

# Vanguard® Health Care Fund

## Product Summary

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

## Quarterly Commentary

The human toll of COVID-19 further mounted during the second quarter of 2021 amid fresh outbreaks of the virus and new variants. The global economy nevertheless continued to rebound sharply if unevenly. Countries that have better succeeded in containing the virus—whether through vaccinations, lockdowns, or both—tended to fare the best. With the reopening of economies and pent-up demand boosting corporate profits, global stocks finished the quarter significantly higher. U.S. stocks outperformed other developed markets as a whole as well as emerging markets.

For the quarter, U.S. stocks returned 8.24%, as measured by the Russell 3000 Index. With large-capitalization stocks leading the way, the Russell 1000 Index (+8.54%) outpaced the Russell 2000 Index (+4.29%). Although value stocks outperformed growth stocks over the first quarter of 2021, that pattern reversed over the second quarter, with the Russell 3000 Growth Index (+11.38%) more than doubling the return of the Russell 3000 Value Index (+5.16%).

Vanguard Health Care Fund outperformed its benchmark, the MSCI All Country World Health Care Index (+9.38%), for the quarter. The fund seeks long-term capital appreciation, focusing on domestic and foreign companies engaged in a variety of areas within the health care industry, including pharmaceuticals, medical supply, and research. The fund's investment process uses bottom-up security selection coupled with ongoing evaluation of management teams.

The fund's outperformance for the quarter was driven by stock selection in pharmaceuticals. In that industry, a notable overweighting of Eisai (+47%) and lack of exposure to Johnson & Johnson (+1%) contributed most. A lack of exposure to Moderna (+79%) and an overweight position in Daiichi Sankyo (–23%) detracted most.

For the 12 months ended June 30, the fund lagged its benchmark (+23.48%). Stock selection in biotechnology drove the underperformance, as did selection in North America and the Pacific region. Among the largest detractors were pharmaceutical company UCB (–9%) and biotech companies Incyte (–19%) and Regeneron (–10%). Strong selection in health care facilities and an overweight allocation to managed health care helped to offset overall underperformance.

Note: Company returns may differ if a security was held in the portfolio for less than the full period.

## People and Process

Vanguard Health Care Fund seeks long-term capital appreciation by investing in stocks broadly representing the health care industry. The advisor seeks to maintain exposure across five primary subsectors: health services, medical products, specialty pharmaceuticals, major pharmaceuticals, and international markets. Fundamental research focuses on companies with high-quality balance sheets, strong management, and the potential for new products that will lead to above-average growth in revenue and earnings. Reflecting the advisor's contrarian style, stocks may be purchased after negative events have caused a decline in share price. Assets are usually concentrated in the top ten holdings, but the fund remains invested across both subsectors and market capitalizations. Because of the industry's long product-development cycle, the advisor pursues a long-term investment approach that has resulted in below-average turnover. The fund historically has been more geographically diversified than other health care sector funds.

## Wellington Management Company LLP

Founded in 1928, Wellington Management Company LLP, Boston, Massachusetts, is among the nation's oldest and most respected institutional investment managers. The firm has advised Vanguard Health Care Fund since 1984.

## Investment Manager Biographies

Jean M. Hynes, CFA, CEO of Wellington Management Company, Managing Partner and Equity Portfolio Manager. Portfolio manager. Advised the fund since 2008. Worked in investment management since 1991. B.A., Wellesley College.

## Total Returns

	Expense Ratio	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Health Care Fund							
Investor Shares (5/23/1984)	0.32%	10.70%	10.38%	20.21%	15.34%	11.85%	14.54%
Admiral Shares (11/12/2001)	0.27	10.71	10.40	20.27	15.40	11.91	14.59
Spliced Health Care Index	—	9.38	9.86	23.48	15.76	12.36	13.08
Global Health/Biotechnology Funds Average	—	8.99	8.20	26.17	17.61	13.95	14.52

**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](http://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.

Note: 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. Average fund returns are derived from data provided by Lipper, a Thomson Reuters Company. Admiral class shareholders are required to maintain specific minimum balances and meet other special criteria.

## Quarterly Returns: Investor Shares

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Health Care	Year-End	
						Spliced Health Care Index	Assets (Millions)
2021	-0.29%	10.70%	—	—	—	—	\$8,720
2020	-10.98	16.16	4.11%	4.61%	12.62%	14.87%	8,327
2019	7.91	-0.98	-1.53	16.84	22.93	22.67	8,977
2018	0.21	0.52	13.07	-11.18	1.15	1.71	8,315
2017	10.58	6.54	0.97	0.55	19.61	20.14	9,487
2016	-8.84	5.42	0.71	-5.97	-8.99	-6.83	9,550
2015	9.64	3.80	-8.90	8.65	12.65	6.33	12,018
2014	8.84	5.17	3.90	8.06	28.52	18.13	11,252
2013	14.43	5.00	7.56	10.80	43.19	35.76	9,636
2012	7.93	1.38	5.27	-0.07	15.11	17.77	8,143
2011	6.64	8.01	-9.28	6.66	11.45	8.89	8,223

## Quarterly Returns: Admiral Shares

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Health Care	Year-End	
						Spliced Health Care Index	Assets (Millions)
2021	-0.27%	10.71%	—	—	—	—	\$43,001
2020	-10.97	16.18	4.12%	4.62%	12.67%	14.87%	40,704
2019	7.92	-0.96	-1.52	16.85	22.98	22.67	39,149
2018	0.22	0.53	13.08	-11.17	1.21	1.71	35,608
2017	10.59	6.55	0.99	0.56	19.66	20.14	37,667
2016	-8.83	5.43	0.72	-5.95	-8.94	-6.83	33,299
2015	9.66	3.81	-8.89	8.67	12.71	6.33	40,299
2014	8.85	5.18	3.91	8.07	28.57	18.13	33,375
2013	14.44	5.01	7.58	10.81	43.27	35.76	24,142
2012	7.95	1.38	5.29	-0.05	15.17	17.77	14,958
2011	6.65	8.03	-9.28	6.68	11.51	8.89	12,646

**Fund Facts**

	Investor Shares	Admiral Shares
Fund Number	0052	0552
Ticker	VGHCX	VGHAX
Newspaper Listing	HlthCare	HlthCareAdml
CUSIP Number	921908307	921908885
Assets (millions) (Total \$51,721)	\$8,720	\$43,001
Inception	5/23/1984	11/12/2001
Expense Ratio (as of 5/2021)	0.32%	0.27%

**Equity Characteristics**

	Health Care	MSCI ACWI Health Care
Number of stocks	102	283
Median market cap	\$59.6 Billion	\$98.1 Billion
Average market cap	\$102.8 Billion	\$141.5 Billion
Price/earnings ratio	27.6x	27.9x
Price/book ratio	4.4x	4.9x
Return on equity	13.8%	17.8%
Earnings growth rate	14.4%	13.4%
Equity yield (dividend)	1.1%	1.6%
Foreign holdings	27.3%	0.0%
Short-term reserves	1.6%	—
Turnover rate (fiscal year end)	10.9%	—

**Volatility Measures**

	R-Squared	Beta
Spliced Health Care Index	0.95	1.05
DJ US Total Stock Mkt Float Adj Idx	0.65	0.67

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.

**Top 10 Largest Holdings**

	% of Total Net Assets
UnitedHealth Group Inc.	5.6%
AstraZeneca plc	5.4
Pfizer Inc.	5.3
Eli Lilly & Co.	4.7
Novartis AG	3.7
Bristol-Myers Squibb Co.	3.6
Eisai Co. Ltd.	3.4
Boston Scientific Corp.	3.2
Biogen Inc.	3.0
Anthem Inc.	2.9
<b>Total</b>	<b>40.8%</b>

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

## Sector Diversification (% of Stocks)

	Health Care	MSCI ACWI Health Care	Overweight/ Underweight
Biotechnology	22.1%	14.1%	8.0
Consumer Staples	0.1	0.0	0.1
Financials	0.1	0.0	0.1
Health Care Distributors	0.0	1.3	-1.3
Health Care Equipment	15.3	20.1	-4.8
Health Care Facilities	3.2	1.5	1.7
Health Care Services	1.2	4.0	-2.8
Health Care Supplies	0.6	3.0	-2.4
Health Care Technology	1.4	1.8	-0.4
Life Sciences Tools & Services	6.1	9.3	-3.2
Managed Health Care	11.9	7.8	4.1
Pharmaceuticals	38.0	37.1	0.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

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.

## 3 month attribution

	Portfolio			Benchmark			Attribution		
	Avg. weight	3 mo. return	Contrib. Return	Avg. weight	3 mo. return	Contrib. Return	Alloc. effect	Select effect	Total effect
Pharmaceuticals	37.8	12.1	4.5	37.4	8.7	3.3	0.0	1.2	1.2
Biotechnology	20.9	11.1	2.4	13.9	9.4	1.3	0.0	0.4	0.4
Health Care Distributors	0.0	0.0	0.0	1.4	-1.0	0.0	0.2	0.0	0.2
Health Care Services	1.0	11.1	0.1	4.2	7.5	0.3	0.0	0.0	0.1
Health Care Technology	1.4	9.4	0.1	1.8	5.2	0.1	0.0	0.1	0.1
Drug Retail	0.1	-16.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Care Facilities	3.5	9.0	0.3	1.5	8.5	0.1	0.0	0.0	0.0
Health Care Supplies	0.6	0.6	0.0	3.1	8.4	0.3	0.0	0.0	0.0
Life & Health Insurance	0.1	-20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Managed Health Care	12.6	8.1	1.1	8.1	8.1	0.7	0.0	0.0	0.0
Office REITs	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Life Sciences Tools & Services	5.9	21.4	1.2	8.5	19.9	1.6	-0.3	0.1	-0.2
Health Care Equipment	16.1	6.9	1.1	20.3	9.1	1.8	0.0	-0.3	-0.3
<b>Total</b>	<b>100.0</b>	<b>10.9</b>	<b>10.9</b>	<b>100.0</b>	<b>9.5</b>	<b>9.5</b>	<b>-0.3</b>	<b>1.7</b>	<b>1.4</b>

## 12 month attribution

	Portfolio			Benchmark			Attribution		
	Avg. weight	12 mo. return	Contrib. Return	Avg. weight	12 mo. return	Contrib. Return	Alloc. effect	Select effect	Total effect
Health Care Facilities	3.4	96.0	2.6	1.3	60.5	0.7	0.6	0.8	1.4
Managed Health Care	12.1	34.5	4.3	7.6	34.8	2.7	0.6	0.0	0.6
Health Care Technology	1.6	29.5	0.4	1.9	18.8	0.3	0.1	0.1	0.2
Health Care Distributors	0.1	0.7	0.0	1.4	17.6	0.3	0.0	0.0	0.0
Health Care Services	0.7	61.1	0.3	3.9	29.4	1.2	-0.1	0.1	0.0
Office REITs	0.1	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specialized Finance	0.0	0.0	0.0	0.0	-4.7	0.0	0.0	0.0	0.0
Drug Retail	0.1	-29.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1
Life & Health Insurance	0.0	-33.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1
Life Sciences Tools & Services	5.8	63.9	3.2	8.0	56.3	3.9	-0.5	0.3	-0.2
Health Care Supplies	0.5	6.7	0.0	3.1	35.3	1.1	-0.3	-0.2	-0.4
Health Care Equipment	16.8	31.2	4.9	20.1	34.0	6.5	-0.3	-0.4	-0.7
Pharmaceuticals	39.3	14.3	5.4	38.7	15.4	6.0	-0.1	-0.6	-0.7
Biotechnology	19.4	-1.2	0.0	14.1	10.6	1.5	-0.6	-2.3	-2.8
<b>Total</b>	<b>100.0</b>	<b>21.2</b>	<b>21.2</b>	<b>100.0</b>	<b>24.0</b>	<b>24.0</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-2.9</b>

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.

## Top contributors—3 month

	3 mo. return	Total effect	Ending weight	Bench weight
Eisai Co. Ltd.	46.6	0.8	3.5	0.3
Johnson & Johnson	0.9	0.5	0.0	5.6
Biogen Inc.	23.8	0.3	3.0	0.7
Eli Lilly and Company	23.4	0.3	4.7	2.4
AstraZeneca PLC	20.0	0.3	5.5	2.1

## Top detractors—3 month

	3 mo. return	Total effect	Ending weight	Bench weight
Ono Pharmaceutical Co. Ltd.	-14.6	-0.2	0.9	0.1
Novo Nordisk A/S	23.4	-0.2	0.0	1.9
Roche Holding AG	16.3	-0.2	0.0	3.6
Daiichi Sankyo Company Limited	-26.1	-0.3	1.3	0.5
Moderna Inc.	79.4	-0.4	0.0	1.0

## Top contributors—12 month

	12 mo. return	Total effect	Ending weight	Bench weight
HCA Healthcare Inc.	114.0	0.9	1.7	0.7
Gilead Sciences Inc.	-6.5	0.5	0.0	1.1
Eli Lilly and Company	42.4	0.5	4.7	2.4
Merck & Co. Inc.	4.3	0.4	0.0	2.6
Bayer AG	-14.7	0.4	0.0	0.8

## Top detractors—12 month

	12 mo. return	Total effect	Ending weight	Bench weight
Viatis Inc.	-10.5	-0.5	1.6	0.2
Moderna Inc.	266.0	-0.6	0.0	1.0
Incyte Corporation	-19.1	-0.8	1.5	0.2
Regeneron Pharmaceuticals Inc.	-10.4	-0.8	2.8	0.8
UCB S.A.	-8.7	-0.8	2.1	0.2

## Important information

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Vanguard Commodity Strategy Fund could lose all, or substantially all, of its investments in instruments linked to the returns of commodity futures or other commodity investments. Commodity futures trading is volatile, and even a small movement in market prices could cause large losses.

Investments in derivatives may involve risks different from, and possibly greater than, those of investments in the underlying securities or assets.

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