

## Applicants' Representations

1. Each Trust is registered under the Act as an open-end management investment company and is organized as a Delaware statutory trust. Each Trust is a member of The Vanguard Group ("The Vanguard Group"), a group of 33 investment companies with more than 100 series (each, a "Fund" and together, the "Funds"), each of which has its own investment objectives, policies, and restrictions.<sup>2</sup>

2. VGI is a Pennsylvania corporation that is wholly and jointly owned by the members of The Vanguard Group. VGI is a registered investment adviser under the Investment Advisers Act of 1940 ("Advisers Act") and a registered transfer agent under the Securities Exchange Act of 1934 ("Exchange Act"). VGI provides each Trust, at cost, with corporate management, administrative, transfer agency and distribution services. VGI also provides certain Funds with investment advisory services at cost.

3. VGI's Portfolio Review Group evaluates, selects and recommends investment advisers ("Selected Advisers") to the relevant boards of trustees of each Trust (each, a "Board"). Each Selected Adviser is an investment adviser as defined in section 2(a)(20) of the Act and is registered under the Advisers Act or exempt from registration. Selected Advisers are not "affiliated persons" of the applicants, as defined in section 2(a)(3) of the Act other than by virtue of serving as investment advisers to one or more Funds. Each Selected Adviser operates pursuant to a written advisory contract ("Selected Advisory Agreement") approved by the relevant Board, including a majority of the Board's trustees who are not "interested persons" of the Trust, as defined in section 2(a)(19) of the Act ("Independent Trustees"). The Portfolio Review Group monitors the compliance of each Selected Adviser with the respective Fund's investment objectives and other policies, reviews each Adviser's performance, and

recommends to the relevant Boards the allocation and reallocation of a Fund's assets among the Selected Advisers and/or VGI.

4. The Prior Order exempted applicants from section 15(a) of the Act and rule 18f-2 under the Act to permit the Funds to hire Selected Advisers and revise Selected Advisory Agreements without obtaining a shareholder vote, subject to the approval by the relevant Board and certain other conditions.<sup>3</sup> Applicants state that recent orders providing similar relief have conditions that would permit the Board to serve shareholders more efficiently. Applicants seek to update the conditions in the Prior Order to make them similar to conditions in the recent orders. Applicants therefore request an order to supersede the Prior Order to permit VGI, subject to Board approval, to enter into and amend Selected Advisory Agreements without Fund shareholder approval.<sup>4</sup> The requested relief will not extend to an investment adviser that is an affiliated person, as defined in section 2(a)(3) of the Act, of the Funds or VGI, other than by reason of serving as investment adviser to one or more of the Funds (an "Affiliated Adviser"). Applicants also request an exemption from the various disclosure provisions described below that may require the Funds to disclose the fees paid to each Selected Adviser. An exemption is requested to permit the Funds to disclose (as both a dollar amount and as a percentage of a Fund's net assets): (a) Aggregate fees paid by the Fund to VGI and Affiliated Advisers; (b) aggregate fees paid by the Fund to Selected Advisers, and (c) the fees paid by the Fund to each Affiliated Adviser (collectively, the "Aggregate Fee Disclosure").

## Applicants' Legal Analysis

1. Section 15(a) of the Act provides, in relevant part, that it is unlawful for any person to act as an investment adviser to a registered investment company except pursuant to a written contract that has been approved by a vote of the company's outstanding

voting securities. Rule 18f-2 under the Act provides, in relevant part, that each series or class of stock in a series company affected by a matter must approve the matter if the Act requires shareholder approval.

2. Form N-1A is the registration statement used by open-end investment companies. Item 15(a)(3) of Form N-1A requires disclosure of the method and amount of the investment adviser's compensation.

3. Rule 20a-1 under the Act requires proxies solicited with respect to an investment company to comply with Schedule 14A under the Exchange Act. Items 22(c)(1)(ii), 22(c)(1)(iii), 22(c)(8), and 22(c)(9) of Schedule 14A, taken together, require a proxy statement for a shareholder meeting at which the advisory contract will be voted upon to include the "rate of compensation of the investment adviser," the "aggregate amount of the investment adviser's fees," a description of "the terms of the contract to be acted upon," and, if a change in the advisory fee is proposed, the existing and proposed fees and the difference between the two fees.

4. Form N-SAR is the semi-annual report filed with the Commission by registered investment companies. Item 48 of Form N-SAR requires investment companies to disclose the rate schedule for fees paid to their investment advisers, including the Selected Advisers.

5. Regulation S-X sets forth the requirements for financial statements that must be included in investment company registration statements and shareholder reports filed with the Commission. Sections 6-07(2)(a), (b), and (c) of Regulation S-X require that investment companies include in their financial statements information about investment advisory fees.

6. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction or any class or classes of persons, securities, or transactions from any provision of the Act, or from any rule thereunder, if such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act. Applicants believe that their requested relief meets this standard for the reasons discussed below.

7. Applicants assert that shareholders are relying on VGI's experience to select and monitor the Selected Advisers best suited to achieve a Fund's investment objectives. Applicants contend that from the perspective of the investor, the role of the Selected Advisers is comparable to that of individual portfolio managers

<sup>2</sup> Applicants also request relief with respect to any other registered open-end management investment company or series thereof that (a) is organized or advised currently or in the future by VGI or any entity controlling, controlled by, or under common control (within the meaning of section 2(a)(9) of the Act) with VGI; (b) operates in substantially the same manner described in the application; and (c) complies with the terms and conditions in the application ("Future Funds," and together with the Funds, the "Funds"). Any Fund that currently intends to rely on the requested order is named as an applicant. If the name of a Fund contains the name of a Selected Adviser, the name of the Selected Adviser will be preceded by the word "Vanguard."

<sup>3</sup> The term "shareholder" includes variable life insurance policy and variable annuity contract owners that are unitholders of any separate account for which the Fund serves as a funding medium.

<sup>4</sup> As described in the application, the requested order would revise the conditions in the Prior Order to make them more consistent with conditions in recent similar orders granted by the Commission and would also make certain other modifications to the conditions related to disclosure relief based upon the applicants' unique management structure. For Funds that were relying on the Prior Order, applicants will provide a notification to shareholders that describes the principal differences between the Prior Order and the requested order.