

Vanguard® Federal Money Market Fund

Product Summary

Invests primarily in securities issued by the U.S. government or its agencies, as well as repurchase agreements with collateral backing of U.S. Treasuries or to a lesser extent mortgage-backed securities. Seeks to maintain a stable \$1 net asset value (NAV). Maintains an average maturity of 60 days or less.

Quarterly Commentary

The investment environment grew more challenging in the quarter ended September 30. Corporate earnings were healthy across much of the globe, with many economies back open, vaccination rates climbing, and labor markets regaining lost ground. Sentiment deteriorated, though, as the COVID-19 Delta variant spread and high inflation readings in some economies (including in the U.S.) began to look as if they might persist for a while. For much of the quarter, the yield of the bellwether 10-year U.S. Treasury note was lower than where it started. But it finished up slightly at 1.49% amid inflation concerns and with the Federal Reserve signaling that it might soon begin to taper its asset purchases. Against this backdrop, money market fund yields have remained low since they started decreasing in the first quarter of 2020.

Following curve flattening in the second quarter, the yield curve remained relatively stable in the third quarter. The 3-month yield decreased 1 basis point to 0.03% and the 2-year yield increased 3 basis points to 0.28%. Further out in maturity, the 5-year yield rose 8 basis points to 0.96% and the 10-year yield rose 2 basis points to 1.49%. (A basis point is one-hundredth of a percentage point.)

Vanguard Federal Money Market Fund returned 0.00% for the three months and yielded 0.01% at quarter-end. The average return of its peers was 0.01%. The weighted average maturity of the fund's securities was 39 days and their average weighted life was 79 days.

Over the quarter, the fund's exposure to Treasuries decreased significantly to 29%, while the fund's exposure to U.S. agency obligations increased to 34% and repurchase agreements collateralized by U.S. government obligations increased to 37%. Repurchase agreements are valuable tools to improve net asset value stability in a zero lower bound interest rate environment. Floating-rate securities, which allow the advisor to maintain the fund's short maturity profile, accounted for roughly 16% of fund assets.

For the 12 months ended September 30, the Treasury yield curve steepened, driven by the yield increases across the curve in the first quarter of 2021. The 3-month yield fell 6 basis points, while the 2-year yield increased 15 basis points, the 5-year yield 69 basis points, and the 10-year yield 80 basis points. The fund returned 0.02%; the average return of its peers also was 0.02%.

Note: Changes in yields may reflect rounding.

People and Process

Vanguard Federal Money Market Fund seeks to provide current income while maintaining a stable \$1 NAV and a very short average maturity. The fund invests at least 99.5% of its total assets in cash, government securities, and/or repurchase agreements that are collateralized solely by government securities or cash (collectively, government securities). As government securities, the fund's holdings have very high credit quality, although some are not backed by the full faith and credit of the U.S. government. The portfolio managers seek to add value primarily by emphasizing specific issues that appear attractively priced based on historical yield-spread relationships. The average maturity typically ranges from 30–60 days, and the fund maintains a dollar-weighted average maturity of 60 days or less, and a dollar-weighted average life of 120 days or less.

Vanguard Fixed Income Group

Launched in 1975, The Vanguard Group, Malvern, Pennsylvania, is among the world's largest equity and fixed income managers. As chief investment officer, Gregory Davis, CFA, oversees Vanguard's Equity Index, Quantitative Equity, and Fixed Income Groups. Sara Devereux, principal and global head of Fixed Income Group, has direct oversight responsibility for all money market, bond, and stable value portfolios managed by the Fixed Income Group. The Fixed Income Group offers actively managed investments in U.S. Treasury, corporate, and tax-exempt securities, as well as passively managed index portfolios. Since 1981, it has refined techniques in total-return management, credit research, and index sampling to seek to deliver consistent performance with transparency and risk control. The group has advised Vanguard Federal Money Market Fund since 1981.

Investment Manager Biographies

John C. Lanius. Portfolio manager. Advised the fund since 2007. Worked in investment management since 1997. B.A., Middlebury College.

Total Returns

	Expense Ratio	7-Day Yield	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Federal Money Market Fund (7/13/1981)	0.11%	0.01%	0.00%	0.01%	0.02%	1.05%	1.05%	0.55%
Government Money Market Funds Average	—	—	0.01	0.02	0.02	0.76	0.69	0.34

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at vanguard.com/performance. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

Note: The seven-day average income yield listed above more closely reflects the current earnings of the fund than the total returns shown. Average fund returns are derived from data provided by Lipper, a Thomson Reuters Company.

Quarterly Returns

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year-End		
					Federal Money Market	US Gov't Money Market Funds Average	Assets (Millions)
2021	0.00%	0.00%	0.00%	—	—	—	\$196,217
2020	0.34	0.08	0.02	0.01%	0.45%	0.24%	205,564
2019	0.57	0.58	0.54	0.43	2.14	1.61	147,424
2018	0.33	0.42	0.48	0.54	1.78	1.23	116,534
2017	0.12	0.18	0.24	0.27	0.81	0.34	85,693
2016	0.07	0.07	0.08	0.08	0.30	0.02	66,259
2015	0.00	0.00	0.01	0.03	0.04	0.00	4,792
2014	0.00	0.00	0.00	0.00	0.01	0.00	2,981
2013	0.00	0.00	0.01	0.00	0.02	0.00	3,346
2012	0.00	0.00	0.00	0.00	0.01	0.00	3,890
2011	0.01	0.00	0.00	0.00	0.01	0.00	4,568

Fund Facts

Fund Number	0033
Ticker	VMFXX
Newspaper Listing	VangFdl
CUSIP Number	922906300
Assets (millions)	\$196,217
Inception	7/13/1981
Expense Ratio (as of 12/2020)	0.11%

Money Market Characteristics

	% of Money Market Instruments
Average Maturity	39.0 days
Weighted average life	79.0 days

Distribution by Issuer

	% of Portfolio
Bankers Acceptances	0.0%
Certificates of Deposit	0.0
Repurchase Agreements	37.2
U.S. Commercial Paper	0.0
U.S. Govt. Obligations	39.7
U.S. Treasury Bills	23.1
Yankee/Foreign	0.0
Other	0.0
Total	100.0%

Important information

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

For more information about Vanguard funds or Vanguard ETFs, visit vanguard.com or call 800-523-1036 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy or sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

Investments in bond funds and ETFs are subject to interest rate, credit, and inflation risk. The Fund is subject to interest rate risk, which is the chance that bond prices overall will decline because of rising interest rates. Interest rate risk is expected to be extremely high for the Fund because it invests mainly in zero coupon long-term bonds, which have prices that are very sensitive to interest rate changes. Because the Fund invests mainly in Treasury strips with maturities ranging from 20 to 30 years, rising interest rates may cause the value of the Fund's investments to decline significantly.

All investing is subject to risk, including the possible loss of the money you invest.

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