Vanguard®

Statement of Financial Condition (unaudited)

June 30, 2018

Vanguard Marketing Corporation

(a wholly owned subsidiary
of The Vanguard Group, Inc.)

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	June 30, 2018
Assets	
Cash	$324,406,801
Qualified securities segregated under federal and other regulations	29,884,178
Receivables from customers (Net of allowance for doubtful accounts of $569,892)	383,043,101
Receivables from brokers, dealers, and clearing organizations	
Securities borrowed	118,748,815
Clearing organizations	30,893,924
Securities failed to deliver	3,848,710
Depository Trust and Clearing Corporation membership, at cost	2,711,734
Securities owned, at fair value	345,105
Other assets	18,175,534
Total assets	**$912,057,902**

Liabilities and shareholder's equity	
Liabilities:	
Payables to customers	$416,403,500
Payables to brokers, dealers, and clearing organizations	
Securities loaned	16,788,378
Clearing organizations	29,329,716
Securities failed to receive	3,321,663
Securities sold, not yet purchased, at fair value	46,250
Payable to The Vanguard Group, Inc.	1,477,811
Income taxes payable	42,103,162
Other liabilities	7,816,497
Total liabilities	**$517,286,977**
Shareholder's equity:	
Common stock ($0.10 par value, 1,000 shares authorized, issued and outstanding)	$100
Additional paid-in capital	102,499,900
Retained earnings	292,270,925
Total shareholder's equity	**$394,770,925**
Total liabilities and shareholder's equity	**$912,057,902**

The accompanying notes are an integral part of this financial statement.

Notes to Statement of Financial Condition

June 30, 2018 (unaudited)

Note 1—Organization and operations

The Vanguard Group, Inc. (Vanguard), the parent company, initially formed Vanguard Marketing Corporation (the Corporation), a Pennsylvania corporation, to facilitate compliance with regulatory requirements of certain states in which shares of the funds in The Vanguard Group of Investment Companies are offered. The Corporation is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). The Corporation also provides brokerage services, such as trade clearance, settlement, and custody, as a self-clearing broker, under the name Vanguard Brokerage Services. The Corporation acts solely in an agency capacity and primarily does not buy or sell securities for its own account.

Note 2—Summary of significant accounting policies

Basis of presentation

The statement of financial condition of the Corporation is prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and its related disclosures. These would include estimates for contingent assets and contingent liabilities. Actual results could differ from those estimates.

Income taxes

The Corporation's taxable income is included in the consolidated federal income tax return of Vanguard, whereas, the Corporation files its own state income tax returns as well as filing as part of a consolidated/combined group in certain states. Federal income taxes are calculated as if the Corporation filed on a separate return basis, and the amount of current tax calculated is remitted to Vanguard per the Consolidated Income Tax Sharing Agreement. The amount of current and deferred taxes payable is recognized as of the date of this financial statement, utilizing currently enacted tax laws and rates.

Fair value of short-term financial instruments

The carrying amount of cash; receivables from customers; payables to customers; receivables from brokers, dealers and clearing organizations; payables to brokers, dealers and clearing organizations; short-term borrowings; and accrued expenses approximate fair value because of the short maturity of these financial instruments and generally negligible credit risk. Additionally, the commitments (e.g., unused line of credit) will be funded at current market rates if drawn upon. Accordingly, the fair value of such commitments is considered to be the same as the commitment amount.

Note 3—Qualified securities segregated under federal and other regulations

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, a broker dealer carrying customer accounts is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of customers. At June 30, 2018, the Corporation had $29,884,178 of qualified securities segregated in a special reserve account for the exclusive benefit of customers.

Note 4—Customer receivables and payables

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

The Company maintains an allowance for doubtful accounts of $569,892 which represents known and inherent risks in receivables from customers. Based on the judgment of management this adequately captures such losses.

Note 5—Off-balance sheet risk

In the normal course of business, the Corporation's customer activities involve the execution, settlement, and financing of customer securities transactions. In accordance with industry practices, the Corporation generally settles transactions executed on behalf of its customers within two business days after the trade date. These transactions may expose the Corporation to off-balance sheet risk in the event that the customer or other broker is unable to fulfill its contractual obligations and the Corporation has to purchase or sell the financial instrument underlying the contract at a loss. Settlement of these transactions did not have a material effect on the Corporation's statement of financial condition.

The Corporation's customer security activities are transacted on either a cash or margin basis. In margin transactions, the Corporation extends credit to its customers, subject to regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Corporation executes and clears customer transactions involving the sale of securities not yet purchased, which are transacted on a margin basis, subject to individual exchange regulations.

Such transactions may expose the Corporation to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses the customers may incur. In the event that the customer fails to satisfy its obligations, the Corporation may be forced to sell or purchase financial instruments at prevailing market prices to fulfill its customer obligations. The Corporation seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. The Corporation monitors required margin levels daily and, pursuant to such guidelines requires the customer to deposit additional collateral or to reduce positions when necessary.

The Corporation's customer financing and securities settlement activities may require the Corporation to pledge or loan customer securities as collateral in support of various secured financing sources, such as bank loans, margin deposit requirements, or securities lending activities. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged or loaned as collateral, the Corporation may be exposed to the risk of acquiring the securities at the prevailing market prices in order to satisfy its customer obligations. The Corporation controls this risk by marking to market on a daily basis and requiring adjustments of cash collateral.

At June 30, 2018, customers owned $1.6 billion of margin securities that collateralized customer margin debt of $365.1 million, of which up to 140 percent, or $511.1 million, was available to be used as collateral for the various activities listed above.

Note 6—Receivables from brokers, dealers, and clearing organizations

Amounts receivable from brokers, dealers, and clearing organizations at June 30, 2018 consisted of the following:

Securities borrowed	$118,748,815
Clearing organizations	30,893,924
Securities failed to deliver	3,848,710
Total	**$153,491,449**

Securities borrowed result from transactions with other brokers, dealers, or financial institutions and are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Corporation to deposit cash as collateral with the lender. The collateral deposited is an amount generally in excess of the market value of securities borrowed. The Corporation monitors the market value of the securities borrowed on a daily basis, with additional collateral sent or excess collateral returned as necessary.

Clearing organizations assist in the comparison, clearance, and settlement of security transactions. Amounts receivable from clearing organizations primarily represent margin deposits used as performance bonds for open trades, and good-faith funds on deposit regardless of activity which is further detailed in Note 17.

Securities failed to deliver represent receivables for securities sold that have not been delivered by the Corporation for which the settlement date has passed. Receivables related to securities failed to deliver are collateralized by the underlying securities.

Note 7—Depository trust and clearing corporation membership

The Corporation owns membership shares in the Depository Trust and Clearing Corporation (DTCC) which represent ownership interest and provide the Corporation with the right to conduct business through the DTCC. The membership shares are subject to restriction and are carried at cost. As of June 30, 2018 the Corporation owned $2,711,734 of DTCC membership shares.

Note 8—Securities owned and securities sold, not yet purchased

Securities owned and securities sold, not yet purchased consist of securities valued at fair value. At June 30, 2018, securities consisted of:

	Owned	Sold, not yet purchased
U.S. government obligations	$ 63	—
State and municipal government obligations	438	—
Corporate obligations	1,206	$ 1,574
Equities	304,658	44,676
Money market mutual funds	30,630	—
Mutual funds	8,110	—
Total	**$345,105**	**$46,250**

Note 9—Fair-value measurements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date (examples include active exchange traded equity securities).

Level 2—observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3—unobservable inputs reflecting our own assumptions based on the best information available (examples include private equity investments).

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Corporation values its investments in sponsored mutual funds and money market mutual funds at the quoted daily closing net asset values (NAVs) per share. The Corporation's investments in equities are valued at the daily closing price on the exchange on which securities are traded. U.S. government obligations are valued using quoted market prices. Corporate obligations and state obligations are valued by the Corporation based on prices furnished by dealers who make markets in such securities, which considers the yield or price of bonds of comparable quality, coupon, maturity, and type.

The following table summarizes the market value of the Corporation's investments as of June 30, 2018.

Securities owned	Level 1	Level 2	Level 3
U.S. government obligations	$ 63	—	—
State and municipal government obligations	—	$ 438	—
Corporate obligations	—	1,206	—
Equities	304,658	—	—
Money market mutual funds	30,630	—	—
Mutual funds	8,110	—	—
Total	**$343,461**	**$1,644**	—

Securities sold, not yet purchased	Level 1	Level 2	Level 3
U.S. government obligations	—	—	—
State and municipal government obligations	—	—	—
Corporate obligations	—	$1,574	—
Equities	$44,676	—	—
Money market mutual funds	—	—	—
Mutual funds	—	—	—
Total	**$44,676**	**$1,574**	—

The following table is a summary of fair value estimates for financial assets and liabilities, excluding financial instruments recorded at fair value on a recurring basis, which are included within the table above. The carrying amounts in the following table are recorded on the balance sheet under the indicated captions.

Assets	Level 1	Level 2	Level 3
Cash	$324,406,801	—	—
Qualified securities segregated under federal and other regulations	29,844,178	—	—
Receivables from customers	—	$383,043,101	—
Receivables from brokers, dealers, and clearing organizations	—	153,491,449	—
DTCC membership, at cost	—	2,711,734	—
Other assets	—	18,175,534	—
Total	**$354,290,979**	**$557,421,818**	—

Liabilities	Level 1	Level 2	Level 3
Payables to customers	—	$416,403,500	—
Payables to brokers, dealers, and clearing organizations	—	49,439,757	—
Payable to The Vanguard Group, Inc.	—	1,477,811	—
Income taxes payable	—	42,103,162	—
Other liabilities	—	7,816,497	—
Total	–	**$517,240,727**	—

Note 10—Short-term borrowings

The Corporation has a $1 billion committed line of credit with Vanguard, of which $0 was outstanding as of June 30, 2018.

The Corporation also has access to additional bank facilities for customer/firm bank loans. These credit facilities require the Corporation to pledge customer/firm securities to secure funding.

As of June 30, 2018, the Corporation did not have any borrowings outstanding from these bank facilities.

Note 11—Payables to brokers, dealers, and clearing organizations

Amounts payable to brokers, dealers, and clearing organizations at June 30, 2018 consist of the following:

Securities loaned	$16,788,378
Clearing organizations	29,329,716
Securities failed to receive	3,321,663
Total	**$49,439,757**

Securities loaned result from transactions with other brokers, dealers, or financial institutions and are recorded at the amount of cash collateral received. Securities loaned transactions require the Corporation to receive cash as collateral from the borrower. The collateral received is an amount generally in excess of the market value of securities loaned. The Corporation monitors the market value of the securities loaned on a daily basis, with additional collateral received or excess collateral returned as necessary.

Clearing organizations assist in the comparison, clearance, and settlement of security transactions. Amounts payable to clearing organizations represent the payables for securities purchased that have not been received by the Corporation for which the settlement date has passed and the net payable of securities purchased and sold for which settlement has not occurred.

Securities failed to receive represent payables to broker dealers for securities purchased that have not been received for which settlement date has passed.

Note 12—Related-party transactions

The Corporation is a wholly owned subsidiary of Vanguard. As such, the Statement of Financial Condition may not necessarily be indicative of the financial position that would have existed had the Corporation operated as an unaffiliated corporation.

Note 13—Income taxes

The Corporation is included in the consolidated federal income tax return filed by Vanguard. Federal income taxes are calculated as if the Corporation filed on a separate return basis, and the amount of current tax calculated is remitted to Vanguard per the Consolidated Income Tax Sharing Agreement. The amount of current and deferred taxes payable is recognized as of the date of this financial statement, utilizing currently enacted tax laws and rates.

FASB ASC 740-10 "Accounting for Uncertainty in Income Taxes", prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The amount recognized is measured as the largest amount of benefit/expense that is greater than 50 percent likely to be realized upon the ultimate settlement. Vanguard Marketing Corporation has established a reserve for uncertain tax positions of $0.6 million, attributable to state corporate income tax.

Vanguard Marketing Corporation's income tax returns in state jurisdictions in which returns are filed remain subject to examination for various periods subsequent to December 31, 2011. Vanguard Marketing Corporation is currently under audit by the states of New York and New Jersey. There have been no assessments issued with respect to these audits as of June 30, 2018.

Note 14—Net capital requirements

The Corporation is subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Corporation calculates its net capital using the alternative method, which requires the Corporation to maintain minimum net capital equal to the greater of 2% of aggregate debit items, as defined, or $250,000. A reduction in business would be required and cash distributions and other payments would be precluded if the percentage falls below 5% of aggregate debit items. At June 30, 2018, the Corporation had net capital of $379,209,596 which was 65.1% of aggregate debit balances, which exceeded the minimum required amount by $367,566,216.

Note 15—Contingencies

In the normal course of business, Vanguard and the Corporation may provide general indemnifications pursuant to certain contracts and organizational documents. The maximum exposure under these arrangements is dependent on future claims that may be made against the Corporation and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

Note 16—Regulatory matters

The Corporation operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments, and require compliance with financial and customer related protection. The consequences of noncompliance can include substantial monetary and nonmonetary penalties. In addition, the Corporation is subject to comprehensive examination and supervision by governmental and self regulatory agencies. These regulatory agencies have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine that such operations are unsound, fail to comply with applicable law or are otherwise inconsistent with the regulations or the supervisory policies of these agencies.

Note 17—Commitments

The Corporation provides guarantees to the securities clearing houses under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet those shortfalls. The Corporation's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the Corporation believes that the potential requirement to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

In connection with the margin deposit requirements of the Options Clearing Corporation (OCC), the Corporation pledged customer owned securities with a market value of $89.0 million with the OCC as of June 30, 2018. The Corporation satisfied their minimum margin requirement.

The Corporation had cash deposits of $18.9 million with the National Securities Clearing Corporation (NSCC), $11.6 million with the OCC, and $199 thousand with the Depository Trust Company (DTC) as of June 30, 2018. The Corporation held preferred stock of DTCC valued at $49 thousand. These deposits and held securities are included in receivables from brokers, dealers, and clearing organizations.

Note 18—Concentration of credit risk

The Corporation is engaged in various brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Corporation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Corporation's policy to review, as necessary, the credit standing of securities lending counterparties.

The Corporation maintains cash with national banks that may exceed Federal Deposit Insurance Corporation (FDIC) insured levels.

Vanguard®

P.O. Box 1170
Valley Forge, PA 19482-1170

Connect with Vanguard® > vanguard.com > 800-992-8327

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