

# Vanguard® Health Care Fund

## Investment Approach

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

Major stock markets continued to advance in the first quarter of 2024, with a number of indexes reaching record highs. In the U.S., inflation readings came in higher than expected, but the labor market stayed on a solid footing, consumer spending remained strong, and the economy showed continued vigor. Given this backdrop, the Federal Reserve left interest rates unchanged.

Global stocks returned just shy of 8% for the quarter, as measured by the FTSE Global All Cap Index. U.S. equities led the way, while those in emerging markets lagged but still finished in positive territory.

For the quarter, Vanguard Health Care Fund trailed its benchmark, the MSCI All Country World Index Health Care (+7.05%), and peer-group average (+6.95%). Weak security selection in biotechnology (+2.5%) and health care services (+7.0%) dragged on results. Overweight allocations to managed health care (-3.5%) and biotechnology (+2.5%) also weighed on results. Biogen (-17%) and Alnylam Pharmaceuticals (-22%) were among the top detractors. UCB (+42%) was the top contributor.

On the other side of the ledger, strong security selection in pharmaceuticals (+10.1%) and health care equipment (+8.6%) drove performance; holdings in Eli Lilly (+34%) and Edwards Lifesciences (+25%) specifically contributed. An overweight allocation to health care facilities (+14.5%) also drove performance.

For the year ended March 31, 2024, the fund lagged its benchmark (+12.82%) and peer-group average (+13.01%). Weak security selection in health care services (+19.6%) and biotechnology (+6.9%) detracted from performance. An underweight allocation to health care distributors (+38.1%) and an overweight allocation to biotechnology (+6.9%) also weighed on returns. Underweight positioning to Novo Nordisk (+63%) and an allocation to agilon health (-74%) were among the top detractors. Eli Lilly (+128%) was the top contributor.

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.

Rebecca Sykes, CFA. Portfolio manager. Advised the fund since 2023. Worked in investment management since 2005. B.S., University of Pennsylvania. M.B.A., The Wharton School of the University of Pennsylvania.

**Total Returns**

	Expense Ratio	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Health Care Fund							
Investor Shares (5/23/1984)	0.34%	5.07%	5.07%	11.44%	7.90%	9.96%	9.77%
Admiral Shares (11/12/2001)	0.29	5.08	5.08	11.50	7.96	10.01	9.83
Spliced Health Care Index	—	7.05	7.05	12.82	6.78	9.79	8.83
Global Health/Biotechnology Funds Average	—	6.95	6.95	13.01	2.41	8.28	8.42

**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). The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.** 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)
2024	5.07%	—	—	—	—	—	\$7,458
2023	-0.59	4.25%	-4.60%	6.64%	5.43%	3.58%	7,318
2022	-3.09	-5.57	-3.30	11.82	-1.05	-6.14	7,542
2021	-0.29	10.70	-1.23	4.84	14.30	17.50	8,140
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

**Quarterly Returns: Admiral Shares**

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Health Care	Year-End	
						Spliced Health Care Index	Assets (Millions)
2024	5.08%	—	—	—	—	—	\$39,974
2023	-0.59	4.27%	-4.59%	6.66%	5.48%	3.58%	39,075
2022	-3.08	-5.57	-3.29	11.84	-1.01	-6.14	40,265
2021	-0.27	10.71	-1.21	4.86	14.36	17.50	43,436
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

**Fund Facts**

	Investor Shares	Admiral Shares
Fund Number	0052	0552
Ticker	VGHCX	VGHAX
Newspaper Listing	HlthCare	HlthCareAdml
CUSIP Number	921908307	921908885
Assets (millions) (Total \$47,432)	\$7,458	\$39,974
Inception	5/23/1984	11/12/2001
Expense Ratio (as of 5/2023)	0.34%	0.29%

**Equity Characteristics**

	Health Care	MSCI ACWI Health Care
Number of stocks	98	236
Median market cap	\$100.4 Billion	\$152.2 Billion
Average market cap	\$189.4 Billion	\$226.5 Billion
Price/earnings ratio	32.7x	31.6x
Price/book ratio	4.5x	4.4x
Return on equity	18.0%	20.8%
Earnings growth rate	6.5%	7.9%
Equity yield (dividend)	1.1%	1.7%
Foreign holdings	26.1%	0.0%
Short-term reserves	1.3%	—
Turnover rate (fiscal year end)	19.1%	—

**Volatility Measures**

	R-Squared	Beta
Spliced Health Care Index	0.94	0.96
DJ US Total Stock Mkt Float Adj Idx	0.61	0.60

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
Eli Lilly & Co.	8.8%
UnitedHealth Group Inc.	6.4
Merck & Co. Inc.	5.7
AstraZeneca plc	5.3
Novartis AG	3.9
Daiichi Sankyo Co. Ltd.	2.7
Danaher Corp.	2.7
Pfizer Inc.	2.6
Thermo Fisher Scientific Inc.	2.6
Elevance Health Inc.	2.4
<b>Total</b>	<b>43.1%</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	20.2%	13.9%	6.3
Health Care Distributors	0.8	2.0	-1.2
Health Care Equipment	10.4	15.7	-5.3
Health Care Facilities	3.2	1.7	1.5
Health Care Services	1.5	3.5	-2.0
Health Care Supplies	1.4	2.8	-1.4
Health Care Technology	0.2	0.5	-0.3
Life Sciences Tools & Services	8.7	9.6	-0.9
Managed Health Care	12.9	8.6	4.3
Other	0.3	0.0	0.3
Pharmaceuticals	40.4	41.7	-1.3
<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	40.0	11.6	4.5	41.6	10.1	4.2	-0.1	0.6	0.5
Health Care Equipment	10.3	12.7	1.3	15.5	8.6	1.3	-0.1	0.4	0.4
Health Care Facilities	2.9	16.8	0.5	1.6	14.5	0.2	0.1	0.1	0.1
Health Care Distributors	0.7	18.6	0.1	2.0	13.1	0.3	-0.1	0.0	0.0
Health Care Supplies	1.3	5.5	0.1	2.8	10.0	0.3	0.0	-0.1	-0.1
Health Care Technology	0.2	-0.7	0.0	0.5	13.5	0.1	0.0	0.0	-0.1
Life Sciences Tools & Services	8.6	5.8	0.5	9.5	7.1	0.7	0.0	-0.1	-0.1
Health Care Services	1.5	-22.4	-0.4	3.4	7.0	0.2	0.0	-0.5	-0.5
Managed Health Care	13.5	-3.7	-0.5	9.0	-3.5	-0.3	-0.5	0.0	-0.5
Biotechnology	21.0	-3.8	-0.8	14.2	2.5	0.4	-0.3	-1.4	-1.7
<b>Total</b>	<b>100.0</b>	<b>5.2</b>	<b>5.2</b>	<b>100.0</b>	<b>7.2</b>	<b>7.2</b>	<b>-0.6</b>	<b>-1.5</b>	<b>-2.1</b>

**Top contributors—3 month**

	3 mo. return	Total effect	Ending weight	Bench weight
UCB SA	41.8	0.6	2.1	0.2
Roche Holding AG	-8.6	0.4	0.0	2.3
Johnson & Johnson	1.7	0.3	0.0	4.7
Shockwave Medical Inc.	70.9	0.2	0.6	0.0
Eli Lilly and Company	33.7	0.2	8.9	7.8

**Top detractors—3 month**

	3 mo. return	Total effect	Ending weight	Bench weight
Biogen Inc.	-16.7	-0.5	2.1	0.4
Humana Inc.	-24.1	-0.5	1.8	0.5
Eisai Co. Ltd.	-16.8	-0.5	1.7	0.1
Novo Nordisk A/S	24.2	-0.6	1.7	5.2
Alnylam Pharmaceuticals Inc.	-21.9	-0.6	1.9	0.2

**Top contributors—12 month**

	<b>12 mo. return</b>	<b>Total effect</b>	<b>Ending weight</b>	<b>Bench weight</b>
Eli Lilly and Company	128.4	1.4	8.9	7.8
Roche Holding AG	-7.0	0.6	0.0	2.3
Bristol-Myers Squibb Company	-18.7	0.6	0.0	1.4
Chugai Pharmaceutical Co. Ltd.	57.9	0.6	1.6	0.3
Bayer AG	-49.9	0.5	0.0	0.4

**Top detractors—12 month**

	<b>12 mo. return</b>	<b>Total effect</b>	<b>Ending weight</b>	<b>Bench weight</b>
Biogen Inc.	-22.4	-0.8	2.1	0.4
Pfizer Inc.	-28.4	-0.8	2.7	2.0
Eisai Co. Ltd.	-25.5	-0.9	1.7	0.1
Agilon Health Inc.	-74.3	-1.0	0.5	0.0
Novo Nordisk A/S	31.6	-1.6	1.7	5.2

## Important information

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