

employed by investment advisory firms. Applicants state that requiring shareholder approval of the Selected Advisory Agreements would impose unnecessary costs and delays on the Funds, and may preclude the Board from acting in a prompt manner. Applicants note that investment advisory agreements with Affiliated Advisers would remain subject to section 15(a) of the Act and rule 18f-2 thereunder.

8. Applicants assert that many Selected Advisers charge their customers for advisory services according to a "posted" fee schedule. Applicants state that while Selected Advisers are willing to negotiate fees lower than those posted in the schedule, particularly with large institutional clients, they are reluctant to do so when the fees are disclosed to other prospective and existing customers. Applicants submit that the relief will encourage Selected Advisers to accept lower advisory fees from the Funds, resulting in a direct benefit to Fund shareholders.

Applicants' Conditions

Applicants agree that any order granting the requested relief will be subject to the following conditions:

1. Unless a Fund's shareholders have previously approved the Fund's use of a multi-manager arrangement pursuant to the Prior Order, before a Fund may rely on the requested order, the operation of the Fund in the manner described in the application will be approved by a majority of the Fund's outstanding voting securities (or, if the Fund serves as a funding medium for any sub-account of a registered separate account, pursuant to voting instructions provided by the unitholders of the sub-account), as defined in the Act, or in the case of a Fund whose public shareholders (or, if the Fund serves as a funding medium for any sub-account of a registered separate account, the unitholders of the sub-account) purchase shares on the basis of a prospectus containing the disclosure contemplated by condition 3 below, by the initial shareholders(s) (or, if the Fund serves as a funding medium for any sub-account of a registered separate account, by the initial unitholder of the sub-account) before the shares of the Fund are offered to the public.

2. Each Fund will operate as a member of The Vanguard Group of Investment Companies with "internalized" corporate management and distribution services provided on an "at cost" basis.

3. Each Fund will disclose in its prospectus the existence, substance, and

effect of any order granted pursuant to the application. In addition, each Fund will hold itself out to the public as employing the management structure described in the application. Each Fund's prospectus will prominently disclose that VGI has the ultimate responsibility (subject to oversight by the Board) to oversee the Selected Advisers and recommend their hiring, termination, and replacement.

4. Within 90 days of the hiring of any new Selected Adviser for any fund, VGI will furnish to the applicable Fund's shareholders (or if the Fund serves as a funding medium for any sub-account of a registered separate account, the unitholders of the sub-account) all information about the new Selected Adviser that would be included in a proxy statement, except as modified by the order to permit Aggregate Fee Disclosure. This information will include Aggregate Fee Disclosure and any change in such disclosure caused by the addition of a new Selected Adviser. To meet this obligation, VGI will provide shareholders (or if the Fund serves as a funding medium for any sub-account of a registered separate account, the unitholders of the sub-account) of the applicable Fund an information statement meeting the requirements of Regulation 14C, Schedule 14C, and Item 22 of Schedule 14A under the Exchange Act, except as modified by the order to permit Aggregate Fee Disclosure.

5. A Fund will not enter into an advisory agreement with any Affiliated Adviser without that agreement, including the compensation to be paid thereunder, being approved by the Fund's shareholders (or if the Fund serves as a funding medium for any sub-account of a registered separate account, pursuant to voting instructions provided by the unitholders of the sub-account).

6. At all times, a majority each Fund's Board will be Independent Trustees, subject to the suspension of this requirement for the death, disqualification or bona fide resignation of trustees as provided in rule 10e-1 under the Act, and the nomination of new or additional Independent Trustees will be at the discretion of the then-existing Independent Trustees.

7. When a change in a Selected Adviser is proposed for a Fund with an Affiliated Adviser, the Fund's Board, including a majority of the Board's Independent Trustees, will make a separate finding, reflected in the affected Fund's Board minutes, that the change is in the best interests of the Fund and its shareholders (or if the Fund serves as a funding medium for any sub-account of a registered separate account, the best interests of the Fund

and unitholders of any such sub-account), and does not involve a conflict of interest from which VGI or the Affiliated Adviser derives an inappropriate advantage.

8. VGI will provide general management services to the Funds, including overall supervisory responsibility for the general management and investment of each Fund, and, subject to review and approval by each Board, will: (a) Set the Funds' overall investment strategies; (b) evaluate, select and recommend Selected Advisers to manage all or part of a Fund's assets; (c) monitor and evaluate the performance of Selected Advisers; (d) implement procedures reasonably designed to ensure that the Selected Advisers comply with the Funds' investment objectives, policies and restriction; and (e) allocate and, when appropriate, reallocate a Fund's assets among Selected Advisers.

9. No trustee or officer of a Trust, or director or officer of VGI will own directly or indirectly (other than through a pooled investment vehicle that is not controlled by that trustee, director, or officer), any interest in a Selected Adviser or Affiliated Adviser, except for: (a) Ownership of interests in VGI or any entity that controls, is controlled by, or is under common control with VGI; or (b) ownership of less than 1% of the outstanding securities of any class of equity or debt of a publicly-traded company that is either a Selected Adviser or Affiliated Adviser or an entity that controls, is controlled by, or is under common control with a Selected Adviser or Affiliated Adviser.

10. Each Fund will disclose in its registration statement the Aggregate Fee Disclosure.

11. Any person who acts as legal counsel for the Board's Independent Trustees must be independent legal counsel as defined in rule 0-1(a)(6) under the Act.

For the Commission, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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