928.
- Headquartered in Boston, Massachusetts.
- More than \$979 billion in assets under management as of December 31, 2016.
- More than 2,000 employees worldwide.
- Serves as an investment advisor to nearly 2,000 institutions.
- Investment strategies offered include equity, fixed income, and multistrategy/alternative asset classes.

Portfolio management

Gregory LeBlanc, CFA, Senior Managing Director, Global Industry Analyst

- Portfolio manager.
- Advised the fund since 2015.
- Worked in investment management since 1995.
- B.A., Bates College.

Manager highlights

- The portfolio manager leads a deep and stable team of portfolio managers and analysts based in Boston and Singapore.
- The team takes a contrarian, long-term, bottom-up approach.

Investment focus

Asset class	Investment style	Portfolio turnover (target range)	Number of holdings (target range)	Investment theme
Global large- and mid-cap energy equity	Contrarian value	20%–30%	70–80	Long-term, contrarian, bottom-up fundamental stock selection

Investment philosophy/process

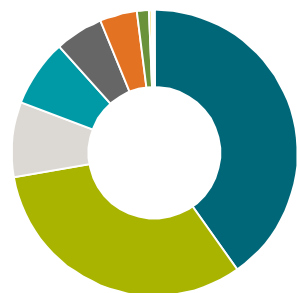
- Wellington employs a global fundamental, bottom-up, discounted-cash-flow approach to calculating intrinsic valuations.
- It looks for companies with quality management, superior assets, and a sustainable competitive edge.
- The advisor focuses on companies that offer significant potential for capital appreciation and possess high-quality earnings that should be sustainable through cyclical market fluctuations.
- The portfolio has low turnover and a long-term horizon.
- The contrarian approach adds on weakness and trims on strength, assuming company fundamentals are unchanged.
- The portfolio is diversified across sub-sectors and individual holdings, with no holding to exceed 10% of the fund and the top three holdings not to exceed 25% of the fund.

Vanguard Energy Fund (VGELX)

Equity characteristics

	VGELX	Benchmark
Number of stocks	136	139
Median market cap	\$42.8B	\$60.9B
P/E ratio (trailing earnings)	27.7x	23.2x
P/B ratio	1.7x	1.5x
Return on equity (5-year average)	5.8%	7.4%
Earnings growth rate (5-year)	-21.9%	-21.5%
Equity yield (dividend)	2.6%	3.7%
Foreign holdings	31.5%	50.5%
Turnover (fiscal year end)	28.6%	—
Short-term reserves	0.5%	N/A

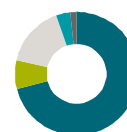
Subindustry diversification as a % of common stock



Sector	VGELX	Benchmark
● Integrated Oil & Gas	40.1%	53.2%
● Oil & Gas Exploration & Production	32.0	18.6
● Oil & Gas Refining & Marketing	8.5	9.6
● Oil & Gas Equipment & Services	7.6	7.2
● Utilities	5.4	0.0
● Oil & Gas Storage & Transportation	4.2	10.3
● Oil & Gas Drilling	1.3	0.3
● Information Technology	0.3	0.0
● Industrials	0.2	0.0
● Consumer Discretionary	0.1	0.0
● Consumer Staples	0.1	0.0

Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.

Market-cap breakdown



Market capitalization	VGELX	Benchmark
● More than \$25	70.9%	81.5%
● \$20 to \$25	7.7	6.1
● \$7 to \$20	15.9	9.4
● \$4 to \$7	3.8	2.7
● Below \$4	1.7	0.4

Risk and volatility

	R-squared	Beta	Alpha	Standard deviation	Sharpe ratio
VGELX	N/A	N/A	0.07	19.81	-0.28
Primary benchmark	0.96	1.05	N/A	18.51	-0.32
Broad-based benchmark	0.27	1.01	N/A	10.24	1.02

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.
Broad-based benchmark: Dow Jones U.S. Total Stock Market Float Adjusted Index.

Ten largest holdings

	% of total net assets
Exxon Mobil Corp.	9.3%
Chevron Corp.	6.5
Royal Dutch Shell plc	4.5
Pioneer Natural Resources Co.	4.3
TOTAL SA	4.0
EOG Resources Inc.	3.2
BP plc	3.1
Schlumberger Ltd.	3.1
Valero Energy Corp.	2.5
Diamondback Energy Inc.	2.4
Top ten as a % of total net assets	42.9%

The holdings listed exclude any temporary cash investments and equity index products.

Vanguard Energy Fund (VGELX)

3-month attribution

	Portfolio			Benchmark			Attribution		
	Average weight	3-month return	Contribution to return	Average weight	3-month return	Contribution to return	Allocation effect	Select effect	Total effect
Oil & Gas Storage & Transportation	4.2%	2.9%	0.2%	10.8%	3.9%	0.5%	0.4%	0.0%	0.3%
Asset Management & Custody Banks	0.6	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coal & Consumable Fuels	0.0	0.0	0.0	1.0	10.1	0.1	0.0	0.0	0.0
Diversified Metals & Mining	0.0	24.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gas Utilities	0.0	15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Heavy Electrical Equipment	0.1	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industrial Conglomerates	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Renewable Electricity	0.1	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Semiconductor Equipment	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multi-Utilities	2.3	7.3	0.2	0.0	0.0	0.0	-0.1	0.0	-0.1
Oil & Gas Drilling	1.1	3.9	0.0	0.3	0.7	0.0	-0.1	0.0	-0.1
Oil & Gas Equipment & Services	7.4	4.8	0.3	7.3	5.8	0.4	0.0	-0.1	-0.1
Oil & Gas Refining & Marketing	8.2	12.5	1.0	9.6	13.1	1.3	0.0	-0.1	-0.1
Electric Utilities	2.7	3.0	0.1	0.0	0.0	0.0	-0.2	0.0	-0.2
Cash	4.7	0.1	0.0	0.0	0.0	0.0	-0.5	0.0	-0.5
Integrated Oil & Gas	38.5	10.5	4.0	52.8	11.4	5.9	-0.2	-0.3	-0.6
Oil & Gas Exploration & Production	30.1	5.7	1.8	18.3	8.7	1.6	-0.1	-0.9	-1.0
Total	100.0%	7.5%	7.5%	100.0%	9.8%	9.8%	-0.5%	-1.8%	-2.3%

The portfolio attribution data shown above is provided by FactSet based on information provided by Vanguard about the fund's daily portfolio holdings as of the market close. Because the fund buys and sells stocks throughout the trading day and not necessarily at the market close, the attribution data shown above is an estimate and may not precisely reflect actual attribution information. Information noted above does not reflect fair-value adjustments to prices of foreign securities held in the portfolio.

Vanguard Energy Fund (VGELX)

12-month attribution

	Portfolio			Benchmark			Attribution		Total effect
	Average weight	12-month return	Contribution to return	Average weight	12-month return	Contribution to return	Allocation effect	Select effect	
Electric Utilities	2.3%	23.1%	0.5%	0.0%	0.0%	0.0%	0.2%	0.0%	0.2%
Oil & Gas Storage & Transportation	3.8	-3.0	-0.1	10.1	1.6	0.2	0.4	-0.2	0.2
Multi-Utilities	1.7	9.6	0.3	0.0	0.0	0.0	0.1	0.0	0.1
Oil & Gas Equipment & Services	8.1	-1.9	-0.3	8.3	-4.3	-0.4	-0.1	0.2	0.1
Commodity Chemicals	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diversified Chemicals	0.0	0.0	0.0	0.1	-1.1	0.0	0.0	0.0	0.0
Diversified Metals & Mining	0.0	35.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gas Utilities	0.0	31.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Heavy Electrical Equipment	0.1	-10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industrial Conglomerates	0.0	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Renewable Electricity	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Semiconductor Equipment	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset Management & Custody Banks	0.6	-1.3	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1
Oil & Gas Drilling	1.4	-5.7	-0.1	0.3	-14.2	-0.1	-0.2	0.1	-0.1
Oil & Gas Refining & Marketing	7.5	38.2	2.5	8.5	34.8	2.8	-0.2	0.2	-0.1
Coal & Consumable Fuels	0.0	-6.1	0.0	0.9	32.8	0.3	-0.2	0.0	-0.2
Cash	4.7	0.2	0.0	0.0	0.0	0.0	-0.7	0.0	-0.7
Integrated Oil & Gas	36.1	11.3	3.9	52.1	13.3	6.8	-0.7	-0.7	-1.4
Oil & Gas Exploration & Production	33.7	-12.1	-4.5	19.6	-5.8	-1.3	-1.9	-2.3	-4.2
Total	100.0%	2.2%	2.2%	100.0%	8.3%	8.3%	-0.7%	-5.4%	-6.1%

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Vanguard Energy Fund (VGELX)

Top contributors—3 month

	3-month return	Total effect	Ending weight	Benchmark weight
Exxon Mobil Corporation	2.5%	0.2%	9.2%	12.6%
Galp Energia SGPS S.A.	19.3	0.1	1.7	0.3
Cimarex Energy Co.	21.0	0.1	1.5	0.4
Apache Corporation	-4.0	0.1	0.0	0.6
Williams Companies Inc.	0.1	0.1	0.0	0.9

Top contributors—12 month

	12-month return	Total effect	Ending weight	Benchmark weight
Exxon Mobil Corporation	-2.5%	0.4%	9.2%	12.6%
Valero Energy Corporation	51.2	0.3	2.5	1.3
Galp Energia SGPS S.A.	34.3	0.3	1.7	0.3
Apache Corporation	-27.0	0.2	0.0	0.6
Enbridge Inc.	0.4	0.2	0.1	2.5

Top detractors—3 month

	3-month return	Total effect	Ending weight	Benchmark weight
Pioneer Natural Resources Company	-7.5%	-0.7%	4.3%	0.9%
[Cash]	0.1	-0.5	5.6	0.0
Royal Dutch Shell Plc	15.6	-0.3	4.4	9.1
Antero Resources Corp.	-7.9	-0.2	1.0	0.2
QEP Resources Inc.	-15.2	-0.1	0.4	0.0

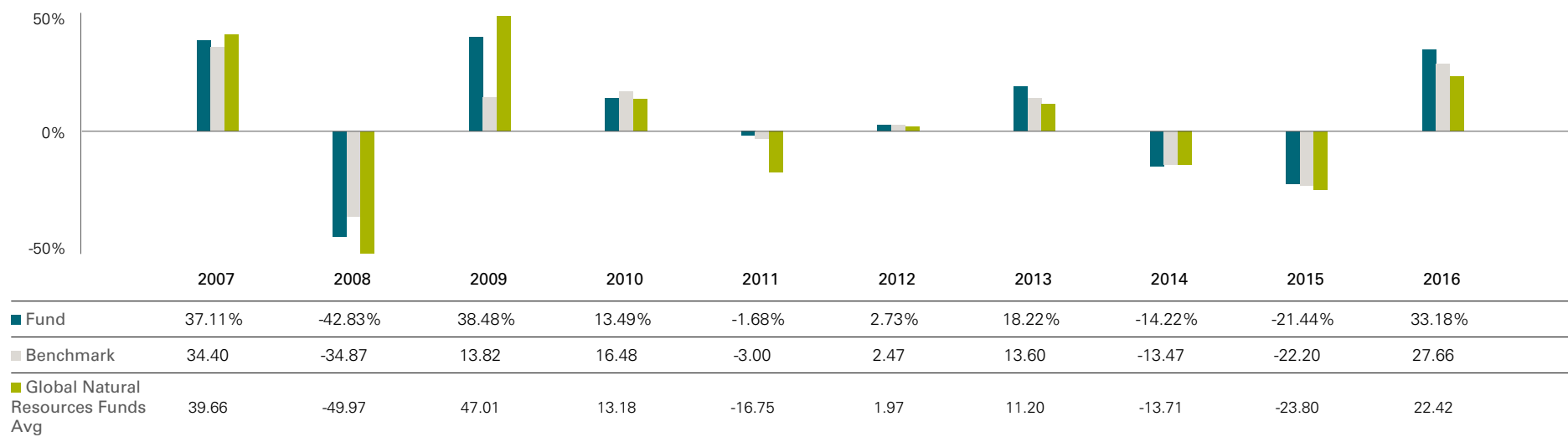
Top detractors—12 month

	12-month return	Total effect	Ending weight	Benchmark weight
Pioneer Natural Resources Company	-20.5%	-1.2%	4.3%	0.9%
Royal Dutch Shell Plc	28.4	-0.8	4.4	9.1
QEP Resources Inc.	-56.1	-0.7	0.4	0.0
Newfield Exploration Company	-31.7	-0.6	1.4	0.2
[Cash]	0.2	-0.5	5.6	0.0

Vanguard Energy Fund (VGELX)

Total returns: Admiral Shares

Calendar-year performance



Spliced Energy Index: S&P 500 Index through November 30, 2000; S&P Energy Sector Index through May 31, 2010; MSCI All Country World Energy Index thereafter.

* Since fund's inception, November 12, 2001.

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Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Vanguard Energy Fund (VGELX)

Investment commentary as of 9/30/2017

- Global equity markets advanced for the third quarter as economic data pointed toward a healthy global economy, giving central banks the confidence to discuss their intention to tighten monetary stimulus in the near future. Against this background, the MSCI All Country World Index returned 5.18%. Oil prices rallied sharply after declining over the first two quarters of the year. West Texas Crude rose 12.2% for the third quarter, but Henry Hub Natural Gas was down 2.0%. In this environment, global energy stocks outpaced the broader equity markets. Vanguard Energy Fund underperformed its benchmark, the MSCI ACWI Energy Index (+9.43%), and the average return of its peers (+8.38%).
- The main driver of the fund's underperformance for the quarter was poor selection among exploration and production companies, with Pioneer Natural Resources (-8%) and Antero Resources (-8%) the biggest detractors. The fund's cash allocation also hurt amid the sharply rising market.
- By region, the fund's large overweight allocation to North America and corresponding underweight allocations to energy companies in Europe and emerging markets dragged on performance, as European energy firms continued to outperform their U.S. and Canadian counterparts.
- For the 12 months ended September 30, Vanguard Energy Fund lagged its benchmark (+7.41%) and peer average (+5.06%). West Texas Crude rose 7.1%, with Henry Hub Natural Gas prices advancing 1.7%. An overweight allocation to, and weak stock selection among, exploration and production companies primarily drove the fund's underperformance. Pioneer Natural Resources (-21%) and QEP Resources (-56%) were the main laggards. By region, the portfolio's overweighting of North America and corresponding underweight positions in Europe and emerging markets drove about half the underperformance, with weak selection in North America accounting for the rest.

Vanguard Energy Index Fund (VENAX)

Investment approach

- Seeks to track the performance of the MSCI US Investable Market Energy 25/50 Index.
- Multicapitalization equity in the energy sector.
- Passively managed, uses full-replication strategy when possible.
- If regulatory constraints prevent full replication, uses sampling strategy to approximate the index's key characteristics.
- Fund remains fully invested.
- Low expenses minimize net tracking error.

Key facts

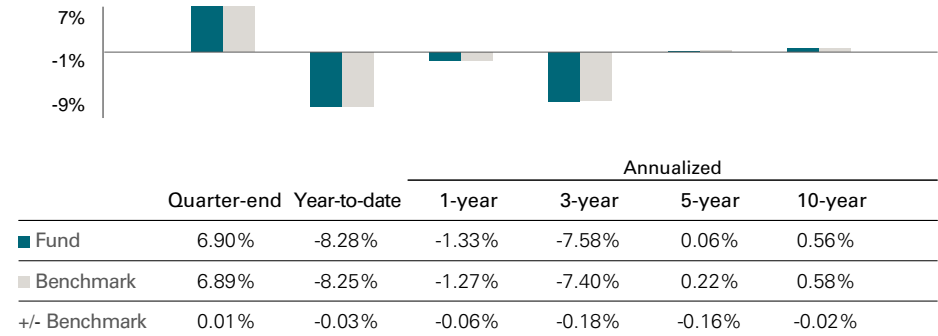
Expense ratio as of 12/22/2016	
10 bps	
As reported in the most recent prospectus.	
Designation	Sector/specialized
Inception date	09/23/2004
Admiral Shares inception date	10/07/2004
Total net assets as of 09/30/2017 (\$M)	\$4,498
Net fund assets for VENAX as of 09/30/2017 (\$M)	\$577
Holdings	134
Indexed to	MSCI US IMI Energy 25/50 Index (M5US5ENI)
Turnover rate (fiscal year-end 08/31/2017)	14.8%
CUSIP	92204A843
Investment manager	Vanguard Equity Index Group

Risk and volatility

	R ²	Beta
Primary benchmark	1.00	0.99
Broad-based benchmark	0.28	1.06

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: MSCI US Investable Market 2500 Index.

Performance



Spliced U.S. Investable Market Energy 25/50 Index: MSCI US Investable Market Energy Index through February 26, 2010; MSCI US Investable Market Energy 25/50 Index thereafter.

Performance versus competitors

Percentage of Natural Resources Funds outperformed by VENAX



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2017. Number of funds in category: 1-year, 65; 3-year, 59; 5-year, 46; 10-year, 41. Results will vary for other time periods.

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 our website at vanguard.com/performance. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

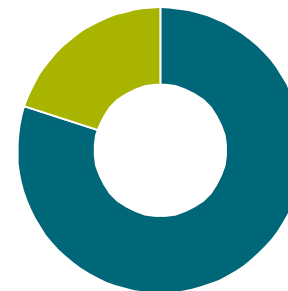
Vanguard Equity Index Group—Firm overview

Vanguard Equity Index Group (EIG) manages assets with high fiduciary and professional standards.

Key facts

- Assets under management: \$2 trillion.
- 125 portfolios tracking more than 70 indexes.
- Benchmarks: Standard & Poor's, Russell, MSCI, FTSE, and CRSP.
- 51 investment professionals.
- Average portfolio manager tenure: 16 years.
- Average expense ratio: 0.10%.*

Equity index asset distribution



- 80% Domestic
- 20% International

Portfolio management

William Coleman, CFA

- Portfolio manager.
- Advised the fund since 2015.
- Worked in investment management since 2006.
- B.S., King's College.
- M.S., Saint Joseph's University.

Scott E. Geiger, CFA

- Portfolio manager.
- Advised the fund since 2015.
- Worked in investment management since 2008.
- B.S., Millersville University.

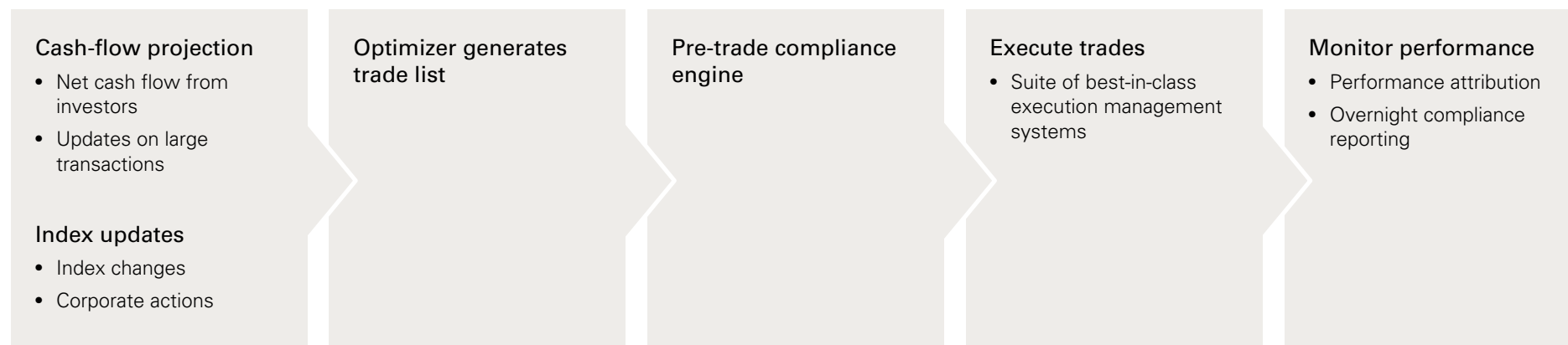
Source: Vanguard, as of September 30, 2017.

* Asset-weighted expense ratio for all Vanguard equity index funds.

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Vanguard's equity indexing process

A day in the life of a Vanguard portfolio manager



Tracking differences

The fund seeks to track its benchmark, but tracking differences can occur. The main sources of these differences are:

Expense ratio

- The fund's expense ratio is an ongoing contributor to tracking differences.

Securities lending

- Vanguard operates a very conservative securities lending program.
- Funds selectively lend "specials," not general collateral.
- All net revenue (net of broker rebates, direct operating expenses, and agent fees) is returned to portfolios.
- Program has rigorous risk controls and invests collateral in a high quality money market fund.

Other

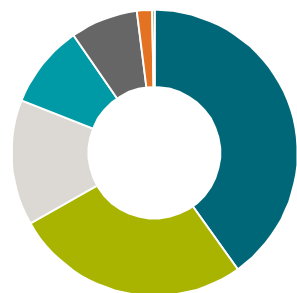
- Index sampling differences.
- Use of futures.
- Index change management.
- Trading costs.
- Impact of NAV penny rounding.

Vanguard Energy Index Fund (VENAX)

Equity characteristics

	VENAX	Benchmark
Number of stocks	134	133
Median market cap	\$55.9B	\$55.9B
P/E ratio (trailing earnings)	36.1x	36.1x
P/B ratio	1.8x	1.8x
Return on equity (5-year average)	10.1%	10.1%
Earnings growth rate (5-year)	-16.3%	-16.6%
Equity yield (dividend)	2.6%	2.6%
Foreign holdings	1.1%	—
Turnover (fiscal year end)	14.8%	—
Short-term reserves	0.0%	N/A

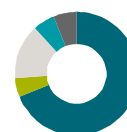
Subindustry diversification as a % of common stock



Sector	VENAX	Benchmark
● Integrated Oil & Gas	40.1%	40.1%
● Oil & Gas Exploration & Production	26.7	26.7
● Oil & Gas Equipment & Services	14.2	14.2
● Oil & Gas Refining & Marketing	9.4	9.4
● Oil & Gas Storage & Transportation	7.6	7.6
● Oil & Gas Drilling	1.7	1.6
● Coal & Consumable Fuels	0.3	0.3

Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.

Market-cap breakdown



Market capitalization	VENAX	Benchmark
● More than \$25	68.9%	68.9%
● \$20 to \$25	4.8	4.8
● \$7 to \$20	14.6	14.6
● \$4 to \$7	5.6	5.6
● Below \$4	6.1	6.1

Risk and volatility

	R-squared	Beta	Alpha	Standard deviation	Sharpe ratio
VENAX	N/A	N/A	-0.02	20.30	-0.39
Primary benchmark	1.00	0.99	N/A	20.41	-0.38
Broad-based benchmark	0.28	1.06	N/A	10.25	1.02

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark. Broad-based benchmark: MSCI US Investable Market 2500 Index.

Ten largest holdings

	% of total net assets
Exxon Mobil Corp.	21.8%
Chevron Corp.	15.0
Schlumberger Ltd.	6.6
ConocoPhillips	4.2
EOG Resources Inc.	3.8
Occidental Petroleum Corp.	3.3
Phillips 66	2.9
Halliburton Co.	2.7
Kinder Morgan Inc.	2.6
Valero Energy Corp.	2.4
Top ten as a % of total net assets	65.3%

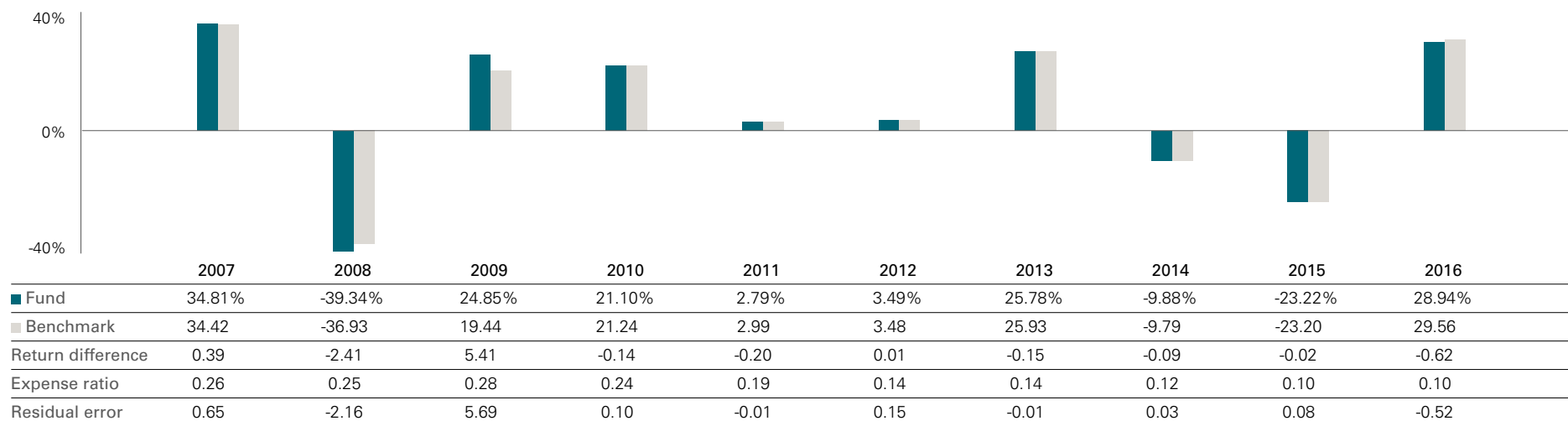
The holdings listed exclude any temporary cash investments and equity index products.

Vanguard Energy Index Fund (VENAX)

Performance and tracking differences

As of September 30, 2017	Quarter-end	Year-to-date	Annualized			
			1-year	3-year	5-year	10-year
VENAX	6.90%	-8.28%	-1.33%	-7.58%	0.06%	0.56%
Benchmark	6.89	-8.25	-1.27	-7.40	0.22	0.58
Return difference	0.01	-0.03	-0.06	-0.18	-0.16	-0.02
Expense ratio	0.03	0.08	0.10	0.11	0.12	0.18
Residual error	0.03	0.05	0.05	-0.07	-0.04	0.16

Calendar-year performance



Spliced U.S. Investable Market Energy 25/50 Index: MSCI US Investable Market Energy Index through February 26, 2010; MSCI US Investable Market Energy 25/50 Index thereafter.

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 our website at vanguard.com/performance.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Note: Except for the most recent quarter, the expense ratios presented are the funds' actual operating expenses and they exclude any acquired fees and expenses, which result from the funds' holdings in business development companies (BDCs). BDC expenses are not direct costs paid by fund shareholders and are not used to calculate the fund's net asset value.

Vanguard Energy Index Fund (VENAX)

Investment commentary as of 9/30/2017

- During the quarter ended September 30, global stock markets continued to rise. The United States, Europe, Asia, and the United Kingdom posted positive results. But emerging markets led the way, bolstered by strong earnings growth and a weaker U.S. dollar. Demand for bonds helped boost global fixed income returns, even as investors flocked to equities. Accommodative monetary policies outside the United States also supported bond prices, although central bank actions suggested a bias toward less accommodation going forward.
- The MSCI US Investable Market Energy 25/50 Index returned 6.89% for the quarter. The MSCI US Investable Market 2500, which measures the U.S. stock market, returned 4.52%.
- Chevron (+13.8%), ConocoPhillips (+14.6%), and Exxon Mobil (+2.5%) added the most to results.
- Pioneer Natural Resources (-7.5%), Apache (-4.0%), and Range Resources (-15.5%) were the top detractors from performance.
- For the 12 months ended September 30, the MSCI US Investable Market Energy 25/50 Index returned -1.27%. Schlumberger NV (-8.9%), Anadarko Petroleum (-22.6%), and Exxon Mobil (-2.5%) detracted the most from performance. Chevron (+18.8%), Valero Energy (+51.2%), and ConocoPhillips (+17.8%) were the top contributors.

Vanguard business update

What's new at Vanguard

Vanguard news

- Tim Buckley to succeed Bill McNabb as Vanguard CEO, our fourth CEO in Vanguard's 42-year history
- Greg Davis to succeed Tim Buckley as chief investment officer
- May expense ratio changes: Vanguard has reported reductions for 226 offerings for a cumulative estimated savings to investors of \$337 million based on total assets from January through May 2017*
- Vanguard's net cash flow in 2016 totaled \$303 billion; year-to-date as of May 31, 2017, net cash flow totaled \$181 billion
- Vanguard files a preliminary proxy statement with the U.S. Securities and Exchange Commission (SEC). Shareholders can begin to vote online, by phone, or by mail beginning in late August 2017; the shareholder meeting is scheduled for November 15, 2017, in Scottsdale, Arizona

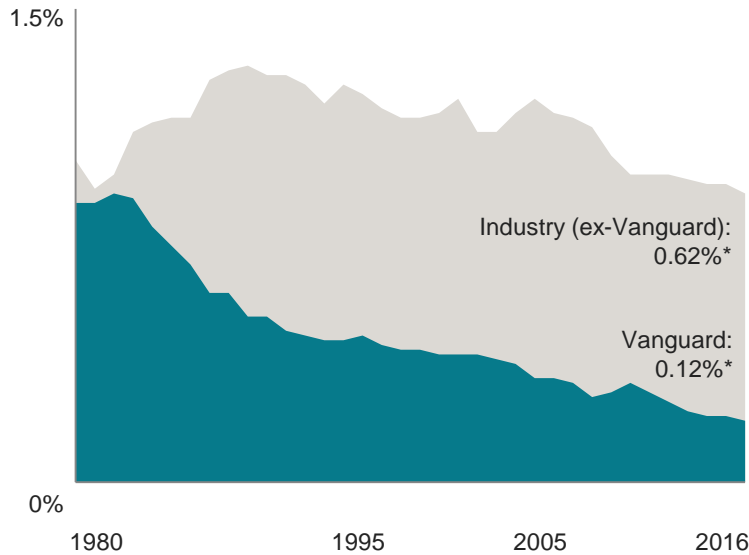
Industry-leading research and commentary

- Webcast – Andrew Patterson, CFA, shares our midyear outlook *July 2017*
- Vanguard's look ahead at the next steps for Fed policy *June 2017*
- The future of the labor market *June 2017*
- Duty, opportunity, mastery: Investment committee best practices *April 2017*
- Politics – a time for change *April 2017*
- Highlights from Vanguard's 2017 global economic and investment outlook *December 2016*

*Cumulative figure for all share classes from December 2016 through April 2017 for the identified funds. Estimated savings is the difference between prior and current expense ratios multiplied by average AUM. Average AUM is based on daily average assets during a month, which are then averaged over the 12-months of the fiscal year.

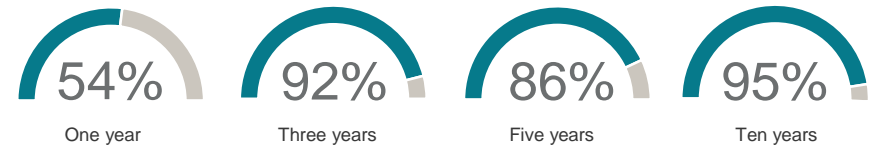
Vanguard Nonprofit business update

Low costs



Keeping costs low with an average expense ratio almost 5 times lower than other major industry fund complexes

Long-term outperformance

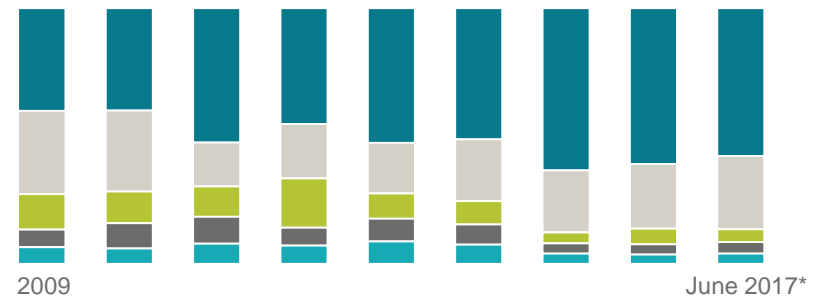


92% of Vanguard funds outperformed their Lipper peer-group average over the last ten years

Source: Vanguard internal data. Comparative performance data provided by Lipper Inc. for periods ended June 30, 2017.

Number of Vanguard funds that outperformed their Lipper peer-group averages for periods ended June 30, 2017: For the one-year period, 203 of 374 Vanguard funds; for the three-year period, 310 of 336 Vanguard funds; for the five-year period, 272 of 317 Vanguard funds; for the ten-year period, 215 of 226 Vanguard funds. Results will vary for other time periods. Only funds with a minimum of one-, three-, five-, or ten-year history, respectively, were included in the comparison. (Source: Lipper, a Thomson Reuters Company). Note that the competitive performance data shown represent past performance, which is not a guarantee of future results, and that all investments are subject to risks. For the most recent performance, visit our website at vanguard.com/performance.

Cash flow



Leading industry in net cash flow for eight consecutive years

■ Vanguard share of top five fund managers' net cash flow

Sources: Strategic Insight and Vanguard, as of February 28, 2017.

* Year to date begins on January 1 of the specified calendar year.

Expense ratios as of December 31, 2016. Average asset-weighted expense ratios are represented as a percentage of net assets. Vanguard straight average expense ratios range from 0.01%–1.46%.

* Source: Vanguard, and Morningstar.

** Source: Vanguard, and Lipper, a Thomson Reuters Company.

Vanguard Nonprofit business update

Total assets under management

By asset class (in billions)



●	\$1,402.65	Retail Direct
●	\$1,682.24	Financial Advisors
●	\$1,070.83	Institutional
●	\$286.64	International
	\$4,442.37	Vanguard total

Data as of June 30, 2017

Vanguard: A leader in the nonprofit market



largest investment manager to endowments and foundations*

- Serves 2,305 clients
- Manages \$91.7 billion in assets**
- Offers both investment-only and advisory services

* Source: *Pensions & Investments*, May 2016.

** As of December 31, 2016.

Client loyalty



Vanguard's net promoter score is significantly higher than the industry average of 45 for nonprofit institutions¹



Vanguard's redemption ratio, which is more than two times lower than the industry average of 24.6%²

¹ Vanguard's 2016 IIG NPS study.

² Data as of December 31, 2016. Redemption ratio represents funds being redeemed divided by total assets during a particular period (excluding reinvested dividends). Does not include ETFs.

Sources: Vanguard and Investment Company Institute.

Appendix

Vanguard leadership transitions

Tim Buckley to succeed Bill McNabb as Vanguard CEO

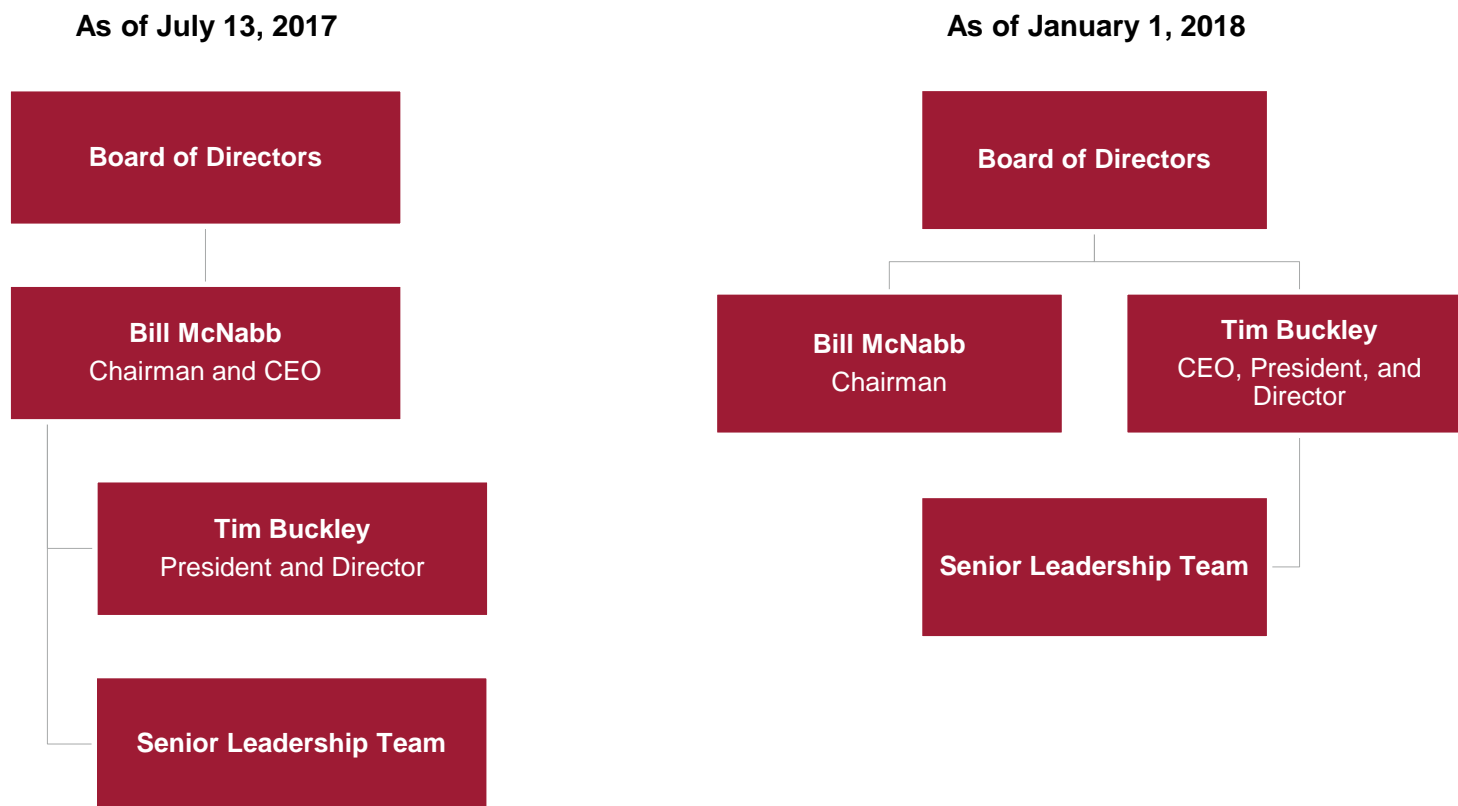
Board of directors announced July 13, 2017:

- **Mortimer J. “Tim” Buckley** elected Vanguard president and director, effective immediately.
- Tim will succeed **F. William “Bill” McNabb III** as CEO, effective January 1, 2018. Bill will remain chairman of the board and director.

Also effective July 13, 2017:

- **Greg Davis** became Vanguard chief investment officer.
- **John Hollyer** became global head of Vanguard Fixed Income Group.
- **Rodney Comegys** became head of risk management for Vanguard Investment Management Group.

Vanguard leadership transition structure



F. William McNabb III Chairman and CEO



Bill McNabb is chairman and chief executive officer of Vanguard. He joined Vanguard in 1986, took on the role of chief executive officer in 2008, and became chairman of the board of directors and the boards of trustees in 2010. Before becoming CEO, he led each of Vanguard's business divisions that directly serve clients, most recently as managing director of our institutional and international businesses.

Mr. McNabb is active in the investment management industry and serves as the vice chairman of the Investment Company Institute. He is also chairman of the Zoological Society of Philadelphia and serves on the Wharton Leadership Advisory Board and the Dartmouth Athletic Advisory Board.

Mr. McNabb earned an A.B. at Dartmouth College and an M.B.A. at The Wharton School of the University of Pennsylvania.

Mortimer J. “Tim” Buckley President and Director



Tim Buckley is president and a director of Vanguard. Previously, he was a managing director and Vanguard's chief investment officer, overseeing the company's internally managed stock, bond, and money market portfolios as well as its investment research and methodology.

Mr. Buckley joined Vanguard in 1991 and has held a number of senior leadership positions, including chief information officer from 2001 to 2006 and head of the Retail Investor Group from 2006 to 2012.

Outside of Vanguard, Mr. Buckley also served as chairman of the board of the Children's Hospital of Philadelphia from 2011 to 2017. He earned an A.B. in economics and an M.B.A. at Harvard.

Gregory Davis, CFA Chief Investment Officer



Greg Davis is Vanguard's chief investment officer, overseeing approximately \$4 trillion managed by Vanguard Fixed Income, Equity Index, and Quantitative Equity Groups.

Previously, Mr. Davis was principal and global head of Vanguard Fixed Income Group, responsible for its portfolio management, strategy, credit research, trading, and planning functions. He also served as the company's Asia-Pacific chief investment officer and a director of Vanguard Investments Australia.

Mr. Davis is a member of the Treasury Borrowing Advisory Committee of the U.S. Department of the Treasury. He earned a B.S. in insurance from The Pennsylvania State University and an M.B.A. in finance from The Wharton School of the University of Pennsylvania. He is a CFA® charterholder and a member of the CFA Society of Philadelphia.

John Hollyer, CFA Principal, Global Head of Vanguard Fixed Income Group



John Hollyer leads Vanguard Fixed Income Group, which manages more than \$1 trillion in assets. He is responsible for the group's portfolio management, strategy, credit research, trading, and planning functions.

Mr. Hollyer joined the company in 1989 and previously served as head of the Risk Management Group, which focuses on global investment and operational risk issues for Vanguard Investment Management Group. He also served as portfolio manager for a number of Vanguard's bond and money market funds.

Mr. Hollyer, who has nearly 30 years of investment management experience, is a CFA® charterholder and earned a B.S. in economics from The Wharton School of the University of Pennsylvania.

CFA® is a trademark owned by CFA Institute.

Rodney Comegys Principal, Head of IMG Risk Management Group



Rodney Comegys is head of the Risk Management Group, which focuses on global investment and operational risk issues for Vanguard Investment Management Group. Previously, he was head of the Equity Index Group for Asia Pacific as well as the Asia Pacific regional head of investments.

In earlier roles, Mr. Comegys has helped expand Vanguard's international business, launch new exchange-traded funds, and build processes and technology for Vanguard's equity systems. He has also handled risk analysis oversight for the Fixed Income and Equity Index Groups and held leadership roles in Six Sigma program management, Vanguard's retail business in Arizona, and retirement plan operations. Before joining Vanguard in 1999, he was a U.S. Navy nuclear submarine officer.

Mr. Comegys earned a B.S. in engineering and an M.Sc. in regional science economics from the University of Pennsylvania. He earned an M.B.A. from Harvard Business School.

Vanguard proxy overview

Proxy overview

- Vanguard's goals for the 2017 proxy campaign are to:
 - Elect a board of trustees for each U.S.-based Vanguard fund.
 - Approve several Vanguard proposals aimed primarily at increasing operational flexibility and harmonizing fund policies across all U.S.-based Vanguard funds.
- The preliminary proxy statement was filed with the SEC on **July 13, 2017**.
- All shareholders of record as of **August 16, 2017**, are eligible to vote.
- A special shareholder meeting is scheduled for **November 15, 2017**.
- For a vote to occur on a proposal, a quorum of shareholders must participate in the shareholder meeting, either in person or through the submission of a proxy.
- Once a quorum is reached, votes in favor of a proposal must represent a certain percentage of assets in the affected fund for the proposal to pass.
- Vanguard has partnered with Computershare, a global financial services firm specializing in managing large proxies, to manage the process.

Proxy proposals

Management proposals—The boards of trustees recommend a vote FOR the following proposals:

- Elect a board of trustees for each fund.
- Approve a manager-of-managers arrangement with third-party investment advisors.
- Approve a manager-of-managers arrangement with wholly owned subsidiaries of Vanguard.
- Adopt the Funds' Service Agreement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund.
- Change the investment objective of Vanguard REIT Index Fund and the REIT Index Portfolio of Vanguard Variable Insurance Fund.
- Reclassify the diversification status of Vanguard REIT Index Fund to nondiversified as defined by the Investment Company Act of 1940 (the 1940 Act).

Shareholder proposal—The boards of trustees recommend a vote AGAINST the following proposal:

- Prescribe investment limitations for several funds.

Election of a board of trustees for each fund

Proposal in brief

- To elect trustees for each fund.

Breadth of fund impact

- All U.S.-based Vanguard funds.

Rationale

- A fund's board can fill board vacancies only if, immediately after filling the vacancy, at least two-thirds of the trustees were elected by shareholders, in accordance with federal law.
- At this time, the Vanguard funds' boards cannot appoint any new trustees without shareholder approval. Therefore, shareholder approval is needed to elect Vanguard's new president, Tim Buckley, and two other new nominees, Deanna Mulligan and Sarah Bloom Raskin.

Nominees

Twelve individuals have been nominated for election as Vanguard fund trustees, ten of whom would be "independent" trustees:

- Two interested nominees: Vanguard Chairman Bill McNabb and newly elected President Tim Buckley.
- Eight current independent trustees: Mark Loughridge, who is the lead independent trustee; and Emerson U. Fullwood, Amy Gutmann, JoAnn Heffernan Heisen, F. Joseph Loughrey, Scott C. Malpass, André F. Perold, and Peter F. Volanakis.
- Two new independent trustee nominees: Sarah Bloom Raskin, former U.S. deputy secretary of the Treasury, and Deanna Mulligan, president and CEO of The Guardian Life Insurance Company of America.
- If approved, the newly elected trustees would be serving together as the funds' boards effective January 1, 2018.

Approval of a manager-of-managers arrangement with third-party investment advisors

Proposal in brief

- To enable all Vanguard-managed index funds and a subset of Vanguard-managed active funds to enter into or materially amend investment advisory agreements with third-party investment advisors, without obtaining additional shareholder approval in the future. Several funds already operate under this policy.

Breadth of fund impact

- All Vanguard-managed index funds and a subset of Vanguard-managed active funds that currently do not have this flexibility.

Rationale

- Provides flexibility for the funds to appoint a third-party investment advisor, capitalizing on Vanguard's expertise in selecting highly qualified advisors at a low cost.
- Eliminates the substantial costs and delays associated with soliciting shareholder approval.
- Harmonizes policies across U.S.-based Vanguard funds and provides the funds with similar flexibility to that of many of their competitors.
- Protects shareholders of the funds should a contingency event at Vanguard occur in the future.

Vanguard does not have any current plans to make changes to any fund's advisory arrangement as a result of receiving approval of this proposal.

Approval of a manager-of-managers arrangement with wholly owned subsidiaries of Vanguard

Proposal in brief

- To enable all funds to rely on a pending U.S. Securities and Exchange Commission exemptive application that, if granted, would permit the funds to enter into, or materially amend, investment advisory agreements with wholly owned Vanguard subsidiaries without obtaining additional shareholder approval in the future.

Breadth of fund impact

- All Vanguard funds.

Rationale

- Provides flexibility to appoint a Vanguard subsidiary in an advisory capacity to help manage the funds in the most efficient and effective manner.
- Eliminates the substantial costs and delays associated with soliciting shareholder approval.
- Protects shareholders of the funds should a contingency event at Vanguard occur in the future.

Vanguard does not have any current plans to make changes to a fund's advisory arrangement as a result of receiving approval of this proposal.

Adopt the Funds' Service Agreement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund

Proposal in brief

- To approve a new investment advisory, administrative, and distribution arrangement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund by adopting the Vanguard Funds' Service Agreement.

Breadth of fund impact

- Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund.

Rationale

- Offers potential for **lower cost**.
- Offers investors **broader access** to lower-cost share classes.
- Harmonizes the investment advisory, administrative, and distribution arrangements for all publicly available U.S.-based Vanguard mutual funds.

Approval of Funds' Service Agreement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund

Key changes, if approved

Lower expense ratios for Institutional class shares of both funds and a reduction in the minimum initial investments for three of the funds' four share classes.

Institutional Index Fund

Share class	Expense ratio		Minimum initial investment	
	Current	Proposed	Current	Proposed
Institutional	0.04%	0.035%	\$5 million	\$5 million
Institutional Plus	0.02%	0.02%	\$200 million	\$100 million

Institutional Total Stock Market Index Fund

Share class	Expense ratio		Minimum initial investment	
	Current	Proposed	Current	Proposed
Institutional	0.04%	0.035%	\$100 million	\$5 million
Institutional Plus	0.02%	0.02%	\$200 million	\$100 million

Approval of Funds' Service Agreement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund

Additional key changes, if approved

By adopting the Service Agreement, each fund will become a Vanguard member fund. Each Vanguard member fund pays its share of Vanguard's total expenses, which are allocated to the Vanguard funds under methods approved by the board of trustees of each Vanguard fund.

Each fund will make an initial capital contribution to Vanguard, which will be adjusted from time to time. Additionally, each Vanguard fund that is a party to the Service Agreement may be called upon to invest up to 0.40% of its net assets in Vanguard.

Based on net assets as of May 31, 2017, the Institutional Index Fund's investment in Vanguard would be approximately \$14.1 million, constituting 5.7% of Vanguard's total capital and 0.0063% of the fund's net assets, and the Institutional Total Stock Market Index Fund's investment in Vanguard would be approximately \$2.5 million, constituting 1% of Vanguard's total capital and 0.0063% of the fund's net assets.

Approval of an investment objective change for Vanguard REIT Index Fund

Proposal in brief

- To approve a change in the investment objective for Vanguard REIT Index Fund and Vanguard REIT Index Portfolio of Vanguard Variable Insurance Fund. The change would broaden the mandate to include real estate management and development companies.

Breadth of fund impact

- The Vanguard REIT Index Fund and the Vanguard REIT Index Portfolio of Vanguard Variable Insurance Fund.

Rationale

- Aligns the funds with the newly constituted Global Industry Classification Standard (GICS) real estate sector.
- Enables investors who use Vanguard's sector equity index funds to have broader exposure to the U.S. equity market.
- Provides additional investment capacity.

Approval of an investment objective change for Vanguard REIT Index Fund and the REIT Index of Vanguard Variable Insurance Fund

Key changes, if approved

	Current	Proposed
Investment objective	The fund seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.	The fund seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs and other real estate-related investments.
Benchmark	MSCI US REIT Index	MSCI US Investable Market Real Estate 25/50 Index
Fund names	Vanguard REIT Index Fund Vanguard Variable Insurance Fund REIT Index Portfolio	Vanguard Real Estate Index Fund Vanguard Variable Insurance Fund Real Estate Index Portfolio

- To reduce the transaction costs associated with trading large amounts of securities in a short period of time, the REIT Index Fund will track a transition index for approximately six months starting in early 2018. This will allow the fund to gradually sell securities and invest proceeds in select specialized REITs and real estate management and development companies. The transaction costs for the REIT Index Fund transition are expected to be moderate. The REIT Index Portfolio of the Variable Insurance Fund is not expected to track a transition index. Because of the modest size of the portfolio, transaction costs are expected to be minimal.
- Shareholders will not be asked to vote on the name change or the benchmark change of the funds; however, changing the benchmark will necessitate a change to the names of the funds.

Approval to change the diversification status of the Vanguard REIT Index Fund to nondiversified for 1940 Act purposes

Proposal in brief

- To approve a change in the diversification status of Vanguard REIT Index Fund from diversified to nondiversified, as defined by the Investment Company Act of 1940 (the 1940 Act).

Breadth of fund impact

- Vanguard REIT Index Fund.

Rationale

- Enables the fund to track its benchmark more closely.
- Aligns the fund's 1940 Act diversification status with Vanguard's other sector equity index funds.

Shareholder proposal on investing procedures related to genocide or crimes against humanity

Proposal in brief

- This shareholder proposal, which the Vanguard board recommends a vote against, asks that the affected funds institute procedures to avoid holdings in companies that are believed to substantially contribute to genocide or crimes against humanity.

Breadth of fund impact

- Shareholders submitted proposals for 48 Vanguard funds.

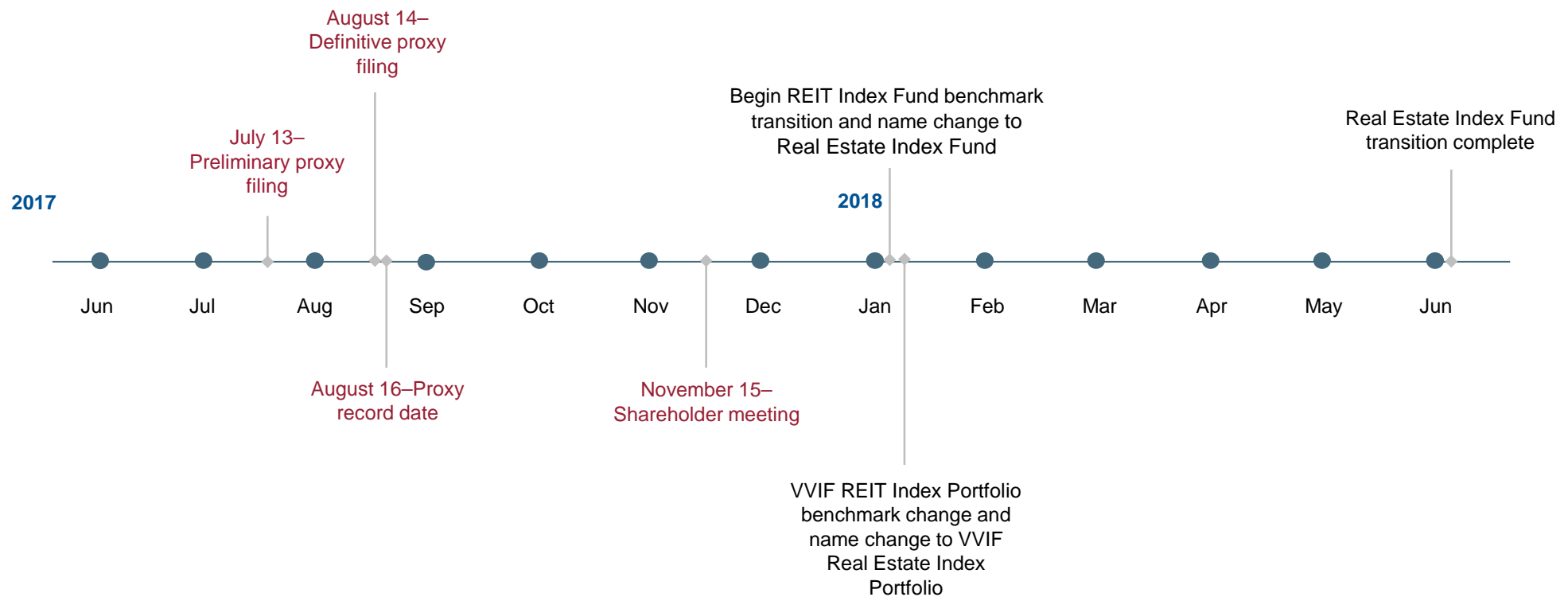
Vanguard statement of opposition:

Key points

- Vanguard is fully compliant with all applicable U.S. laws and regulations on this matter.
- The addition of further investment constraints is not in fund shareholders' best interests if those constraints are unrelated to a fund's stated investment objective, policies, and strategies.
- Divestment is an ineffective means to implement social change as it often puts the shares into the hands of another owner with no direct impact to the company's capitalization.

Timeline

Proxy milestones
(Dates shown are approximations and may change.)



Additional proxy details

Proxy voting site

- <http://www.proxy-direct.com/vanguard>

View the proxy booklet and other proxy-related information:

- <http://about.vanguard.com/proxy/>

Visit Vanguard's Investment Stewardship page for information about our positions on social issues:

- <http://about.vanguard.com/investment-stewardship/>

Important information

IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More importantly, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

Important information

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Investments in Target Retirement Funds or Trusts are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund or trust would retire and leave the workforce. The fund or trust will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund or Trust is not guaranteed at any time, including on or after the target date.

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Vanguard Marketing Corporation, Distributor of the Vanguard Funds. U.S. Patent Nos. 6,879,964; 7,337,138; 7,720,749; 7,925,573; 8,090,646; and 8,417,623.

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Money Manager Recommendation Short-Term Bond

	PONDER		Vanguard VFSIX		DFA DFEQX		Vanguard VSTBX		Vanguard VBITX		JP Morgan JUSUX	
5 yr Rank in Category	15	14	10	15	27	13	7	15	51	12	12	14
Expense Ratio	0.17	26	0.07	29	0.22	26	0.05	30	0.05	30	0.25	24
Management Team	13	15	9.42	14	7.12	13	5.08	11	2.62	11	13.17	15
Average Credit Quality	AA+	15	A	14	A	14	A	14	AA	15	BBB	12
3 yr Risk	1.40	13	1.26	14	1.48	13	1.47	13	1.38	14	0.48	15
Average Maturity	2.52	15	3.30	13	2.85	15	3.00	14	2.90	15	3.55	13

TOTAL SCORE

98

99

94

97

97

93

data as of 9/30/17

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3. The methodology used in this grading system is subjective, may vary by asset class and may change due to market conditions, volatility or valuation. This grading system may have no predictive value and can not be relied upon based on past results.

Money Manager Evaluation Short-Term Government Bond

	PONDER		VANGUARD VSGDX		JP MORGAN OGTFX		DFA DFFGX		WELLS FARGO WSGIX	
5 yr Rank in Category	n/a	13	6	15	57	11	10	15	74	11
Expense Ratio	0.17	25	0.10	30	0.79	20	0.19	25	0.45	20
Management Team	13.0	15	2.8	12	16.5	15	11.1	14	5.4	14
3 yr Risk	n/a	13	1.06	14	1.10	14	1.46	12	0.82	15
Average Maturity	1.6	15	2.8	14	2.33	15	2.91	14	2.67	14
12 month Return	0.26	14	0.13	13	-0.32	11	-0.10	11	0.49	15
TOTAL SCORE		<u>95</u>		<u>98</u>		<u>86</u>		<u>91</u>		<u>89</u>

data as of 9/30/17

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Money Manager Evaluation Large Growth

Diversification		Vanguard Growth VIGIX		T. Rowe Price TRLGX		Fidelity Large Cap FLGEX		TIAA CREFF TIRTX		Vanguard Russell VRGWX	
1	Rank in Category	37	13	3	15	45	13	22	14	20	14
2	Expense Ratio	0.05	15	0.56	11	0.39	12	0.76	10	0.08	14
3	# of Holdings	323	14	68	12	183	13	90	12	554	15
4	3 Year Return	11.51	13	15.00	15	10.96	12	12.43	14	12.61	14
5	5 Year Return	14.45	12	17.84	15	14.55	12	15.92	13	15.18	13
7	Sharpe Ratio	1.01	14	1.16	15	1.02	14	1.01	14	1.14	15
8	Morningstar Risk	10.53	15	12.16	13	10	15	11.53	14	10.08	15
TOTAL SCORE		<u>96</u>		<u>96</u>		<u>91</u>		<u>91</u>		<u>100</u>	

data as of 9/30/17

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Money Manager Evaluation Small Growth

Diversification	Vanguard Small Growth VSGIX		Janus Triton I Small Growth JSMGX		Prudential Jennison Small Cap PJSQX		JPMorgan Small Growth JGSMX		Fidelity Small Growth FCPGX	
Rank in Category	73	11	18	13	72	11	7	15	4	15
Expense Ratio	0.06	15	0.78	11	0.69	11	0.81	11	1.09	10
# of Holdings	677	15	129	12	120	12	307	14	168	12
3 Year Return	9.57	12	14.11	14	9.71	12	15.28	14	16.50	15
5 Year Return	12.78	12	16.11	15	13.67	13	15.47	14	16.31	15
Sharpe Ratio	0.77	13	1.08	14	0.81	13	0.89	13	1.28	15
Morningstar Risk	12.49	14	11.90	15	11.71	15	16.41	12	12.96	14
TOTAL SCORE	<u>92</u>		<u>94</u>		<u>87</u>		<u>93</u>		<u>96</u>	

data as of 9/30/17

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Money Manager Evaluation Energy

Diversification	Vanguard Energy VGELX		Fidelity Energy FSENX		Vanguard Energy Idx VENAX		Invesco Energy FSTEX		Ivy Energy IVEIX	
Rank in Category	8	15	16	14	17	14	67	11	49	12
Expense Ratio	0.33	14	0.79	12	0.10	15	1.27	11	1.08	11
# of Holdings	238	15	76	13	134	14	37	12	46	12
3 Year Return	-5.33	15	-7.57	14	-7.58	14	-15.33	12	-11.67	13
5 Year Return	0.35	15	0.00	15	0.06	15	-5.34	13	-0.74	14
Sharpe Ratio	-0.20	15	-0.26	14	-0.31	13	-0.49	13	-0.39	13
Morningstar Risk	19.81	15	22.55	14	20.30	15	27.14	12	25.06	13
TOTAL SCORE	<u>104</u>		<u>96</u>		<u>100</u>		<u>84</u>		<u>88</u>	

data as of 9/30/17

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Money Manager Evaluation Health Care

Diversification		Vanguard Health VGHAX		BlackRock Health SHSSX		Fidelity Health FSPHX		Schwab Health SWHFX		T. Rowe Price Health PRHSX	
1	Rank in Category	44	13	15	15	52	12	48	13	15	15
2	Expense Ratio	0.32	15	0.91	11	0.74	12	0.80	12	0.77	12
3	# of Holdings	105	13	148	15	94	13	94	13	122	13
4	3 Year Return	9.69	13	12.20	15	9.04	13	9.53	13	12.34	15
5	5 Year Return	17.59	14	19.32	15	19.66	15	16.36	13	19.96	15
7	Sharpe Ratio	0.77	14	0.86	15	0.60	13	0.76	14	0.78	14
8	Morningstar Risk	11.86	15	13.46	13	15.40	12	11.93	15	15.55	12
TOTAL SCORE		<u>97</u>		<u>99</u>		<u>90</u>		<u>93</u>		<u>96</u>	

data as of 9/30/17

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Halifax Health Investment Committee
 2018 Quarterly Time Line
 France Tower, Conference Room A

Investment Committee Meeting Date	Presentation Period Ending	Agenda Items	Mike Walsh Update	Material Posted on District Website
February 12, 2018	December 31, 2017	<ul style="list-style-type: none"> ▪ Quarterly update M. Walsh 	January 16	February 6
May 14, 2018	March 31, 2018	<ul style="list-style-type: none"> ▪ Quarterly update M. Walsh ▪ Ponder annual manager update & assessment ▪ Expected investment return, FY 2018 ▪ Annual review of pension plan rate of return assumptions 	April 17	May 8
August 13, 2018	June 30, 2018	<ul style="list-style-type: none"> ▪ Quarterly update M. Walsh ▪ DFA annual manager update & assessment ▪ Annual investment policies review ▪ Annual investment policies checklist ▪ Annual investment allocation review ▪ Annual investment charter review 	July 17	August 7
November 12, 2018	September 30, 2018	<ul style="list-style-type: none"> ▪ Quarterly update M. Walsh ▪ Vanguard annual manager update & assessment 	October 16	November 6

MEMBERS: Ted Serbousek, Greg Motto, Decker Youngman, David Graffagnino, Susan Schandel, Daniel Francati
 ADVISOR: Mike Walsh
 STAFF: Jeff Feasel, Eric Peburn, Kent Bailey, Lisa Tyler, Joe Petrock, Ben Eby

Halifax Health
Investment Manager Performance Report - through September 30, 2017

		September Performance	Calendar YTD	Calendar 2016	Fiscal Year
Fixed Income					
VFSIX - Vanguard Short-Term Investment Gr.	Perf	-0.14%	2.20%	2.85%	1.36%
	BMK	-0.27%	1.58%	1.56%	0.51%
VSGDX - Vanguard Short-Term Federal	Perf	-0.26%	0.98%	1.24%	0.13%
	BMK	-0.34%	1.09%	1.02%	-0.07%
Ponder Short-term Government/Corporate	Perf	-0.20%	1.69%	1.95%	0.33%
	BMK	-0.34%	1.09%	1.56%	0.51%
Ponder US Treasury Account	Perf	0.08%	0.62%	0.30%	0.44%
	BMK	-0.34%	1.09%	-0.44%	0.15%
Ponder Short-Term Government	Perf	-0.16%	1.10%	0.88%	0.26%
	BMK	-0.34%	1.09%	1.02%	-0.07%
Ponder 2016 Project Fund	Perf	0.06%	0.58%	0.43%	1.02%
	BMK	-0.12%	1.06%	0.29%	0.67%
Weighted Composite	Perf	-0.11%	1.74%	1.99%	0.98%
	BMK	-0.30%	1.39%	1.07%	0.38%
Equities					
DFSVX - DFA Small Cap Value	Perf	7.92%	3.96%	28.26%	19.61%
	BMK	7.08%	5.68%	31.74%	20.54%
DFLVX - DFA Large Cap Value	Perf	3.85%	10.70%	18.89%	20.25%
	BMK	2.96%	7.92%	17.34%	15.12%
DFIVX - DFA International Value	Perf	3.57%	19.60%	8.41%	25.69%
	BMK	2.59%	19.17%	2.75%	18.75%
DFEVX - DFA Emerging Markets	Perf	-2.24%	23.95%	19.84%	22.75%
	BMK	-0.40%	27.78%	11.19%	22.46%
VGELX - Vanguard Energy	Perf	8.35%	-2.99%	33.18%	2.31%
	BMK	8.06%	-0.04%	27.66%	7.40%
VENAX - Vanguard Energy Index	Perf	10.42%	-8.28%	28.94%	-1.33%
	BMK	8.06%	-0.04%	27.66%	7.40%
VIGIX - Vanguard Large-Cap Growth	Perf	1.04%	20.32%	6.13%	19.81%
	BMK	1.30%	20.72%	7.08%	21.95%
VGHAX - Vanguard Health Care	Perf	0.89%	18.99%	-8.94%	11.91%
	BMK	1.38%	18.65%	-6.83%	12.16%
VSGIX - Vanguard Small-Cap Growth	Perf	3.81%	15.29%	10.74%	16.93%
	BMK	5.45%	16.81%	11.32%	20.98%
Weighted Composite	Perf	3.82%	13.63%	15.17%	19.43%
	BMK	3.60%	14.01%	13.82%	18.18%

Halifax Health
Investment Manager Performance Report - through September 30, 2017

	Invested Balance	September Performance	Calendar YTD	Fiscal YTD
HH Holdings				
VFSIX - Vanguard Short-Term Invest Grade	\$ 53,746,971	Perf -0.14%	2.20%	1.36%
		BMK -0.27%	1.58%	0.51%
Ponder Short-Term Gov't/Corporate	32,185,171	Perf -0.20%	1.69%	0.33%
		BMK -0.34%	1.09%	0.51%
Ponder US Treasury Account	73,704,944	Perf 0.08%	0.62%	0.44%
		BMK -0.34%	1.09%	0.15%
Total HH Holdings	<u><u>\$ 159,637,086</u></u>	Composite -0.05%	1.37%	0.73%
		Budget		1.00%
HHMC				
Ponder Short-Term Government	\$ 42,416,447	Perf -0.16%	1.10%	0.26%
		BMK -0.34%	1.09%	-0.07%
VSGDX - Vanguard Short-Term Federal	64,627	Perf -0.26%	0.98%	0.13%
		BMK -0.34%	1.09%	-0.07%
Wells Fargo Halifax Hospital Trust	551,270	Perf 0.07%	0.50%	0.50%
		BMK -0.34%	1.09%	-0.07%
Ponder 2016 Project Fund	205	Perf 0.06%	0.58%	1.02%
		BMK -0.12%	1.06%	0.67%
Total HHMC	<u><u>\$ 43,032,549</u></u>	Composite -0.16%	1.09%	0.26%
		Budget		1.00%

Halifax Health
Investment Manager Performance Report - through September 30, 2017

Foundation	Invested Balance	September Performance	Calendar YTD	Fiscal YTD
VFSIX - Vanguard Short-Term Invest Grade	\$ 23,063,990	Perf -0.14% BMK -0.27%	2.20% 1.58%	1.36% 0.51%
DFSVX - DFA Small Cap Value	3,766,776	Perf 7.92% BMK 7.08%	3.96% 5.68%	19.61% 20.54%
DFIVX - DFA International Value	1,988,198	Perf 3.57% BMK 2.59%	19.60% 19.17%	25.69% 18.75%
DFEVX - DFA Emerging Markets	783,454	Perf -2.24% BMK -0.40%	23.95% 27.78%	22.75% 22.46%
DFLVX - DFA Large Cap Value	8,234,389	Perf 3.85% BMK 2.96%	10.70% 7.92%	20.25% 15.12%
VGELX - Vanguard Energy	475,951	Perf 8.35% BMK 8.06%	-2.99% -0.04%	2.31% 7.40%
VENAX - Vanguard Energy Index	214,513	Perf 10.42% BMK 8.06%	-8.28% -0.04%	-1.33% 7.40%
VIGIX - Vanguard Large-Cap Growth	4,193,118	Perf 1.04% BMK 1.30%	20.32% 20.72%	19.81% 21.95%
VGHAX - Vanguard Health Care	745,413	Perf 0.89% BMK 1.38%	18.99% 18.65%	11.91% 12.16%
VSGIX - Vanguard Small-Cap Growth	3,956,561	Perf 3.81% BMK 5.45%	15.29% 16.81%	16.93% 20.98%
Total Foundation	\$ 47,422,363	Composite Budget	1.90% 7.76%	10.56% 4.00%

Halifax Health
Investment Manager Performance Report - through September 30, 2017

	Invested Balance	September Performance	Calendar YTD	Fiscal YTD
Hospice				
VFSIX - Vanguard Short-Term Invest Grade	\$ 34,193,713	Perf -0.14%	2.20%	1.36%
		BMK -0.27%	1.58%	0.51%
DFSVX - DFA Small Cap Value	5,852,386	Perf 7.92%	3.96%	19.61%
		BMK 7.08%	5.68%	20.54%
DFIVX - DFA International Value	3,462,531	Perf 3.57%	19.60%	25.69%
		BMK 2.59%	19.17%	18.75%
DFEVX - DFA Emerging Markets	1,400,147	Perf -2.24%	23.95%	22.75%
		BMK -0.40%	27.78%	22.46%
DFLVX - DFA Large Cap Value	11,667,209	Perf 3.85%	10.70%	20.25%
		BMK 2.96%	7.92%	15.12%
VGELX - Vanguard Energy	105,171	Perf 8.35%	-2.99%	2.31%
		BMK 8.06%	-0.04%	7.40%
VENAX - Vanguard Energy Index	571,751	Perf 10.42%	-8.28%	-1.33%
		BMK 8.06%	-0.04%	7.40%
VIGIX - Vanguard Large-Cap Growth	5,614,193	Perf 1.04%	20.32%	19.81%
		BMK 1.30%	20.72%	21.95%
VGHAX - Vanguard Health Care	648,163	Perf 0.89%	18.99%	11.91%
		BMK 1.38%	18.65%	12.16%
VSGIX - Vanguard Small-Cap Growth	5,513,022	Perf 3.81%	15.29%	16.93%
		BMK 5.45%	16.81%	20.98%
 Total Hospice	 <u>\$ 69,028,286</u>	 Composite	 1.88%	 7.68%
		Budget		4.00%

Halifax Health
Investment Manager Performance Report - through September 30, 2017

	Invested Balance	September Performance	Calendar YTD	Fiscal YTD
Pension				
VFSIX - Vanguard Short-Term Invest Grade	\$ 132,311,686	Perf -0.14%	2.20%	1.36%
		BMK -0.27%	1.58%	0.51%
DFSVX - DFA Small Cap Value	21,499,087	Perf 7.92%	3.96%	19.61%
		BMK 7.08%	5.68%	20.54%
DFIVX - DFA International Value	33,978,622	Perf 3.57%	19.60%	25.69%
		BMK 2.59%	19.17%	18.75%
DFEVX - DFA Emerging Markets	11,169,572	Perf -2.24%	23.95%	22.75%
		BMK -0.40%	27.78%	22.46%
DFLVX - DFA Large Cap Value	21,401,560	Perf 3.85%	10.70%	20.25%
		BMK 2.96%	7.92%	15.12%
VGELX - Vanguard Energy	4,388,881	Perf 8.35%	-2.99%	2.31%
		BMK 8.06%	-0.04%	7.40%
VENAX - Vanguard Energy Index	4,777,557	Perf 10.42%	-8.28%	-1.33%
		BMK 8.06%	-0.04%	7.40%
VIGIX - Vanguard Large-Cap Growth	13,525,779	Perf 1.04%	20.32%	19.81%
		BMK 1.30%	20.72%	21.95%
VGHAX - Vanguard Health Care	9,448,611	Perf 0.89%	18.99%	11.91%
		BMK 1.38%	18.65%	12.16%
VSGIX - Vanguard Small-Cap Growth	13,553,646	Perf 3.81%	15.29%	16.93%
		BMK 5.45%	16.81%	20.98%
Wells Fargo Cash	302,302			
Wells Fargo Money Market	1,982			
Total Pension	<u>\$ 266,359,285</u>	Composite	1.84%	8.06%
		Budget		6.75%
Total Halifax Health, including Pension	<u><u>\$ 585,479,569</u></u>			
Total Halifax Health, excluding Pension	<u><u>\$ 319,120,284</u></u>			