



Vanguard[®]

Annual Report | September 30, 2018

Vanguard Strategic Small-Cap Equity Fund

Vanguard's Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard's research and experience, can put you on the right path.

Goals. Create clear, appropriate investment goals.

Balance. Develop a suitable asset allocation using broadly diversified funds.

Cost. Minimize cost.

Discipline. Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

Your Fund's Performance at a Glance

- Vanguard Strategic Small-Cap Equity Fund returned 16.13% for the 12 months ended September 30, 2018. It outpaced its benchmark, the MSCI US Small Cap 1750 Index, and finished well ahead of the average return of its small-capitalization core fund peers.
- The fund recorded positive results in 5 of the 11 industry sectors. Energy and information technology contributed most to relative returns, followed by consumer discretionary.
- Poor selection in health care, industrials, and materials hurt overall returns.

Total Returns: Fiscal Year Ended September 30, 2018

	Total Returns
Vanguard Strategic Small-Cap Equity Fund	16.13%
MSCI US Small Cap 1750 Index	15.06
Small-Cap Core Funds Average	11.86

Small-Cap Core Funds Average: Derived from data provided by Lipper, a Thomson Reuters Company.

Total Returns: Ten Years Ended September 30, 2018

	Average Annual Return
Strategic Small-Cap Equity Fund	12.19%
MSCI US Small Cap 1750 Index	12.27
Small-Cap Core Funds Average	10.23

Small-Cap Core Funds Average: Derived from data provided by Lipper, a Thomson Reuters Company.

The figures shown represent past performance, which is not a guarantee of future results. (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.) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

Expense Ratios

Your Fund Compared With Its Peer Group

	Fund	Peer Group Average
Strategic Small-Cap Equity Fund	0.29%	1.20%

The fund expense ratio shown is from the prospectus dated January 25, 2018, and represents estimated costs for the current fiscal year. For the fiscal year ended September 30, 2018, the fund's expense ratio was 0.29%. The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2017.

Peer group: Small-Cap Core Funds.

CEO's Perspective



Tim Buckley
President and Chief Executive Officer

Dear Shareholder,

Over the years, I've found that prudent investors exhibit a common trait: discipline. No matter how the markets move or what new investing fad hits the headlines, those who stay focused on their goals and tune out the noise are set up for long-term success.

The prime gateway to investing is saving, and you don't usually become a saver without a healthy dose of discipline. Savers make the decision to sock away part of their income, which means spending less and delaying gratification, no matter how difficult that may be.

Of course, disciplined investing extends beyond diligent saving. The financial markets, in the short term especially, are unpredictable; I have yet to meet the investor who can time them perfectly. It takes discipline to resist the urge to go all-in when markets are frothy or to retreat when things look bleak.

Staying put with your investments is one strategy for handling volatility. Another, rebalancing, requires even more discipline because it means steering your money away from strong performers and toward poorer performers.

Patience—a form of discipline—is also the friend of long-term investors. Higher returns are the potential reward for weathering the market's turbulence and uncertainty.

We have been enjoying one of the longest bull markets in history, but it won't continue forever. Prepare yourself now for how you will react when volatility comes back. Don't panic. Don't chase returns or look for answers outside the asset classes you trust. And be sure to rebalance periodically, even when there's turmoil.

Whether you're a master of self-control, get a boost from technology, or work with a professional advisor, know that discipline

is necessary to get the most out of your investment portfolio. And know that Vanguard is with you for the entire ride.

Thank you for your continued loyalty.

Sincerely,



Mortimer J. Buckley
 President and Chief Executive Officer
 October 18, 2018

Market Barometer

	Average Annual Total Returns Periods Ended September 30, 2018		
	One Year	Three Years	Five Years
Stocks			
Russell 1000 Index (Large-caps)	17.76%	17.07%	13.67%
Russell 2000 Index (Small-caps)	15.24	17.12	11.07
Russell 3000 Index (Broad U.S. market)	17.58	17.07	13.46
FTSE All-World ex US Index (International)	2.13	10.18	4.51
Bonds			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	-1.22%	1.31%	2.16%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.35	2.24	3.54
FTSE Three-Month U.S. Treasury Bill Index	1.57	0.80	0.48
CPI			
Consumer Price Index	2.28%	1.99%	1.52%

Advisor's Report

For the 12 months ended September 30, 2018, Vanguard Strategic Small-Cap Equity Fund returned 16.13%. It outpaced its benchmark, the MSCI US Small Cap 1750 Index, and the average performance of its peer funds.

Investment environment

Global markets generally advanced during the period. U.S. stocks led the way as increasing profits and a strong economy outweighed investor concerns about rising interest rates, higher inflation, and trade tensions. Large-capitalization stocks had higher returns than small-caps, and growth stocks were ahead of value.

Emerging markets stocks were in retreat, under pressure from trade tensions as well as a rising dollar. Results in Europe and the Asia-Pacific region were muted in part because of these areas' greater economic dependence on emerging markets.

The overall U.S. fixed income market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned -1.22% for the 12 months. Yields rose and prices mostly declined as investors remained concerned about the threat of inflation and the possibility that the Federal Reserve would raise rates more aggressively.

The Fed did raise rates in September—its eighth increase since the current tightening cycle began—and signaled more hikes to come. Attention is now focused on the

pace of future rate increases, with many analysts expecting one this December and three more in 2019.

Investment objective and strategy

Although we consider it important to understand how overall performance is affected by macro factors, our approach to investing focuses on specific fundamentals—not technical analysis of stock price movements. We compare stocks within industry groups to identify those we believe will outperform over time.

Our strict quantitative approach evaluates a stock's attractiveness based on five key characteristics: high quality—healthy balance sheets and steady cash flow generation; effective management decisions with sound investment policies that favor internal over external funding; consistent earnings growth with the ability to grow earnings year after year; strong market sentiment with market confirmation of our view; and reasonable valuation focused on avoiding overpriced stocks.

Using these five themes, we generate a daily composite stock ranking, seeking to capitalize on market inefficiencies. We then monitor our portfolio based on those rankings and adjust when appropriate to maximize expected returns and minimize exposure to risks that our research indicates don't improve returns (such as industry selection and other risks relative to the benchmark).

Our successes and shortfalls

Over the period, our sentiment model contributed significantly to relative performance; growth, quality, and management decisions also helped. Our valuation model detracted.

Holdings in five of the fund's 11 industry sectors boosted relative performance, with energy, information technology, and consumer discretionary adding the most. Poor selection in health care, primarily in biotechnology and pharmaceuticals, hurt results. Selections in materials and industrials also detracted.

At the individual stock level, the largest contributions came from overweighted positions in Square, World Wrestling Entertainment, Inogen, Denbury Resources, and Match Group. Overweighted positions in Avis Budget Group, Nutrisystem, Sanderson Farms, First Solar, and Nektar Therapeutics hurt performance.

We believe that the Strategic Small-Cap Equity Fund offers a strong mix of stocks with attractive valuations and growth characteristics relative to its benchmark. Although we recognize that risk can reward or punish us over the near term, we believe that constructing a portfolio that emphasizes our key fundamentals through different market environments will benefit investors over the long term.

We thank you for your investment and look forward to the coming fiscal year.

Portfolio Managers:

James P. Stetler

Binbin Guo, Principal, Head of
Alpha Equity Investments

Vanguard Quantitative Equity Group

October 16, 2018

Strategic Small-Cap Equity Fund

Fund Profile

As of September 30, 2018

Portfolio Characteristics

	Fund	MSCI US Small Cap 1750 Index	DJ U.S. Total Market FA Index
Number of Stocks	314	1,707	3,825
Median Market Cap	\$2.9B	\$3.1B	\$73.9B
Price/Earnings Ratio	17.7x	19.0x	21.0x
Price/Book Ratio	2.8x	2.3x	3.1x
Return on Equity	8.6%	8.2%	14.9%
Earnings Growth Rate	9.7%	8.9%	8.5%
Dividend Yield	1.2%	1.4%	1.7%
Foreign Holdings	0.0%	0.0%	0.0%
Turnover Rate	88%	—	—
Ticker Symbol	VSTCX	—	—
Expense Ratio ¹	0.29%	—	—
30-Day SEC Yield	1.03%	—	—
Short-Term Reserves	-0.1%	—	—

Sector Diversification (% of equity exposure)

	Fund
Consumer Discretionary	13.1%
Consumer Staples	2.8
Energy	5.5
Financials	17.0
Health Care	14.9
Industrials	14.6
Information Technology	15.9
Materials	5.0
Real Estate	7.8
Telecommunication Services	0.7
Utilities	2.7

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.

Volatility Measures

	MSCI US Small Cap 1750 Index	DJ U.S. Total Market FA Index
R-Squared	0.96	0.67
Beta	1.05	1.14

These measures show the degree and timing of the fund's fluctuations compared with the indexes over 36 months.

Ten Largest Holdings (% of total net assets)

Booz Allen Hamilton Holding Corp.	IT Consulting & Other Services	0.8%
Haemonetics Corp.	Health Care Supplies	0.8
Encompass Health Corp.	Health Care Facilities	0.8
Charles River Laboratories International Inc.	Life Sciences Tools & Services	0.8
PBF Energy Inc.	Oil & Gas Refining & Marketing	0.8
Green Dot Corp.	Consumer Finance	0.7
World Wrestling Entertainment Inc.	Movies & Entertainment	0.7
Chemed Corp.	Health Care Services	0.7
Inogen Inc.	Health Care Equipment	0.7
CACI International Inc.	IT Consulting & Other Services	0.7
Top Ten		7.5%

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

Investment Focus

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

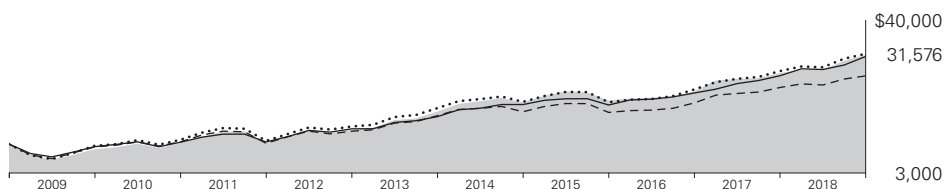
¹ The expense ratio shown is from the prospectus dated January 25, 2018, and represents estimated costs for the current fiscal year. For the fiscal year ended September 30, 2018, the expense ratio was 0.29%.

Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the fund. (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.) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on fund distributions or on the sale of fund shares.

Cumulative Performance: September 30, 2008, Through September 30, 2018

Initial Investment of \$10,000

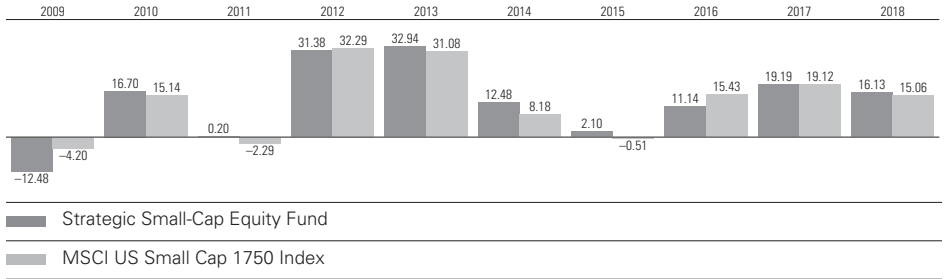


	Average Annual Total Returns Periods Ended September 30, 2018			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Strategic Small-Cap Equity Fund	16.13%	12.06%	12.19%	\$31,576
MSCI US Small Cap 1750 Index	15.06	11.23	12.27	31,824
Small-Cap Core Funds Average	11.86	9.45	10.23	26,487
Dow Jones U.S. Total Stock Market Float Adjusted Index	17.58	13.42	12.05	31,191

Small-Cap Core Funds Average: Derived from data provided by Lipper, a Thomson Reuters Company.

Strategic Small-Cap Equity Fund

Fiscal-Year Total Returns (%): September 30, 2008, Through September 30, 2018



Financial Statements

Statement of Net Assets

As of September 30, 2018

The fund reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the fund's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the fund files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the fund's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
Common Stocks (99.3%)¹					
Consumer Discretionary (13.0%)					
World Wrestling Entertainment Inc. Class A	147,546	14,272			
* Deckers Outdoor Corp.	112,413	13,330			
* Crocs Inc.	573,009	12,199			
*^ RH	90,490	11,855			
Tailored Brands Inc.	459,184	11,567			
* Weight Watchers International Inc.	150,671	10,847			
* Urban Outfitters Inc.	259,052	10,595			
Abercrombie & Fitch Co.	498,577	10,530			
BJ's Restaurants Inc.	131,302	9,480			
Ruth's Hospitality Group Inc.	297,928	9,400			
Bloomin' Brands Inc.	465,185	9,206			
AMC Entertainment Holdings Inc. Class A	439,324	9,006			
New York Times Co. Class A	373,159	8,639			
PetMed Express Inc.	245,011	8,088			
American Eagle Outfitters Inc.	279,343	6,936			
* Cooper-Standard Holdings Inc.	55,426	6,650			
Winnebago Industries Inc.	192,229	6,372			
* Chegg Inc.	219,563	6,242			
Gannett Co. Inc.	621,383	6,220			
* Penn National Gaming Inc.	187,465	6,171			
Brinker International Inc.	130,125	6,081			
* Visteon Corp.	63,870	5,934			
MDC Holdings Inc.	155,424	4,597			
*^ Conn's Inc.	120,856	4,272			
* MSG Networks Inc.	160,103	4,131			
* Planet Fitness Inc. Class A	73,167	3,953			
* G-III Apparel Group Ltd.	73,148	3,525			
Movado Group Inc.	83,930	3,517			
			Dine Brands Global Inc.	43,139	3,508
			Churchill Downs Inc.	9,260	2,572
			* Shake Shack Inc. Class A	38,114	2,402
			Columbia Sportswear Co.	25,485	2,372
			Red Rock Resorts Inc. Class A	73,715	1,965
			* Stoneridge Inc.	66,031	1,962
			Oxford Industries Inc.	17,176	1,549
			Shoe Carnival Inc.	38,234	1,472
			* Vitamin Shoppe Inc.	144,346	1,443
			* Fossil Group Inc.	59,663	1,389
			Buckle Inc.	50,443	1,163
			* Burlington Stores Inc.	6,864	1,118
			Delphi Technologies plc	35,410	1,110
			* Hibbett Sports Inc.	46,692	878
			* Cavco Industries Inc.	3,381	855
					249,373
			Consumer Staples (2.8%)		
			Medifast Inc.	59,219	13,120
			* Boston Beer Co. Inc. Class A	37,903	10,897
			Cal-Maine Foods Inc.	174,093	8,409
			Ingles Markets Inc. Class A	111,946	3,834
			Calavo Growers Inc.	35,502	3,429
			* Performance Food Group Co.	86,504	2,881
			*^ National Beverage Corp.	16,856	1,966
			* USANA Health Sciences Inc.	15,778	1,902
			* United Natural Foods Inc.	52,208	1,564
			Energizer Holdings Inc.	21,082	1,236
			* Sprouts Farmers Market Inc.	40,540	1,111
			* Chefs' Warehouse Inc.	25,595	930
			MGP Ingredients Inc.	11,288	892
			* Freshpet Inc.	23,481	862

Strategic Small-Cap Equity Fund

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
* Central Garden & Pet Co. Class A	19,923	718	Kemper Corp.	110,821	8,915
		53,751	Evercore Inc. Class A	82,226	8,268
Energy (5.4%)			Nelnet Inc. Class A	135,903	7,770
* PBF Energy Inc. Class A	295,930	14,770	* First BanCorp	839,698	7,641
* Whiting Petroleum Corp.	256,139	13,586	Washington Federal Inc.	231,428	7,406
* California Resources Corp.	274,100	13,302	First Citizens BancShares Inc. Class A	15,799	7,146
* Denbury Resources Inc.	2,134,326	13,233	Cathay General Bancorp	165,460	6,857
* W&T Offshore Inc.	1,237,482	11,929	Legg Mason Inc.	214,649	6,703
SM Energy Co.	365,752	11,532	* Radian Group Inc.	290,432	6,003
* ProPetro Holding Corp.	506,041	8,345	* Enova International Inc.	179,673	5,175
* CONSOL Energy Inc.	70,130	2,862	Webster Financial Corp.	87,590	5,164
Arch Coal Inc. Class A	26,694	2,386	* Credit Acceptance Corp.	11,594	5,079
* Renewable Energy Group Inc.	81,584	2,350	Houlihan Lokey Inc. Class A	111,942	5,029
^ CVR Energy Inc.	43,794	1,761	Hancock Whitney Corp.	99,009	4,708
* Penn Virginia Corp.	20,470	1,649	* Flagstar Bancorp Inc.	145,693	4,585
Mammoth Energy Services Inc.	48,807	1,420	Greenhill & Co. Inc.	151,736	3,998
* Exterran Corp.	40,619	1,078	BancorpSouth Bank	117,807	3,852
Archrock Inc.	74,558	910	BOK Financial Corp.	34,416	3,348
* SEACOR Holdings Inc.	17,578	869	Popular Inc.	63,349	3,247
* Par Pacific Holdings Inc.	38,112	777	Virtu Financial Inc. Class A	155,333	3,177
* REX American Resources Corp.	10,210	771	Hanover Insurance Group Inc.	21,117	2,605
* Carrizo Oil & Gas Inc.	29,019	731	* Seacoast Banking Corp. of Florida	79,343	2,317
		104,261	* Western Alliance Bancorp	39,458	2,245
Financials (16.9%)			FirstCash Inc.	25,436	2,086
* Green Dot Corp. Class A	161,351	14,331	First Financial Bancorp	60,638	1,801
LPL Financial Holdings Inc.	201,940	13,027	* Ambac Financial Group Inc.	84,059	1,716
TCF Financial Corp.	515,415	12,272	Moelis & Co. Class A	29,126	1,596
Synovus Financial Corp.	265,047	12,136	* EZCORP Inc. Class A	132,615	1,419
Assured Guaranty Ltd.	285,549	12,059	First Interstate BancSystem Inc. Class A	21,202	950
* MGIC Investment Corp.	870,459	11,586	TrustCo Bank Corp. NY	60,090	511
Universal Insurance Holdings Inc.	238,634	11,586			323,833
American Equity Investment Life Holding Co.	321,886	11,382	Health Care (14.8%)		
Primerica Inc.	91,655	11,049	* Haemonetics Corp.	133,937	15,346
* NMI Holdings Inc. Class A	487,401	11,040	Encompass Health Corp.	192,233	14,985
International Bancshares Corp.	239,868	10,794	* Charles River Laboratories International Inc.	110,515	14,869
Umpqua Holdings Corp.	514,585	10,703	Chemed Corp.	44,151	14,110
Cadence Bancorp Class A	406,032	10,606	* Inogen Inc.	56,971	13,908
Walker & Dunlop Inc.	200,213	10,587	* Myriad Genetics Inc.	276,760	12,731
BankUnited Inc.	283,570	10,038	* Amedisys Inc.	96,476	12,056
* Axos Financial Inc.	291,742	10,033	* Tenet Healthcare Corp.	397,070	11,301
Federal Agricultural Mortgage Corp.	128,668	9,287	Bruker Corp.	322,117	10,775
			* STAAR Surgical Co.	217,410	10,436
			* REGENXBIO Inc.	137,154	10,355
			* Enanta Pharmaceuticals Inc.	118,453	10,123

Strategic Small-Cap Equity Fund

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
* Vanda Pharmaceuticals Inc.	376,919	8,650	* Meritor Inc.	448,580	8,685
* Veeva Systems Inc. Class A	79,373	8,641	Rush Enterprises Inc. Class A	214,461	8,430
* ImmunoGen Inc.	905,546	8,576	* TriNet Group Inc.	142,381	8,019
* Spectrum Pharmaceuticals Inc.	462,585	7,771	Triton International Ltd. Global Brass & Copper Holdings Inc.	239,371	7,964
* Tivity Health Inc.	225,632	7,254	Insperty Inc.	206,280	7,612
* WellCare Health Plans Inc.	22,244	7,129	H&E Equipment Services Inc.	59,443	7,011
* Halozyme Therapeutics Inc.	388,055	7,051	Graco Inc.	178,661	6,750
* PRA Health Sciences Inc.	58,240	6,417	* Echo Global Logistics Inc.	129,644	6,008
* Endo International plc	372,502	6,269	Ennis Inc.	188,865	5,845
* Integer Holdings Corp.	73,879	6,128	Quad/Graphics Inc.	284,242	5,813
* Sage Therapeutics Inc.	42,809	6,047	* Vicor Corp.	262,088	5,462
* Nektar Therapeutics Class A	96,170	5,863	* EMCOR Group Inc.	115,286	5,303
* Acorda Therapeutics Inc.	253,940	4,990	HEICO Corp. Class A	65,102	4,890
* Zogenix Inc.	91,330	4,530	Comfort Systems USA Inc.	61,325	4,630
* Array BioPharma Inc.	279,142	4,243	* Korn/Ferry International	66,979	3,778
* PTC Therapeutics Inc.	86,620	4,071	* SP Plus Corp.	68,665	3,381
*^ Sorrento Therapeutics Inc.	812,751	3,576	* Herc Holdings Inc.	92,213	3,366
* CytomX Therapeutics Inc.	172,771	3,196	Simpson Manufacturing Co. Inc.	53,534	2,741
* Novavax Inc.	1,660,380	3,121	McGrath RentCorp	34,586	2,506
* Addus HomeCare Corp.	42,016	2,947	ACCO Brands Corp.	40,216	2,191
* Genomic Health Inc.	38,823	2,726	* Atkore International Group Inc.	190,623	2,154
* Molina Healthcare Inc.	16,513	2,455	* Clean Harbors Inc.	80,528	2,136
* Natera Inc.	95,303	2,282	* Avis Budget Group Inc.	25,781	1,845
* Medpace Holdings Inc.	33,884	2,030	* Proto Labs Inc.	51,263	1,648
* Ensign Group Inc.	49,648	1,883	Advanced Drainage Systems Inc.	7,985	1,292
* GlycoMimetics Inc.	121,388	1,748	* SPX FLOW Inc.	38,684	1,195
* uniQure NV	36,076	1,313	* XPO Logistics Inc.	21,330	1,109
* Assertio Therapeutics Inc.	204,115	1,200	* Kforce Inc.	8,665	989
* Amneal Pharmaceuticals Inc.	52,064	1,155	* NOW Inc.	21,790	819
		284,257		45,233	749
Industrials (14.5%)			Information Technology (15.7%)		277,471
* GATX Corp.	151,330	13,104	Booz Allen Hamilton Holding Corp. Class A	316,184	15,692
* Harsco Corp.	452,239	12,911	* CACI International Inc. Class A	74,399	13,701
* Continental Building Products Inc.	332,570	12,488	* Square Inc.	132,952	13,164
* Generac Holdings Inc.	213,048	12,018	* RingCentral Inc. Class A	134,661	12,530
* Axon Enterprise Inc.	168,848	11,554	*^ Unisys Corp.	600,840	12,257
* Aerovironment Inc.	102,500	11,497	ManTech International Corp. Class A	190,634	12,067
* SkyWest Inc.	192,743	11,353	*^ Match Group Inc.	204,820	11,861
* FTI Consulting Inc.	154,887	11,336	* Glu Mobile Inc.	1,568,622	11,686
* Terex Corp.	268,516	10,716	* Zebra Technologies Corp.	65,686	11,615
* SPX Corp.	299,320	9,970	* Hortonworks Inc.	497,475	11,347
* PGT Innovations Inc.	424,498	9,169	* ePlus Inc.	121,029	11,219
* Greenbrier Cos. Inc.	151,772	9,122			
* ArcBest Corp.	184,692	8,967			
* Cimpress NV	65,482	8,945			

Strategic Small-Cap Equity Fund

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
* Advanced Micro Devices Inc.	350,789	10,836	* Warrior Met Coal Inc.	296,296	8,012
* Five9 Inc.	239,612	10,469	* AdvanSix Inc.	197,235	6,696
* Apptio Inc. Class A	279,956	10,347	Chemours Co.	164,576	6,491
* Appfolio Inc.	129,325	10,139	Schnitzer Steel Industries Inc.	158,871	4,298
* Pure Storage Inc. Class A	285,297	7,403	Mercer International Inc.	181,395	3,047
* SolarEdge Technologies Inc.	193,497	7,285	* Alcoa Corp.	63,966	2,584
* Fitbit Inc. Class A	1,316,086	7,041	United States Steel Corp.	66,169	2,017
* SMART Global Holdings Inc.	226,218	6,502	Carpenter Technology Corp.	27,466	1,619
^ Ubiquiti Networks Inc.	64,943	6,420	* Verso Corp.	46,371	1,561
Plantronics Inc.	105,738	6,376	Ashland Global Holdings Inc.	11,439	959
* Aspen Technology Inc.	53,636	6,110			95,311
Kulicke & Soffa Industries Inc.	241,431	5,756	Real Estate (7.8%)		
Science Applications International Corp.	67,821	5,466	Life Storage Inc.	129,290	12,303
Jabil Inc.	195,387	5,291	Ryman Hospitality Properties Inc.	138,530	11,937
* Etsy Inc.	94,352	4,848	Xenia Hotels & Resorts Inc.	480,711	11,393
* Anixter International Inc.	66,793	4,696	Hospitality Properties Trust	377,134	10,877
Comtech Telecommunications Corp.	118,418	4,295	CoreSite Realty Corp.	95,791	10,646
* New Relic Inc.	39,914	3,761	Pebblebrook Hotel Trust	286,717	10,428
SYNNEX Corp.	44,164	3,741	Rayonier Inc.	289,522	9,789
* Cree Inc.	92,437	3,501	National Health Investors Inc.	100,609	7,605
* Mellanox Technologies Ltd.	46,337	3,403	MGM Growth Properties LLC Class A	243,743	7,188
TTEC Holdings Inc.	123,585	3,201	EastGroup Properties Inc.	65,404	6,254
* Plexus Corp.	53,429	3,126	Chesapeake Lodging Trust	187,105	6,000
* Avid Technology Inc.	518,993	3,078	Tier REIT Inc.	219,101	5,280
MAXIMUS Inc.	42,952	2,794	Taubman Centers Inc.	71,221	4,261
* Sykes Enterprises Inc.	78,044	2,380	Ashford Hospitality Trust Inc.	637,176	4,072
Versum Materials Inc.	63,422	2,284	Uniti Group Inc.	201,492	4,060
* First Solar Inc.	44,776	2,168	Chatham Lodging Trust	185,610	3,877
*^ SunPower Corp. Class A	276,399	2,018	Getty Realty Corp.	116,630	3,331
* Cardtronics plc Class A	58,701	1,857	Apple Hospitality REIT Inc.	165,951	2,902
* Infinera Corp.	228,421	1,667	*^ Forestar Group Inc.	119,017	2,523
* Varonis Systems Inc.	20,796	1,523	One Liberty Properties Inc.	86,383	2,400
* Workiva Inc.	34,469	1,362	DiamondRock Hospitality Co.	193,063	2,253
* Virtusa Corp.	24,936	1,339	Universal Health Realty Income Trust	26,888	2,001
* Amkor Technology Inc.	128,825	952	DDR Corp.	121,631	1,629
* TTM Technologies Inc.	51,841	825	CoreCivic Inc.	62,929	1,531
* Alpha & Omega Semiconductor Ltd.	63,771	742	Piedmont Office Realty Trust Inc. Class A	71,323	1,350
		302,141	Ramco-Gershenson Properties Trust	71,772	976
Materials (5.0%)					
* Cleveland-Cliffs Inc.	944,834	11,962			
Louisiana-Pacific Corp.	395,414	10,475			
Domtar Corp.	193,215	10,080			
Greif Inc. Class A	163,026	8,748			
Boise Cascade Co.	236,662	8,709			
Huntsman Corp.	295,746	8,053			

Strategic Small-Cap Equity Fund

	Shares	Market Value* (\$000)	Amount (\$000)
New Senior Investment Group Inc.	133,092	785	
Lexington Realty Trust	93,002	772	
Hersha Hospitality Trust Class A	33,504	760	
		149,183	
Telecommunication Services (0.7%)			
* Vonage Holdings Corp.	538,378	7,624	
* Boingo Wireless Inc.	164,589	5,744	
		13,368	
Utilities (2.7%)			
Otter Tail Corp.	230,839	11,057	
NextEra Energy Partners LP	210,892	10,228	
PNM Resources Inc.	208,424	8,223	
IDACORP Inc.	68,843	6,831	
* Clearway Energy Inc.	245,842	4,733	
Hawaiian Electric Industries Inc.	114,138	4,062	
American States Water Co.	42,445	2,595	
Avista Corp.	36,549	1,848	
Unitil Corp.	25,180	1,282	
Chesapeake Utilities Corp.	6,689	561	
		51,420	
Total Common Stocks (Cost \$1,518,821)		1,904,369	
Temporary Cash Investments (1.6%)¹			
Money Market Fund (1.5%)			
^{2,3} Vanguard Market Liquidity Fund, 2.209%	295,149	29,515	
	Face Amount (\$000)		
U.S. Government and Agency Obligations (0.1%)			
⁴ United States Treasury Bill, 2.078%, 11/15/18	450	449	
⁴ United States Treasury Bill, 2.280%, 2/21/19	500	495	
		944	
Total Temporary Cash Investments (Cost \$30,458)		30,459	
Total Investments (100.9%) (Cost \$1,549,279)		1,934,828	

Other Assets and Liabilities (-0.9%)		Amount (\$000)
Other Assets		
Investment in Vanguard		99
Receivables for Investment Securities Sold		824
Receivables for Accrued Income		1,692
Receivables for Capital Shares Issued		2,269
Variation Margin Receivable—		
Futures Contracts		27
Other Assets		75
Total Other Assets		4,986
Liabilities		
Payables for Investment Securities		
Purchased		(244)
Collateral for Securities on Loan		(20,777)
Payables for Capital Shares Redeemed		(962)
Payables to Vanguard		(732)
Other Liabilities		(202)
Total Liabilities		(22,917)
Net Assets (100%)		
Applicable to 47,674,480 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)		
		1,916,897
Net Asset Value Per Share		\$40.21

At September 30, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	1,386,442
Undistributed Net Investment Income	11,290
Accumulated Net Realized Gains	133,690
Unrealized Appreciation (Depreciation)	
Investment Securities	385,549
Futures Contracts	(74)
Net Assets	1,916,897

• See Note A in Notes to Financial Statements.

* Non-income-producing security.

^ Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$19,894,000.

1 The fund invests a portion of its cash reserves in equity markets through the use of index futures contracts. After giving effect to futures investments, the fund's effective common stock and temporary cash investment positions represent 99.9% and 1.0%, respectively, of net assets.

2 Includes \$20,777,000 of collateral received for securities on loan.

3 Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

4 Securities with a value of \$657,000 have been segregated as initial margin for open futures contracts.

REIT—Real Estate Investment Trust.

Strategic Small-Cap Equity Fund

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

			(\$000)	
	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)
<hr/> Long Futures Contracts				
E-mini Russell 2000 Index	December 2018	131	11,140	(74)

See accompanying Notes, which are an integral part of the Financial Statements.

Statement of Operations

	Year Ended September 30, 2018
	(\$000)
Investment Income	
Income	
Dividends	21,500
Interest ¹	150
Securities Lending—Net	736
Total Income	22,386
Expenses	
The Vanguard Group—Note B	
Investment Advisory Services	1,211
Management and Administrative	3,416
Marketing and Distribution	322
Custodian Fees	24
Auditing Fees	34
Shareholders' Reports and Proxy	59
Trustees' Fees and Expenses	1
Total Expenses	5,067
Net Investment Income	17,319
Realized Net Gain (Loss)	
Investment Securities Sold ¹	153,637
Futures Contracts	1,133
Realized Net Gain (Loss)	154,770
Change in Unrealized Appreciation (Depreciation)	
Investment Securities ¹	89,524
Futures Contracts	(306)
Change in Unrealized Appreciation (Depreciation)	89,218
Net Increase (Decrease) in Net Assets Resulting from Operations	261,307

¹ Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the fund were \$137,000, (\$1,000), and (\$1,000), respectively. Purchases and sales are for temporary cash investment purposes.

Statement of Changes in Net Assets

	Year Ended September 30,	
	2018 (\$000)	2017 (\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	17,319	21,050
Realized Net Gain (Loss)	154,770	88,982
Change in Unrealized Appreciation (Depreciation)	89,218	153,357
Net Increase (Decrease) in Net Assets Resulting from Operations	261,307	263,389
Distributions		
Net Investment Income	(17,683)	(20,718)
Realized Capital Gain ¹	(92,040)	—
Total Distributions	(109,723)	(20,718)
Capital Share Transactions		
Issued	359,541	443,863
Issued in Lieu of Cash Distributions	100,724	18,647
Redeemed	(367,708)	(382,969)
Net Increase (Decrease) from Capital Share Transactions	92,557	79,541
Total Increase (Decrease)	244,141	322,212
Net Assets		
Beginning of Period	1,672,756	1,350,544
End of Period ²	1,916,897	1,672,756

¹ Includes fiscal 2018 and 2017 short-term gain distributions totaling \$18,625,000 and \$0, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

² Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$11,290,000 and \$12,550,000.

Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended September 30,				
	2018	2017	2016	2015	2014
Net Asset Value, Beginning of Period	\$36.99	\$31.45	\$28.95	\$30.91	\$27.94
Investment Operations					
Net Investment Income	.373 ¹	.462 ¹	.494	.368	.277
Net Realized and Unrealized Gain (Loss) on Investments	5.294	5.545	2.682	.349	3.201
Total from Investment Operations	5.667	6.007	3.176	.717	3.478
Distributions					
Dividends from Net Investment Income	(.394)	(.467)	(.340)	(.246)	(.232)
Distributions from Realized Capital Gains	(2.053)	—	(.336)	(2.431)	(.276)
Total Distributions	(2.447)	(.467)	(.676)	(2.677)	(.508)
Net Asset Value, End of Period	\$40.21	\$36.99	\$31.45	\$28.95	\$30.91
Total Return²	16.13%	19.19%	11.14%	2.10%	12.48%
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	\$1,917	\$1,673	\$1,351	\$945	\$545
Ratio of Total Expenses to Average Net Assets	0.29%	0.29%	0.29%	0.34%	0.38%
Ratio of Net Investment Income to Average Net Assets	0.99%	1.34%	1.78%	1.34%	0.96%
Portfolio Turnover Rate	88%	91%	89%	62%	64%

¹ Calculated based on average shares outstanding.

² Total returns do not include account service fees that may have applied in the periods shown. Fund prospectuses provide information about any applicable account service fees.

Notes to Financial Statements

Vanguard Strategic Small-Cap Equity Fund is registered under the Investment Company Act of 1940 as an open-end investment company, or mutual fund.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The fund consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the fund's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The fund uses index futures contracts to a limited extent, with the objective of maintaining full exposure to the stock market while maintaining liquidity. The fund may purchase or sell futures contracts to achieve a desired level of investment, whether to accommodate portfolio turnover or cash flows from capital share transactions. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the fund and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the fund trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the fund's performance and requires daily settlement of variation margin representing changes in the market value of each contract. Any assets pledged as initial margin for open contracts are noted in the Statement of Net Assets.

Futures contracts are valued at their quoted daily settlement prices. The notional amounts of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended September 30, 2018, the fund's average investments in long and short futures contracts represented less than 1% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period.

3. **Federal Income Taxes:** The fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the fund's tax positions taken for all open federal income tax years (September 30, 2015–2018), and has concluded that no provision for federal income tax is required in the fund's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes.

5. **Securities Lending:** To earn additional income, the fund lends its securities to qualified institutional borrowers. Security loans are subject to termination by the fund at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled before the opening of the market on the next business day. The fund further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the fund may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the fund; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the event of a default, the fund may experience delays and costs in recovering the securities loaned. The fund invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the fund is entitled to all distributions made on or in respect of the loaned securities.

6. **Credit Facility:** The fund and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the fund's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the fund's board of trustees and included in Management and Administrative expenses on the fund's Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The fund had no borrowings outstanding at September 30, 2018, or at any time during the period then ended.

7. **Other:** Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the fund, Vanguard furnishes to the fund investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the fund based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs);

the fund's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets. All other costs of operations payable to Vanguard are generally settled twice a month.

Upon the request of Vanguard, the fund may invest up to 0.40% of its net assets as capital in Vanguard. At September 30, 2018, the fund had contributed to Vanguard capital in the amount of \$99,000, representing 0.01% of the fund's net assets and 0.04% of Vanguard's capitalization. The fund's trustees and officers are also directors and employees, respectively, of Vanguard.

C. Various inputs may be used to determine the value of the fund's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

Level 1—Quoted prices in active markets for identical securities.

Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3—Significant unobservable inputs (including the fund's own assumptions used to determine the fair value of investments). Any investments valued with significant unobservable inputs are noted on the Statement of Net Assets.

The following table summarizes the market value of the fund's investments as of September 30, 2018, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,904,369	—	—
Temporary Cash Investments	29,515	944	—
Futures Contracts—Assets ¹	27	—	—
Total	1,933,911	944	—

¹ Represents variation margin on the last day of the reporting period.

D. Permanent differences between book-basis and tax-basis components of net assets are reclassified among capital accounts in the financial statements to reflect their tax character. These reclassifications have no effect on net assets or net asset value per share. As of period end, the following permanent differences primarily attributable to the accounting for distributions in connection with fund share redemptions were reclassified to the following accounts:

	Amount (\$000)
Paid-in Capital	8,947
Undistributed (Overdistributed) Net Investment Income	(896)
Accumulated Net Realized Gains (Losses)	(8,051)

Strategic Small-Cap Equity Fund

Temporary differences between book-basis and tax-basis components of accumulated net earnings (losses) arise when certain items of income, gain, or loss are recognized in different periods for financial statement and tax purposes; these differences will reverse at some time in the future. The differences are primarily related to the tax deferral of losses on wash sales and the realization of unrealized gains or losses on certain futures contracts. As of period end, the tax-basis components of accumulated net earnings (losses) are detailed in the table as follows:

	Amount (\$000)
Undistributed Ordinary Income	22,362
Undistributed Long-Term Gains	123,017
Capital Loss Carryforwards	—
Net Unrealized Gains (Losses)	385,549

As of September 30, 2018, gross unrealized appreciation and depreciation for investments and derivatives based on cost for U.S. federal income tax purposes were as follows:

	Amount (\$000)
Tax Cost	1,549,279
Gross Unrealized Appreciation	446,687
Gross Unrealized Depreciation	(61,138)
Net Unrealized Appreciation (Depreciation)	385,549

E. During the year ended September 30, 2018, the fund purchased \$1,532,298,000 of investment securities and sold \$1,530,502,000 of investment securities, other than temporary cash investments.

F. Capital shares issued and redeemed were:

	Year Ended September 30,	
	2018 Shares (000)	2017 Shares (000)
Issued	9,482	12,829
Issued in Lieu of Cash Distributions	2,813	534
Redeemed	(9,846)	(11,084)
Net Increase (Decrease) in Shares Outstanding	2,449	2,279

G. Management has determined that no events or transactions occurred subsequent to September 30, 2018, that would require recognition or disclosure in these financial statements.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Horizon Funds and Shareholders of Vanguard Strategic Small-Cap Equity Fund

Opinion on the Financial Statements

We have audited the accompanying statement of net assets of Vanguard Strategic Small-Cap Equity Fund (one of the funds constituting Vanguard Horizon Funds, referred to hereafter as the "Fund") as of September 30, 2018, the related statement of operations for the year ended September 30, 2018, the statement of changes in net assets for each of the two years in the period ended September 30, 2018, including the related notes, and the financial highlights for each of the five years in the period ended September 30, 2018 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended September 30, 2018 and the financial highlights for each of the five years in the period ended September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of September 30, 2018 by correspondence with the custodians and brokers and by agreement to the underlying ownership records of the transfer agent; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
November 15, 2018

We have served as the auditor of one or more investment companies in The Vanguard Group of Funds since 1975.

Special 2018 tax information (unaudited) for Vanguard Strategic Small-Cap Equity Fund

This information for the fiscal year ended September 30, 2018, is included pursuant to provisions of the Internal Revenue Code.

The fund distributed \$80,843,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For nonresident alien shareholders, 100% of short-term capital gain dividends distributed by the fund are qualified short-term capital gains.

The fund distributed \$13,910,000 of qualified dividend income to shareholders during the fiscal year.

For corporate shareholders, 55.4% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

Your Fund's After-Tax Returns

This table presents returns for your fund both before and after taxes. The after-tax returns are shown in two ways: (1) assuming that an investor owned the fund during the entire period and paid taxes on the fund's distributions, and (2) assuming that an investor paid taxes on the fund's distributions *and* sold all shares at the end of each period.

Calculations are based on the highest individual federal income tax and capital gains tax rates in effect at the times of the distributions and the hypothetical sales. State and local taxes were not considered. After-tax returns reflect any qualified dividend income, using actual prior-year figures and estimates for 2018. (In the example, returns after the sale of fund shares may be higher than those assuming no sale. This occurs when the sale would have produced a capital loss. The calculation assumes that the investor received a tax deduction for the loss.)

Please note that your actual after-tax returns will depend on your tax situation and may differ from those shown. Also note that if you own the fund in a tax-deferred account, such as an individual retirement account or a 401(k) plan, this information does not apply to you. Such accounts are not subject to current taxes.

Finally, keep in mind that a fund's performance—whether before or after taxes—does not guarantee future results.

Average Annual Total Returns: Strategic Small-Cap Equity Fund

Periods Ended September 30, 2018

	One Year	Five Years	Ten Years
Returns Before Taxes	16.13%	12.06%	12.19%
Returns After Taxes on Distributions	14.07	10.85	11.48
Returns After Taxes on Distributions and Sale of Fund Shares	10.28	9.25	9.97

About Your Fund's Expenses

As a shareholder of the fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a fund's gross income, directly reduce the investment return of the fund.

A fund's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your fund's costs in two ways:

- **Based on actual fund return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the fund's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the fund. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your fund's costs with those of other mutual funds. It assumes that the fund had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the fund's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your fund's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the fund for buying and selling securities. Further, the expenses do not include any purchase, redemption, or account service fees described in the fund prospectus. If such fees were applied to your account, your costs would be higher. Your fund does not carry a "sales load."

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the fund's expenses, including annual expense ratios, in the Financial Statements section of this report. For additional information on operating expenses and other shareholder costs, please refer to your fund's current prospectus.

Six Months Ended September 30, 2018

	Beginning Account Value 3/31/2018	Ending Account Value 9/30/2018	Expenses Paid During Period
Strategic Small-Cap Equity Fund			
Based on Actual Fund Return	\$1,000.00	\$1,129.49	\$1.55
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.61	1.47

The calculations are based on expenses incurred in the most recent six-month period. The fund's annualized six-month expense ratio for that period is 0.29%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (183/365).

Glossary

30-Day SEC Yield. A fund's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the fund's security holdings in the previous 30 days are used to calculate the fund's hypothetical net income for that period, which is then annualized and divided by the fund's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the fund's actual experience. As a result, the fund's income distributions may be higher or lower than implied by the SEC yield.

Beta. A measure of the magnitude of a fund's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a fund with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the fund and the index. Note that a fund's beta should be reviewed in conjunction with its R-squared (see definition). The lower the R-squared, the less correlation there is between the fund and the index, and the less reliable beta is as an indicator of volatility.

Dividend Yield. Dividend income earned by stocks, expressed as a percentage of the aggregate market value (or of net asset value, for a fund). The yield is determined by dividing the amount of the annual dividends by the aggregate value (or net asset value) at the end of the period. For a fund, the dividend yield is based solely on stock holdings and does not include any income produced by other investments.

Earnings Growth Rate. The average annual rate of growth in earnings over the past five years for the stocks now in a fund.

Equity Exposure. A measure that reflects a fund's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

Expense Ratio. A fund's total annual operating expenses expressed as a percentage of the fund's average net assets. The expense ratio includes management and administrative expenses, but does not include the transaction costs of buying and selling portfolio securities.

Foreign Holdings. The percentage of a fund represented by securities or depository receipts of companies based outside the United States.

Inception Date. The date on which the assets of a fund (or one of its share classes) are first invested in accordance with the fund's investment objective. For funds with a subscription period, the inception date is the day after that period ends. Investment performance is measured from the inception date.

Median Market Cap. An indicator of the size of companies in which a fund invests; the midpoint of market capitalization (market price x shares outstanding) of a fund's stocks, weighted by the proportion of the fund's assets invested in each stock. Stocks representing half of the fund's assets have market capitalizations above the median, and the rest are below it.

Price/Book Ratio. The share price of a stock divided by its net worth, or book value, per share. For a fund, the weighted average price/book ratio of the stocks it holds.

Price/Earnings Ratio. The ratio of a stock's current price to its per-share earnings over the past year. For a fund, the weighted average P/E of the stocks it holds. P/E is an indicator of market expectations about corporate prospects; the higher the P/E, the greater the expectations for a company's future growth.

R-Squared. A measure of how much of a fund's past returns can be explained by the returns from the market in general, as measured by a given index. If a fund's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the fund's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the fund and the index.

Return on Equity. The annual average rate of return generated by a company during the past five years for each dollar of shareholder's equity (net income divided by shareholder's equity). For a fund, the weighted average return on equity for the companies whose stocks it holds.

Short-Term Reserves. The percentage of a fund invested in highly liquid, short-term securities that can be readily converted to cash.

Turnover Rate. An indication of the fund's trading activity. Funds with high turnover rates incur higher transaction costs and may be more likely to distribute capital gains (which may be taxable to investors). The turnover rate excludes in-kind transactions, which have minimal impact on costs.

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The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals. The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 211 Vanguard funds.

Information for each trustee and executive officer of the fund appears below. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at vanguard.com.

Interested Trustees¹

F. William McNabb III

Born in 1957. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: chairman of the board (January 2010–present) of Vanguard and of each of the investment companies served by Vanguard, trustee (2009–present) of each of the investment companies served by Vanguard, and director (2008–present) of Vanguard. Chief executive officer and president (2008–2017) of Vanguard and each of the investment companies served by Vanguard, managing director (1995–2008) of Vanguard, and director (1997–2018) of Vanguard Marketing Corporation. Director (2018–present) of UnitedHealth Group.

Mortimer J. Buckley

Born in 1969. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: chief executive officer (January 2018–present) of Vanguard; chief executive officer, president, and trustee (January 2018–present) of each of the investment companies served by Vanguard; president and director (2017–present) of Vanguard; and president (February 2018–present) of Vanguard Marketing Corporation. Chief investment officer (2013–2017), managing director (2002–2017), head of the Retail Investor Group (2006–2012), and chief information officer (2001–2006) of Vanguard. Chairman of the board (2011–2017) of the Children's Hospital of Philadelphia.

Independent Trustees

Emerson U. Fullwood

Born in 1948. Trustee since January 2008. Principal occupation(s) during the past five years and other experience: executive chief staff and marketing officer for North America and corporate vice president (retired 2008) of Xerox Corporation (document management products and services). Former president of the Worldwide Channels Group, Latin America, and Worldwide Customer Service and executive chief staff officer of Developing Markets of Xerox. Executive in residence and 2009–2010 Distinguished Minnett Professor at the Rochester Institute of Technology. Lead director of SPX FLOW, Inc. (multi-industry manufacturing). Director of the University of Rochester Medical Center, the Monroe Community College Foundation, the United Way of Rochester, North Carolina A&T University, and Roberts Wesleyan College. Trustee of the University of Rochester.

Amy Gutmann

Born in 1949. Trustee since June 2006. Principal occupation(s) during the past five years and other experience: president (2004–present) of the University of Pennsylvania. Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and professor of communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania. Trustee of the National Constitution Center.

¹ Mr. McNabb and Mr. Buckley are considered "interested persons," as defined in the Investment Company Act of 1940, because they are officers of the Vanguard funds.

JoAnn Heffernan Heisen

Born in 1950. Trustee since July 1998. Principal occupation(s) during the past five years and other experience: corporate vice president of Johnson & Johnson (pharmaceuticals/medical devices/consumer products) and member of its executive committee (1997–2008). Chief global diversity officer (retired 2008), vice president and chief information officer (1997–2006), controller (1995–1997), treasurer (1991–1995), and assistant treasurer (1989–1991) of Johnson & Johnson. Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation. Member of the advisory board of the Institute for Women’s Leadership at Rutgers University.

F. Joseph Loughrey

Born in 1949. Trustee since October 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2009) and vice chairman of the board (2008–2009) of Cummins Inc. (industrial machinery). Chairman of the board of Hillenbrand, Inc. (specialized consumer services), Oxfam America, and the Lumina Foundation for Education. Director of the V Foundation for Cancer Research. Member of the advisory council for the College of Arts and Letters and chair of the advisory board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

Mark Loughridge

Born in 1953. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: senior vice president and chief financial officer (retired 2013) of IBM (information technology services). Fiduciary member of IBM’s Retirement Plan Committee (2004–2013), senior vice president and general manager (2002–2004) of IBM Global Financing, vice president and controller (1998–2002) of IBM, and a variety of other prior management roles at IBM. Member of the Council on Chicago Booth.

Scott C. Malpass

Born in 1962. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: chief investment officer (1989–present) and vice president (1996–present) of the University of Notre Dame. Assistant professor of finance at the Mendoza College of Business, University of Notre Dame, and member of the Notre Dame 403(b) Investment Committee. Chairman of the board of TIFF Advisory Services, Inc. Member of the board of Catholic Investment Services, Inc. (investment advisors), the board of advisors for Spruceview Capital Partners, and the board of superintendence of the Institute for the Works of Religion.

Deanna Mulligan

Born in 1963. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: president (2010–present) and chief executive officer (2011–present) of The Guardian Life Insurance Company of America. Chief operating officer (2010–2011) and executive vice president (2008–2010) of Individual Life and Disability of The Guardian Life Insurance Company of America. Member of the board of The Guardian Life Insurance Company of America, the American Council of Life Insurers, the Partnership for New York City (business leadership), and the Committee Encouraging Corporate Philanthropy. Trustee of the Economic Club of New York and the Bruce Museum (arts and science). Member of the Advisory Council for the Stanford Graduate School of Business.

André F. Perold

Born in 1952. Trustee since December 2004. Principal occupation(s) during the past five years and other experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011). Chief investment officer and co-managing partner of HighVista Strategies LLC (private investment firm). Overseer of the Museum of Fine Arts Boston.

Sarah Bloom Raskin

Born in 1961. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: deputy secretary (2014–2017) of the United States Department of the Treasury. Governor (2010–2014) of the Federal Reserve Board. Commissioner (2007–2010) of financial regulation for the State of Maryland. Member of the board of directors (2012–2014) of Neighborhood Reinvestment Corporation. Director of i(x) Investments, LLC.

Peter F. Volanakis

Born in 1955. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2010) of Corning Incorporated (communications equipment) and director of Corning Incorporated (2000–2010) and Dow Corning (2001–2010). Director (2012) of SPX Corporation (multi-industry manufacturing). Overseer of the Amos Tuck School of Business Administration, Dartmouth College (2001–2013). Chairman of the board of trustees of Colby-Sawyer College. Member of the Board of Hypertherm Inc. (industrial cutting systems, software, and consumables).

Executive Officers

Glenn Booraem

Born in 1967. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Investment stewardship officer (2017–present), treasurer (2015–2017), controller (2010–2015), and assistant controller (2001–2010) of each of the investment companies served by Vanguard.

Christine M. Buchanan

Born in 1970. Principal occupation(s) during the past five years and other experience: principal of Vanguard and global head of Fund Administration at Vanguard. Treasurer (2017–present) of each of the investment companies served by Vanguard. Partner (2005–2017) at KPMG LLP (audit, tax, and advisory services).

Brian Dvorak

Born in 1973. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief compliance officer (2017–present) of Vanguard and each of the investment companies served by Vanguard. Assistant vice president (2017–present) of Vanguard Marketing Corporation. Vice president and director of Enterprise Risk Management (2011–2013) at Oppenheimer Funds, Inc.

Thomas J. Higgins

Born in 1957. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief financial officer (2008–present) and treasurer (1998–2008) of each of the investment companies served by Vanguard.

Peter Mahoney

Born in 1974. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Controller (2015–present) of each of the investment companies served by Vanguard. Head of International Fund Services (2008–2014) at Vanguard.

Anne E. Robinson

Born in 1970. Principal occupation(s) during the past five years and other experience: general counsel (2016–present) of Vanguard. Secretary (2016–present) of Vanguard and of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Director and senior vice president (2016–2018) of Vanguard Marketing Corporation. Managing director and general counsel of Global Cards and Consumer Services (2014–2016) at Citigroup. Counsel (2003–2014) at American Express.

Michael Rollings

Born in 1963. Principal occupation(s) during the past five years and other experience: finance director (2017–present) and treasurer (2017) of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Chief financial officer (2016–present) of Vanguard. Director (2016–present) of Vanguard Marketing Corporation. Executive vice president and chief financial officer (2006–2016) of MassMutual Financial Group.

Vanguard Senior Management Team

Joseph Brennan	Chris D. McIsaac
Mortimer J. Buckley	James M. Norris
Gregory Davis	Thomas M. Rampulla
John James	Karin A. Risi
Martha G. King	Anne E. Robinson
John T. Marcante	Michael Rollings

Chairman Emeritus and Senior Advisor

John J. Brennan

Chairman, 1996–2009
Chief Executive Officer and President, 1996–2008

Founder

John C. Bogle

Chairman and Chief Executive Officer, 1974–1996



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You can review and copy information about your fund at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your fund is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to publicinfo@sec.gov or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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