Burton D. Sheppard, Esq.

October 30, 2018

BY ELECTRONIC MAIL

File No. S7-08-18

Brent C. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Public Comment as to File No. S7-12-18:

TO IMPROVE *INVESTOR EXPERIENCE* AS WELL AS MUTUAL FUND & ETF *INVESTMENT PERFORMANCE*:

- **THE SEC SHOULD ENFORCE COMPLIANCE WITH THE 2004 Amendments to ICA, Rules & SEC Guidance Thereunder, Disclosure Regarding Approval of Investment Advisory Contracts by Directors of Investment Companies, Investment Company Act Release No. 26486 at n.31 (June 23, 2004) (adopting release).]**

- **THE SEC SHOULD PUBLISH IN DISCLOSURE REPORTS TO AFFECTED SHAREHOLDERS OF THE RELEVANT FUNDS AND FUND FAMILIES THE RECORD OF SEC ENFORCEMENT ACTIONS WITH RESPECT TO THE ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.**

- **THE SEC SHOULD DEVELOP ANALYTICS, AND PUBLISH REPORTS BASED THEREUPON, WHICH TRACK COMPLIANCE WITH THE ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.**

- **THE SEC SHOULD REQUIRE THAT BOARDS INCLUDE IN THEIR ANNUAL SELF-ASSESSMENTS THEIR COMPLIANCE WITH ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.**

- **IN ADDITION TO THE ABOVE, THE SEC SHOULD REQUIRE THAT BOARDS ACCESS INDEPENDENT, SYSTEMATIC, THIRD PARTY SOURCES WHICH PROVIDE RELEVANT CONTENT RELATED TO ALL BOARDS' COMPLIANCE WITH THE ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.**

- **THE SEC SHOULD REQUIRE THAT BOARDS INCLUDE REFERENCE TO THEIR SELF-ASSESSMENTS AND SPECIFICALLY THEIR SPECIFIC COMPLIANCE (BASED ON OBJECTIVE ANALYTICS AS**

SUGGESTED IMMEDIATELY ABOVE) WITH THE ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.

- **THE SEC SHOULD REQUIRE THAT BOARDS INCLUDE IN THEIR ANNUAL AND/OR SEMI-ANNUAL REPORTS [I.E. N-CSR OR N-CSRS AS OPPOSED TO SAI'S IN 485BPOS OR 485-APOS -IN A SPACE IMMEDIATELY ADJACENT TO THE DISCUSSION OF 15(c) "GARTENBERG CRITERIA" MINUTES OF (1) THE DISCUSSION BY INDEPENDENT DIRECTORS OF THE REASONS FOR FUNDS' CONTRACT RENEWAL, AND (2) MINUTES OF THE BOARD'S DISCUSSIONS RELATED TO THE IMMEDIATELY PREVIOUS DECISION BY INDEPENDENT DIRECTORS AS TO HOW MUCH THEY HAVE DETERMINED TO PAY THEMSELVES FOR THE PREVIOUS YEAR.**

- **FINALLY, THE SEC SHOULD REQUIRE THAT INDEPENDENT DIRECTORS SUBMIT A SHORT DECLARATORY STATEMENT AS TO THE PROXIMATE RELATIONSHIP, IF ANY, BETWEEN THE BOARDS' SELF-ASSESSMENTS, AND SPECIFIC REFERENCE TO INDEPENDENT DIRECTORS' OBJECTIVE PERFORMANCE BASED ON THIRD-PARTY ANALYTICS REGARDING COMPLIANCE WITH THE ABOVE-REFERENCED SECTION ON EXPLANATIONS FOR CONTRACT RENEWAL.**

Dear Mr. Fields,

Please find herein my submission in response to the Commission's request for comments with respect to the adopted new rule 30e-3, and prospective additions to be considered by the SEC based on comments submitted prior to October 31, 2018.

I take particular note of the SEC's stated intention "to improve the investor experience by updating the design, delivery, and content of fund disclosure for the benefit of individual investors. The request for comment investigates whether fund information is presented in a way that works best for individual investors. The release requests feedback directly from individual investors, academics, literacy and design experts, market observers, and fund advisers and boards of directors on the design, delivery, and content of fund disclosure, including shareholder reports as well as prospectuses, advertising, and other types of disclosure."

At the October 16, 2018 Independent Directors Council (Investment Company Institute) meeting, the SEC's Director of the Division of Investment Management, Ms. Dalia Blass, , reflected on results of her division's outreach interviews with independent directors. She discerned the following key points:

> **…directors consistently talked about three questions that help organize their oversight: (1) Are we seeing the quality of service we expect from the fund's service providers? (2) Are the costs of the fund reasonable? and (3) Is the fund delivering the performance that investors would expect? ***

***Dalia Blass, "Remarks at the IDC - 2018 Fund Directors Conference," Oct. 16, 2018, Chicago, IL.**

Homing in on points Number 2 and 3 above, I submit that the SEC could go a very long way toward ensuring that mutual funds and ETF's accomplish both of the above-referenced objectives, and especially to "deliver the performance that investors would expect" if it **simply adopted a new resolve to enforce faithfully and vigorously rules, regulations and staff guidance which the SEC has been mandated to enforce since 2005.**

I am referring here to the above-referenced rules, regulations and staff guidance adopted by the SEC in the wake of the market timing and late trading scandals of the early 2000's which, inter alia, *required that independent directors annually disclose to shareholders explanations of the reasons that they saw fit to renew investment advisory contracts*.

Sine qua non elements of the SEC 2004 Amendments and Guidance re: Trustees Explanations of the reasons for annual Contract Renewal Are:

- **Explanations must be "reasonably detailed,"**
- **Substance "must NOT be conclusory without factual basis"**
- **"Boilerplate is not sufficient"**
- **"The fact pattern and performance of each individual fund must be subjected to specific application of *all elements* of the *Gartenberg* criteria" (not just some of them)**
- **Independent Trustees must provide information *enabling investor to decide whether to invest in the investment company"* [i.e. EACH SPECIFIC FUND]**
- **It is striking to recall that a prominent goal of this explanation reform *was that investors would come to consult Trustees' explanations of their reasons for contract renewal*.**

Were independent directors to fulfill the objectives of this "contract renewal explanations component" of the 2004 reforms – i.e. by explaining in detail why they had renewed contracts – they will have made immense progress in fulfilling what Director Dalia Blass identified as an objective of directors to make sure that funds are (**2) charging costs that are "reasonable," and "(3) delivering the performance that investors would expect"**

HOW ASSIDUOUS SEC ENFORCEMENT OF THE 2004 REFORM RE: EXPLANATIONS FOR CONTRACT RENEWAL WOULD IMPROVE THE INTEGRITY AND EFFICACY OF THE FIDUCIARY PROCESS

The reasoning here is straightforward. The status quo ante is the current system in which a coterie of long-serving "independent" directors routinely renew on an annual basis effectively 100% of the funds submitted for renewal by 100% of the incumbent investment advisers. [Rejecting renewal of even one fund – much less putting a fund out to bid by rival investment advisers would count as a "black swan" or more likely a "blue moon" event.]

Even the existence of said independent directors is barely known by a small fraction of investors in mutual funds and ETF's, and unknown by a vast majority of shareholders of mutual funds and ETF's. Unspoken, but obvious, in the statement immediately above is the certainty that an overwhelming majority of investors in mutual funds and ETF's *have no idea* that the "fiduciaries" ostensibly vigorous in their protection of shareholders' interests are, in fact, renewing substantially all contracts put before them. In this construct, mediocrity is rife. Indeed, if investors are smart, or lucky, or some combination of the two, they find themselves invested in funds that run roughly pari passu with the market performance of the asset category in which they have invested. (Hence the recent lemming-like rush

from actively-managed to passive index funds and/or benchmark-tracking ETF's.) If they are brilliant, or exceeding lucky, or both – they may have found one or more actively managed funds which persistently outperform their relevant benchmark index – or possibly even enjoyed anomalously significant out-performance. In the mutual fund and ETF industries, mediocrity is not a vice – indeed, slight outperformance is often viewed as a virtue. And absolute returns – or the ability to outperform in different stripes of turbulent markets – are typically viewed as the objective of hedge funds, whereas mutual fund managers are lauded even *when the market is down hugely but the manager's fund or funds are down a little less hugely*! Hence the power of positive relative returns in the mutual fund and factor-based ETF space. Just replicating the market with a modest vig for management fees is deemed to be *de rigeuer* for index funds and conventional ETF's.

Cases of extremely poorly performing funds or funds that have blown sky high are typically – often at the urging of the investment advisers themselves (i.e. without input from independent directors) – dealt with quietly – i.e. they are closed, merged with other funds, or otherwise made to disappear, taking their putrid investment performance records with them. (This is integral to what is known as "survivorship bias" tending to skew results to the records of funds which "survive" rather than those consigned to mutual fund cemeteries.)

Notwithstanding that the above practically represents empirical reality, normatively, this fact pattern simply defies logic: i.e. *how could it be possible that 100% (with minor asterisks as noted above) of the funds are meritorious of having their contracts renewed?* This is like saying that all of the children in the schools of Lake Wobegon are above average. Further, how can one reasonably deem the process undertaken that produces such results year-in and year-out be ***properly deemed a fiduciary process?***

[This is laying to one side another detail buried in the fine print of SEC filings that former executives and senior officials of investment advisers, including those who have served as "interested directors" of funds – i.e. the very fund complexes they will later be overseeing as so-called "independent directors" – can be putatively "cleansed" of their previous interestedness by not being on that adviser's payroll for at least two consecutive years. This interpretation by the SEC permits executives who have longstanding association and loyalties to the investment adviser (as to which they are soon adjudged to be "independent") can forevermore hold themselves out to the shareholders and the public as "independent directors."]

The above realities are arrayed against this backdrop of boards, whose existence, or members, are unknown to a super-majority of shareholders, and with respect to whom there are only the most wishful or imaginary mechanisms for actual accountability to shareholders, which have developed, over many years, customs and practices of routinely renewing effectively all contracts of all incumbent investment advisers. It might be further speculated – albeit with no available, empirical evidence to confirm this point – that the same shareholders *who have no idea that independent directors exist…also do not know that independent directors decide annually how much to pay themselves.*

Into this hardly optimal version of a Rawlsian "veil of ignorance" (on the part of shareholders and the investing public generally), the SEC, after the late-trading and marketing timing scandals of the early 2000's*, in a display of wisdom, adopted the provisions I cite here with respect to requiring that independent directors explain their reasons for having renewed investment advisory contracts.* [I am being totally on the level here: in my opinion, this portion of the 2004 reforms was a brilliantly designed

policy-move by the SEC. Would that its genius in the formulation had been even merely brilliant in the execution.

What a simple and seamless cure for any possible mischiefs, or even oversights, by which independent directors might renew contracts of funds that are genuinely undeserving of renewal. What a cleverly-designed and subtle requirement that independent directors pay assiduous attention to **making their contract renewal decisions** with **the full knowledge that they must justify these decisions to the shareholders to whom they owe a fiduciary duty**.

Precisely by imposing accountability which is ostensibly – but not necessarily or obviously -- present already, the SEC explanation requirement "forces" independent directors to engage in detailed and probing consideration of all funds. Instead of blandly approving them all, they are inspired to create categories: first: to identify the funds that have performed very well, and have earned their management and other fees, and have otherwise demonstrated substantial value-added that they are meritorious of having their contracts renewed. Independent directors, then, would have no difficulty at all affixing their names and favorable explanations to funds for which they are proud. Other categories proceed from mediocre, to "watch-list," to terrible, to disastrous, to cataclysmic.

In cases in which it is not possible to explain away, or justify renewal of, contracts (or at least, not with a straight face), independent directors would be constrained to find other appropriate solutions. These may range from renewal subject to watch lists, encouraged or mandatory changes of portfolio managers, continuation of contracts but with fee cuts commensurate with the lack of value-added, and all manner of other creative solutions as negotiated between independent directors and advisers. They may also occasion decisions not to renew contracts – and in these cases, the Board's sole discretion would control as to whether they put the contracts out to bid by other managers, merge or close the fund, or otherwise acquit their fiduciary duties as they see fit.

In time, non-renewal would or should become no big deal, nothing out of the ordinary, and indeed, an attribute of a well-functioning fiduciary system.

The critical point here is that there is currently no incentive for independent directors to perform their required duty of certifying that they have acquitted their fiduciary duty with respect to approving the renewal of contracts (1) because the SEC has chosen not to enforce its own regulations and guidance from 2005 to the present with respect to conspicuous non-compliance with explanations of the reasons for contract renewal, and (2) because both independent directors and investment advisers know that they have encountered no adverse consequences for renewing terrible-performing, or high cost (or both) funds routinely, or seemingly, into perpetuity.

The systemic implications: nothing bad happens to either independent directors or advisers when they systematically "wave on through" all funds of all fund families. Unfortunately, the same cannot be said of the shareholders for whom the investment advisers work, and the independent directors owe their duty of good faith (and for whom the entire construct ostensibly exists!

Instead, if there were genuinely to be *adverse* consequences for advisers who persistently deliver poorly performing and/or high cost funds, the entire ecosystem of the fund industry would respond accordingly. Likewise, if independent directors had legitimate accountability – for example, independent directors knew that the SEC was persistently looking over their shoulders by reading critically and even

skeptically their explanations for contract renewal – i.e. that directors who submitted non-compliant explanations would be routinely and materially sanctioned -- directors would swiftly and surely adapt to write convincing explanations, and to eschew the renewal of funds found to be undeserving.

Shareholders and everyone else could read explanations for contract renewal knowing that fiduciaries, acting with conviction, had signed off on new contracts based on their own comprehensive and robust evaluation processes. And the SEC could send the signal to all those whom they regulate that the SEC enforces its own regulations and guidance for the greater good of shareholders rather than delivering spotty, or non-existent activity in this domain, based on not enough staff, overwhelming workloads, inadequate technology –or the expediency of directors – and/or the potency of the mutual fund industry and/or the collegiality of the SEC with its friends and alumni in the securities bar.

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CASE STUDY OF A SERIAL SCOFFLAW:
VANGUARD INDEPENDENT TRUSTEES MUST BELIEVE THAT SEC REGS & GUIDANCE APPLY ONLY TO LESS AUGUST INVESTMENT ADVISERS

I have conducted extensive research in this area, some of which has been previously presented to the SEC in a different venue and format. My research reveals that, most charitably and certainly euphemistically, these rules and guidance with respect to directors explaining contract renewal have been “honored in the breach.” More candidly: these rules have been treated the same way that scofflaws in major cities routinely ignore parking regulations and tickets. Only in this case, no tickets have been issued!

The following Figure 1 sets forth examples drawn from Vanguard independent directors’ N-CSR and NCSRS filings with respect to the Vanguard Morgan Growth Fund from 2007 to 2018. Similar results would have accrued for any Vanguard fund whether passively or actively managed. Vanguard independent directors are equal opportunity scofflaws. They exhibit uniformly willful, bad faith, overt non-compliance with the spirit and letter of the 2004 rules and guidance. This is an example, ironically enough, from the fund complex which holds itself out as the paragon of purity and virtue in the otherwise teeming jungle of greed-mongering mutual fund competitors. Vanguard displays a near-perfect record of contempt for the SEC explanation rules and guidance by flat-out copying and pasting the same turgid boilerplate across all years, asset categories, active or passive, directly-managed or sub-advised, and in the face of all market cycles. Cynical Vanguard independent directors figuratively and literally just copy, paste and “mail it in.”

Figure 1

Serial & Notorious Flouting by Vanguard Independent Trustees
of their Obligations Under SEC 15(c) Rules & Guidance re Explanation of Reasons for Contract Renewal
2007 - 2018

KEY

Nature, Extent, Quality violation

Investment Performance violation

Costs/Fees Violations

Profitability violation

Economies of Scale Violation

EXAMPLES OF VIOLATIONS IN
VANGUARD'S TYPICAL FUND* BOILERPLATE

CONSISTENTLY SINCE 2012-2015 N-CSR & N-CSRS FILINGS WITH ONLY DE MINIMIS SIDEBAR COMMENTS DURING 2008-2011; & PROMINENTLY UTILIZED 2005-2007 WITH PASSING COMMENTS IN CERTAIN INSTANCES]

[ANNOTATED WITH REASONS FOR NON-COMPLIANCE WITH SEC 2004 AMENDMENTS & GUIDANCE]

BOILERPLATE LANGUAGE OR BOILERPLATE DESCRIPTION OF SUB-ADVISOR

The key operative language – with which any reader of Vanguard annual and semi-annual reports quickly becom
intimately familiar – includes, in pertinent part, the following:

Nature, extent, and quality of services

BOILERPLATE LANGUAGE IDENTICAL IN ALL FILINGS

[For Vanguard actively-managed funds, which are all sub-advised, Vanguard Respondents insert a boilerplate description of each sub-adviser's background and strategy.]

CONCLUSORY – BASED ON NO CITED EVIDENCE OR DETAILS RE: EACH FUND

The board considered the quality of the fund's investment management services over both the short and long tern and took into account the organizational depth and stability of the advisor. The board noted that Vanguard has be managing investments for more than three decades. The Equity Investment Group adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth.

BOILERPLATE LANGUAGE IDENTICAL IN ALL FILINGS

The board concluded that Vanguard's experience, stability, depth, and performance, among other factors warranted continuation of the advisory arrangement.

Investment performance
The board considered **the short- and long-term performance of the fund, including any periods of outperformance or underperformance relative to a target index and peer group.** The board concluded th performance was such that the advisory arrangement should continue. Information about the

fund's most recent performance can be found in the Performance Summary section of this report.

GENERIC LANGUAGE – I.E. NOT CUSTOMIZED TO EACH INDIVIDUAL FUND …CIFICS

GENERIC LANGUAGE – PURPORTING TO INCORPORATE LANGUAGE FROM ANOTHER SECTION

Cost
The board concluded that the **fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average.** Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section.

CONCLUSORY NO CITED DETAILS, SUPPORT OR SPECIFICS OF INDIVIDUAL FUND

The board **does not conduct a profitability analysis** of Vanguard because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees, and produces "profits" only in the form of reduced expenses for fund shareholders.

VANGUARD'S BALD ASSERTION
BASED ON VANGUARD PUTATIVE "AT COST" BUSINESS MODEL – BUT THERE IS A 'BONUS POOL' & NO DISCLOSURE OF EXEC. SALARIES

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VANGUARD MORGAN GROWTH FUND P. 2

2007

Date of reporting period: **October 1, 2007–March 31, 2008**

Investment performance

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board concluded that each advisor has carried out the fund's investment strategy in disciplined fashion, and that performance results have allowed the fund to remain competitive versus its benchmark and its peer group. Information about the fund's most recent performance can be found in the*Performance Summary* section of this report.

Cost

The board concluded that the fund's expense ratio was far below the average expense ratio charged by funds in its peer group. The board noted that the fund's advisory fee rate was also well below the peer-group average. Information about the fund's expense ratio appears in the *About Your Fund's Expenses* section of this report as well as in the *Financial Statements* section, which also includes information about the advisory fee rate.

2008

Date of reporting period: **October 1, 2007–March 31, 2008**

Investment performance

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board concluded that each advisor has carried out the fund's investment strategy in disciplined fashion, and that performance results have allowed the fund to remain competitive versus its benchmark and its peer group. Information about the fund's most recent performance can be found in the*Performance Summary* section of this report.

Cost

The board concluded that the fund's expense ratio was far below the average expense ratio charged by funds in its peer group. The board noted that the fund's advisory fee rate was also well below the peer-group average. Information about the fund's expense ratio appears in the *About Your Fund's Expenses* section of this report as well as in the *Financial Statements* section, which also includes information about the advisory fee rate.

VANGUARD MORGAN GROWTH FUND P. 3

Date of reporting period: **October 1, 2008– March 31, 2009**

Investment performance*

2009

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board concluded that each advisor has carried out the fund's investment strategy in disciplined fashion, and that performance results have allowed the fund to remain competitive versus its benchmark and the fund's peer group. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was far below the average expense ratio charged by funds in its peer group. The board noted that the fund's advisory fee rate was also well below the peer-group average. Information about the fund's expense ratio appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the advisory fee rates.

Date of reporting period: October 1, 2009 – March 31, 2010

2010

Investment performance*

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a rel evant benchmark and peer group. The board concluded that each advi sor has carried out the fund's investment strategy in disciplined fashion, and that performanc e results have allowed the fund to remain competitive versus its benchmark and the fund's peer group. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average. Information about the fund's expense ratio appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the advisory fee rate.

VANGUARD MORGAN GROWTH FUND P. 4

2011

Date of reporting period: **October 1, 2010 – March 31, 2011**

Investment performance

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board concluded that each advisor has carried out the fund's investment strategy in disciplined fashion, and that performance results have allowed the fund to remain competitive versus its benchmark and peer group. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate.

2012

Date of reporting period: October 1, 2012 – March 31, 2013

Investment performance

The board considered the short and longterm performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board concluded that each advisor has carried out the fund's investment strategy in disciplined fashion; however, the fund's results versus its benchmark have been less favorable over the one, three, and fiveyear periods. The board noted that the fund has outperformed its peer group over both the short and long term. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peergroup average. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate.

EXAMPLE OF "VERTICAL BOILERPLATE"
VANGUARD MORGAN GROWTH FUND

2013

Date of reporting period: October 1, 2012 – March 31, 2013

Investment performance

The board considered the short- and long-term performance of the fund and each advisor, including any periods of outperformance or underperformance relative to a benchmark index and peer group. The board concluded that the performance was such that each advisory arrangement should continue. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate.

2014

Investment performance

The board considered the short- and long-term performance of the fund and each advisor, including any periods of outperformance or underperformance relative to a benchmark index and peer group. The board concluded that the performance was such that each advisory arrangement should continue. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate

EXAMPLE: VANGUARD INDEPENDENT TRUSTEES' 15(c) EXPLANATION FOR CONTRACT RENEWAL OF VANGUARD MORGAN GROWTH FUND 2015

Investment performance

The board considered **the short- and long-term performance of the fund and each advisor, including any periods of outperformance or underperformance relative to a benchmark index and peer group**. The board **concluded** that the performance was such that each advisory arrangement should continue. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board **concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average**. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate.

The board did not consider profitability of Frontier, Jennison, Kalmar, and Wellington Management in determining whether to approve the advisory fees, because the firms are independent of Vanguard and the advisory fees are the result of arm's-length negotiations. The board does not conduct a profitability analysis of Vanguard, because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees, and produces "profits" only in the form of reduced expenses for fund shareholders.

The benefit of economies of scale

The board concluded that the fund's shareholders benefit from economies of scale because of breakpoints in the advisory fee schedules for Frontier, Jennison, Kalmar, and Wellington Management. The breakpoints reduce the effective rate of the fees as the fund's assets managed by each advisor increase. The board also concluded that the fund's at-cost arrangement with Vanguard ensures that the fund will realize economies of scale as it grows, with the cost to shareholders declining as fund assets managed by Vanguard increase.

The board will consider whether to renew the advisory arrangements again after a one-year period.

EXAMPLE: VANGUARD INDEPENDENT TRUSTEES' 15(c) BOILERPLATE "EXPLANATION" FOR CONTRACT RENEWAL OF VANGUARD MORGAN GROWTH FUND 2016

Investment performance
The board considered the short- and long-term performance of the fund and each advisor, **including any periods of outperformance or underperformance relative to a benchmark index and peer group. The board concluded that the performance was such that each advisory arrangement should continue.** Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost
The board concluded that the fund's **expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory fee rate was also well below its peer-group average**. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory fee rate.The board did not consider profitability of Frontier, Jennison, and Wellington Management in determining whether to approve the advisory fees, because the firms are independent of Vanguard and the advisory fees are the result of arm's-length negotiations. The board does not conduct a profitability analysis of Vanguard because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees and produces "profits" only in the form of reduced expenses for fund shareholders.

The benefit of economies of scale
The board concluded that the fund's shareholders benefit from economies of scale **because of breakpoints** in the advisory fee schedules for Frontier, Jennison, and Wellington Management. The breakpoints reduce the effective rate of the fees as the fund's assets managed by each advisor increase. The board also concluded that the fund's at-cost arrangement with Vanguard ensures that the fund will realize economies of scale as it grows, with the cost to shareholders declining as fund assets managed by Vanguard increase.

The board will consider whether to renew the advisory arrangements again after a one-year period.

2017

Trustees Approve Advisory Arrangements

The board of trustees of Vanguard Morgan Growth Fund has renewed the fund's investment advisory arrangements with Frontier Capital Management Co., LLC (Frontier), Jennison Associates LLC (Jennison), Wellington Management Company LLP (Wellington Management), and The Vanguard Group, Inc. (Vanguard)—through its Quantitative Equity Group. The board determined that renewing the fund's advisory arrangements was in the best interests of the fund and its shareholders.

...

Nature, extent, and quality of services

The board reviewed the quality of the fund's investment management services over both the short and long term and took into account the organizational depth and stability of each advisor. The board considered the following:

Frontier. Founded in 1980, Frontier employs a fundamental, research-intensive investment approach focused on small- and mid-sized companies. The firm's bottom-up, collaborative investment approach seeks to identify companies with a combination of superior growth potential and attractive valuation. Frontier's investment process emphasizes companies with understandable business models, good franchises, accelerating sales and margins, and healthy balance sheets, ideally seeking companies that can grow earnings in multiple ways. Analysts regularly interact with management and other companies in the supply chain. Frontier has managed a portion of the fund since 2009.

Jennison. Founded in 1969, Jennison is an indirect, wholly owned subsidiary of Prudential Financial, Inc. The firm currently oversees a wide range of equity and fixed income strategies. The investment team at Jennison uses internal fundamental research and a highly interactive bottom-up stock selection process to identify companies that exhibit above-average growth in units, revenues, earnings, and cash flows. When evaluating a company for purchase or sale, the analysis focuses on the duration of the growth opportunity and seeks to capture inflection points in the company's growth. Jennison has managed a portion of the fund since 2007.

Wellington Management. Founded in 1928, Wellington Management is among the nation's oldest and most respected institutional investment managers. The investment team at Wellington Management seeks to create a portfolio with balanced exposure to growth, quality, and valuation in an attempt to deliver consistent results over time. Bottom-up fundamental research focuses on large- and mid-capitalization companies with a proven record of sales and earnings growth, profitability, and cash-flow generation. This research seeks to incorporate multiple projections of future revenue and cash flow growth to avoid overreliance on any single data point. Wellington Management has advised the fund since 1968.

Vanguard. Vanguard has been managing investments for more than three decades. The Quantitative Equity Group adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth. Vanguard has managed a portion of the fund since 1993.

The board concluded that each advisor's experience, stability, depth, and performance, among other factors, warranted continuation of the advisory arrangements.

Investment performance

The board considered the short- and long-term performance of the fund and each advisor, including any periods of outperformance or underperformance compared with a relevant benchmark index and peer group. The board concluded that the performance was such that each advisory arrangement should continue. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

Cost

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group and that the fund's advisory expense rates were also well below its peer-group average. Information about the fund's expenses appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the fund's advisory expenses.

The board did not consider the profitability of Frontier, Jennison, and Wellington Management in determining whether to approve the advisory fees, because the firms are independent of Vanguard and the advisory fees are the result of arm's-length negotiations. The board does not conduct a profitability analysis of Vanguard because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees and produces "profits" only in the form of reduced expenses for fund shareholders.

The benefit of economies of scale

The board concluded that the fund's shareholders benefit from economies of scale because of breakpoints in the advisory fee schedules for Frontier, Jennison, and Wellington Management. The breakpoints reduce the effective rate of the fees as the fund's assets managed by each advisor increase. The board also concluded that the fund's at-cost arrangement with Vanguard ensures that the fund will realize economies of scale as it grows, with the cost to shareholders declining as fund assets managed by Vanguard increase.

- The board will consider whether to renew the advisory arrangements again after a one-year period.

• 30

2018

Trustees Approve Advisory Arrangements

The board of trustees of Vanguard Morgan Growth Fund has renewed the fund's investment advisory arrangements with Frontier Capital Management Co., LLC (Frontier), Jennison Associates LLC (Jennison), Wellington Management Company LLP (Wellington Management), and The Vanguard Group, Inc. (Vanguard), through its Quantitative Equity Group. The board determined that renewing the fund's advisory arrangements was in the best interests of the fund and its shareholders.
The board based its decisions upon an evaluation of each advisor's investment staff, portfolio management process, and performance. This evaluation included information provided to the board by Vanguard's Portfolio Review Department, which is responsible for fund and advisor oversight and product management. The Portfolio Review Department met regularly with the advisors and made monthly presentations to the board during the fiscal year that directed the board's focus to relevant information and topics.

The board, or an investment committee made up of board members, also received information throughout the year during advisor presentations. For each advisor presentation, the board was provided with letters and reports that included information about, among
The board concluded that each advisor's experience, stability, depth, and performance, among other factors, warranted continuation of the advisory arrangements.

...

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Summary of Vanguard' Respondents' Persistent Violations throughout the relevant period of the ICA 15(c) & 2004 ICA Reforms, Rules & SEC Guidance of 2004 = Evidence of Breach of Fiduciary Duties

Vanguard has logged a consistently woeful 14-year track record of refusing to explain why its independent directors were renewing the contracts of what has become, expressly during this period, by far the largest fund complex in terms of Net Assets under management. An inventory of oh so many ways in which Vanguard has breached its compliance obligations is as follows:

VIOLATIONS OF *O*MISSION

- Vanguard independent trustees provide **zero 'reasonable' detail in discussion of each factor.**

- Ironically, my research reveals that the **2002-2004 SEC Vanguard filings** with respect to explaining funds' costs and performance by Vanguard were materially more robust – with greater "reasonable detail" – prior to passage of the SEC reforms after. Go figure.

- Vanguard independent trustees include **effectively no discussion of "all material factors"** for each specific fund – another way of saying that Vanguard does not present, other than repetitive, copied-and-pasted, "one size fits all" boilerplate, discussion of ***any*** material factors.

- Vanguard independent trustees **utilize ubiquitous boilerplate**, **in direct contravention of the SEC guidance to the contrary.**

- Vanguard independent trustees' **boilerplate itself is rife with conclusory statements based on no specific references to the fact pattern of each fund – or even a tinge of evidence customized** to the time and circumstances of each fund.

- There is conspicuously absent from all Vanguard independent trustees' explanations any utility as "information on which to base whether to invest in a fund."

VIOLATIONS OF *CO*MISSION

- Moreover, Vanguard's independent trustees' violations as above tend to be errors of omission. There is an entirely separate category of **errors of commission**…which are arguably more pernicious in that they reflect on the character and integrity of the organization. The most prominent such example is what I suggest is the subterfuge by which Vanguard persistently claims that it pursues an "at cost" business model. This implies, disingenuously, that Vanguard is effectively a "non-profit", or some sort of eleemosynary institution, as to which no profit whatsoever is baked into Vanguard's business models. This has the potential to mislead some investors who may be forgiven for thinking that Vanguard "crew members" are akin to the monks in a monastery plying their investment management for the greater good of the masses. The reality, of course, is that Vanguard is a fabulously profitable mutual fund and ETF business juggernaut…clothed in the modesty of a closetful of threadbare Sears Roebuck suits. The details of the extent to which Vanguard is spectacularly profitable are unavailable due to two uncoincidental other attributes of the Vanguard business model: (1) Vanguard discloses to no

one inside or outside the company the compensation of "crew members" – i.e. officers or employees. (2) Vanguard only discloses the compensation of its independent directors – as required by law – and, in turn, *these independent directors are the only ones who know, sign off on, and oversee, the compensation of crew members*. A further coincidence is that the exact same individuals who are the so-called "independent" trustees of the funds managed by Vanguard are simultaneously the "independent" trustees of the effective operating company, the Vanguard Group, in its various incarnations.

And so, yes, it is also the case that the same individuals who routinely breach their duties to explain to shareholders why they have renewed the contracts of the investment adviser Vanguard Group entities…are also the individuals who are charged with protecting the sanctity and secrecy of the compensation of crew members. In other words, the Vanguard Group's independent trustees are the wolf. The so-called independent trustees of the Vanguard Funds are the sheep. And the clothing (notwithstanding the Sears Roebuck suits worn by some executives) is that of a sheep, and it is worn by both the wolf and sheep.

The Vanguard shareholders, in their incarnations as simultaneously shareholders of the Vanguard Group and of the Vanguard Funds, are lulled into a false sense that there is something beneficent in this structure magically fashioned from the mind of Bogle. Bogle's spin is that this "mutual" structure aligns the interests of shareholders, board(s), and management – and inculcates the independent trustees and executives with a presumptive sense of "stewardship" which is unique in an industry otherwise populated by grifters and highwaymen.

And yet, this alleged interest alignment leaves the shareholders without any, much less satisfactory, explanations as to why their funds are having their contracts renewed by these putatively similarly aligned independent trustees; and the same shareholders in another guise are annually apprised that their company is operated "at cost," but again and again, there is no disclosure to shareholders as to what the amounts of that alleged "cost" **is.** Said costs presumably include the salaries and bonuses to "crew members." While salaries might conventionally be construed as "costs," bonuses should not. In more typical business accounting circles, bonuses more properly should be described as "profits". But deeply ensconced Vanguard business model and attendant lore holds that Vanguard is operated "at cost" – i.e. no profit!

Hence the so-called independent trustees are placed in the conflicted position(s) of at once, as independent trustees of the Vanguard Funds, breaching their fiduciary duties of disclosure to shareholders – i.e. by depriving shareholders of meaningful explanations as to why their funds have been renewed – while at the same time these same individuals serving as independent directors of the Vanguard Group – are legally holding the bag deciding, and then protecting the confidentiality of, the size and scale of compensation to Vanguard executives and crew.

In the face of this Rube Goldberg contraption of "stewardship," one might forgive those investors who, upon reflection, decide to take their chances with the grifters.

- Net net: transparent disclosure instead of the above inscrutability would result something closer to honest disclosure to shareholders of “economies of scale” and ‘profitability’ reporting.

Conclusion

Vanguard independent trustees’ track record of 15(c) explanations non-compliance on this, the Morgan Growth Fund, is representative of Vanguard’s “one size fits all” approach. It amounts to nose-thumbing contempt for the SEC and its rules. It screams: “We are Vanguard; the rules apply only to ordinary mortal fund companies.” It is illustrative of, and of a piece with, Vanguard’s level of compliance as to all its other funds and ETF’s (which are merely a different share class of existing Vanguard open-end funds).

This is to say that compliance with these provisions have been willfully, openly, notoriously, and one might argue, insultingly, treated as a joke.

Unfortunately, it is difficult to argue with Vanguard’s apparent conclusion that there are no adverse consequences to their blithely ignoring compliance with SEC regs and guidance. Indeed, the paltry roster of independent directors and boards who make good faith efforts to comply are the ones currently made to look like fools. This is a point not lost on the rest of the industry. Hence, what might at best be dubbed complacency, has resulted in a culture of non-compliance. This manifests itself in so-called “explanations” being submitted to the SEC which are nothing short of laughable. Strewn with legalese gibberish, repetitious references to meaningless statistics, and turgid prose, the drafters of these “reports” have mastered the art of copying and pasting language that one would be hard-pressed to blame on a computer algorithm. The unkindest cuts are the cacophony of euphemisms for poor and mediocre performance. The above obtains for large swaths of the mutual fund and ETF industries.

The remainder comprise a tiny fraction of boards making a good faith effort actually to provide shareholders bona fide reasons why they have decided to renew contracts for all mutual funds and/or ETF’s within their purview. These boards still pay obeisance to the illusion that routine approval of one-hundred percent of each fund family’s funds can pass for genuine exercise of fiduciary duty. Yet as compared to the inchoate and often incomprehensible “explanations” generated by the overwhelming majority of boards, even this substantially fictive version of fiduciary compliance appears as if it were a chapter from a special mutual fund governance edition of *Profiles in Courage*.

The SEC bears its responsibility for these apotheoses of the carefree scofflaws. It has contributed to this culture based on “the SEC must not have really meant it” when they issued these rules, regulations and guidance. To wit, the SEC has routinely and consistently for the past 14 years ignored its own requirements – and let waved on through each set of annual filings submitted by independent directors and boards overseeing what has now become the roughly $23+ Trillion mutual fund and ETF industries.

Assertive application by the SEC Investment Management Division and its Disclosure and Accounting Section, along with vigorous enforcement by the SEC Enforcement Division, in my opinion, could be transformative. This would validate the conclusions of SEC officials back in 2004 at the height of the mutual fund late-trading and market timing scandal. At that time, the SEC’s stated intention was to mandate a material upgrade in the work product of independent directors of mutual funds and ETF’s. Their strategy was to require in reasonable detail comprehensible and convincing explanations of the reasons on which they based their decision to renew annual fund advisory contracts under Section 15(c).

While immense damage has been done by industry and the SEC choosing to ignore these requirements, it is not too late.

It is my contention that the single most efficacious thing the SEC could do to improve the investment experience for mutual fund and ETF investors would be:

(1) Rigorously to enforce compliance with these explanations of contract renewal provisions which have been in effect since 2004, and

(2) Create a robust reporting and analytics around compliance with these provisions which would become the basis for investors to monitor independent directors' explanations, and

(3) Take vigorous enforcement action against boards, independent directors, and beneficiary investment advisory firms found to be in non-compliance with the provisions.

At a stroke, the SEC would be putting on notice the investment advisers to the $23+ trillion mutual fund and ETF industries that the SEC itself, AND the Boards, and particularly their independent directors, are not paper tigers (notwithstanding all previous evidence to the contrary).

Instead, the above-referenced have solemn and serious fiduciary functions to perform. Not least of these is to scrutinize the investment performance, costs (and the rest of the entire roster of Gartenberg criteria) on an annual and ongoing basis. Routine and perfunctory hand-waving through of all funds of all fund families should not be countenanced either by their boards or by the SEC. In short order, investment advisers will figure out that the previous regime of blasé fecklessness on the part of boards is not in the advisers' long-term interest either. At some point, lax corporate governance that systematically tolerates desultory performance and questionable value-added, will bring the entire edifice crumbling down upon all who inhabit this system.

Perhaps most importantly, by rededicating itself to executing on this aspect of the 2004 reforms, the SEC would also be striking a blow against cynicism. It would be asserting a principle that has been honored in the breach for the last 14 years with respect to this particular domain. And it would be asserting the simple yet salutary message that the SEC, via its regulations and staff guidance, means what it says.

Sincerely,

Burton D. Sheppard /certified electronic signature/

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APPENDICES

EXHIBIT 1

The Distribution of Non-Compliant Scofflaws Across the Panoply of Boards of Independent Directors Overseeing U.S. Mutual Funds and ETFs

The Vanguard independent trustees' example of non-compliance is unfortunately less the exception than the rule. With lax or no enforcement by the SEC of this aspect of the 2004 reforms, independent directors ubiquitously ignore their responsibilities in this regard. Concomitantly, counsel to either the Boards and/or to the Funds have often taken a similar cue from the SEC's non-interest in requiring compliance.

I have developed a rubric which sets forth a proprietary typology and menu of criteria upon which to conduct even-handed, comprehensive evaluation of compliance with the 15(c) explanations requirements.

By applying this rubric to the disclosure language contained in the funds' N-CSR and N-CSRS reports, I have designed a suite of analytics which enables categorization and visualization of compliance patterns. The criteria form the basis for systems of scoring – and the scores can be integrated with other variables in my database such as board compensation and individual independent director compensation.

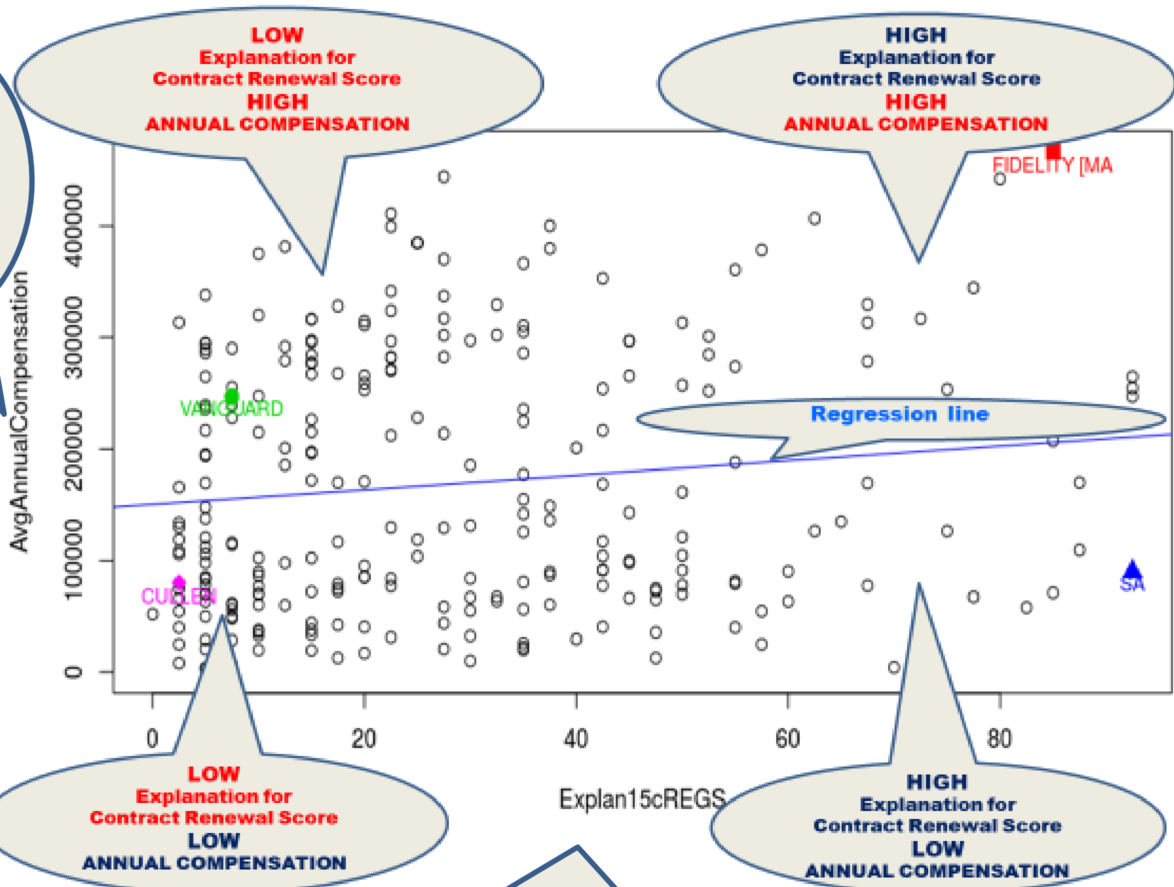
This, in turn, provides the basis – as merely one example – of correlating the extent to which independent directors acquit their duties to explain the reasons for contract renewal with patterns of how much they compensate themselves on an annual basis. I have compiled this information for both boards and individual independent directors for the period 1995 to 2017. The utility of the rubric can be seen in the slide below. The examples below are for filings during the calendar year 2017. (However, we can deploy functionality that includes career-based cumulative compensation for boards and individuals for the period 1995 to 2017).

By capturing and displaying the data in the scatterplot format we can visualize the four quadrants as representing correlated data based on the two variables: (1) how well do independent directors execute their duty to explain reasons for renewing investment advisory contracts of the relevant investment adviser? vs. (2) how much in annual compensation did the independent directors (on average for that board during 2017 in Figure 2 and specifically for each individual independent directors in Figure 3). Here is the basic rubric immediately below:

Figure 2
The Rubric

KEY*
BLUE = Positive for Shareholders
RED = Negative for Shareholders
***Pertinent only to a point, i.e. Maybe Fidelity independent directors deserve high compensation because they have the highest number of funds and very high Net Assets; or Vanguard's relatively modest compensation is positive because they oversee by far the largest Net Assets, (and notwithstanding their extremely poor 15(c) Explanations Score.)**

Average Annual Compensation for each Independent Director on the Identified Board in 2017



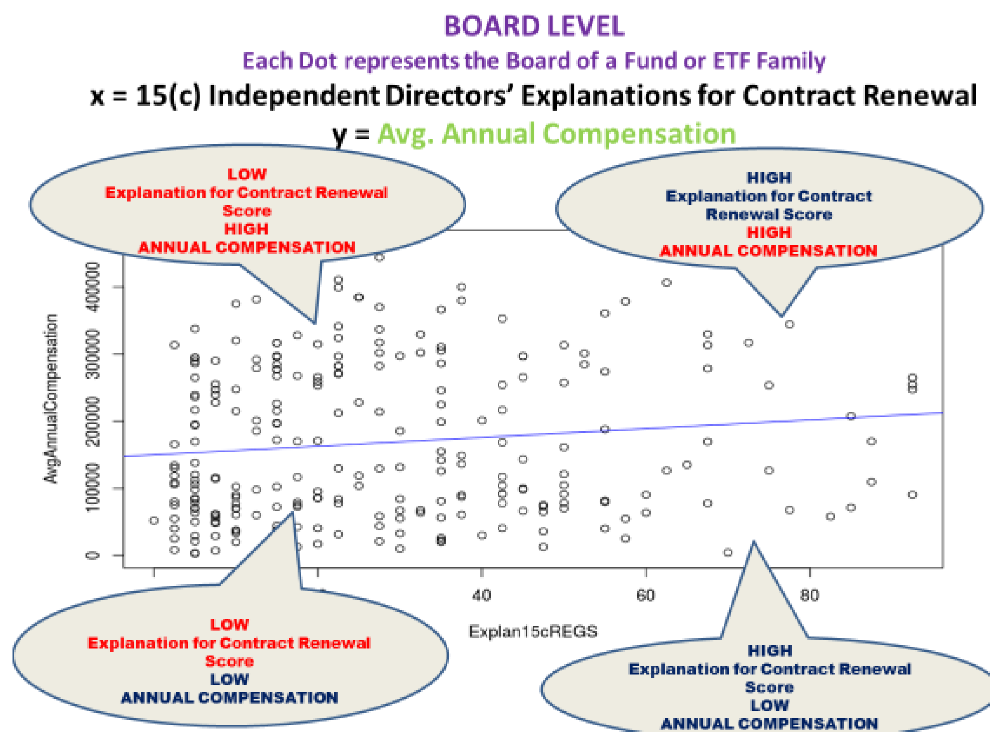
Proprietary Explanation 15(c) REGS Score
0 to 100 points

Figure 3 examines compliance of entire Boards (i.e. all the independent directors serving on each board) and displays them on a scatterplot where the x axis is the proprietary Explanations 15(c) Compliance Score and the **y axis is the Average Annual Compensation of each Board's independent directors. Figure 3** examines compliance of entire Boards and displays them on a scatterplot where the x axis is the proprietary Explanations 15(c) Compliance Score and the y axis is the Average Annual Compensation of each Board's independent directors.

Figure 3

Board Level

Compliance as to SEC 15(c) Regs & Guidance re: Explanations of Contract Renewal
[Per Proprietary Rule-set & Scoring]
cf.
Avg. Annual Compensation of Independent Directors on Relevant Boards



The rest, the overwhelming majority, either submit reams of gibberish couched in legal mumbo jumbo – often repeating the same gibberish and legal mumbo jumbo across all funds in any given N-CSR or N-CSRS, and/or year after year. It is as if the lawyers and boards which compile, draft, prepare and approve these submissions have been given a wink and a nod suggesting that no one, certainly not anyone at the SEC, cares a fig about what turgid prose, or incomprehensible statistics, one places in reference to this requirement under Section 15(c). I possess mountains of evidence that this is the case [please see short form exhibits hereto] and would be pleased to share more (again) with the SEC if it were to indicate genuine interest, and more than a grunt of intention to enforce these provisions.

Figure 4, below, examines compliance of individual independent directors (i.e. by name for each year of service spanning 1995 to 2017) and displays them on a scatterplot **where the x axis is the proprietary Explanations 15(c) Compliance Score** and the **y axis is the actual Annual Compensation of each individual independent director.**

Figure 4

Individual Independent Director Level

Quality of 15(c) Explanation for Contract Renewal [Per Proprietary Rule-set & Scoring]

cf. Annual Compensation of Independent Directors on Relevant Boards

INDIVIDUAL INDEPENDENT DIRECTOR LEVEL

Each Dot represents an Individual Independent Director on the Board of a Fund or ETF Family

x = 15(c) Independent Directors' Explanations for Contract Renewal

y = Annual Compensation

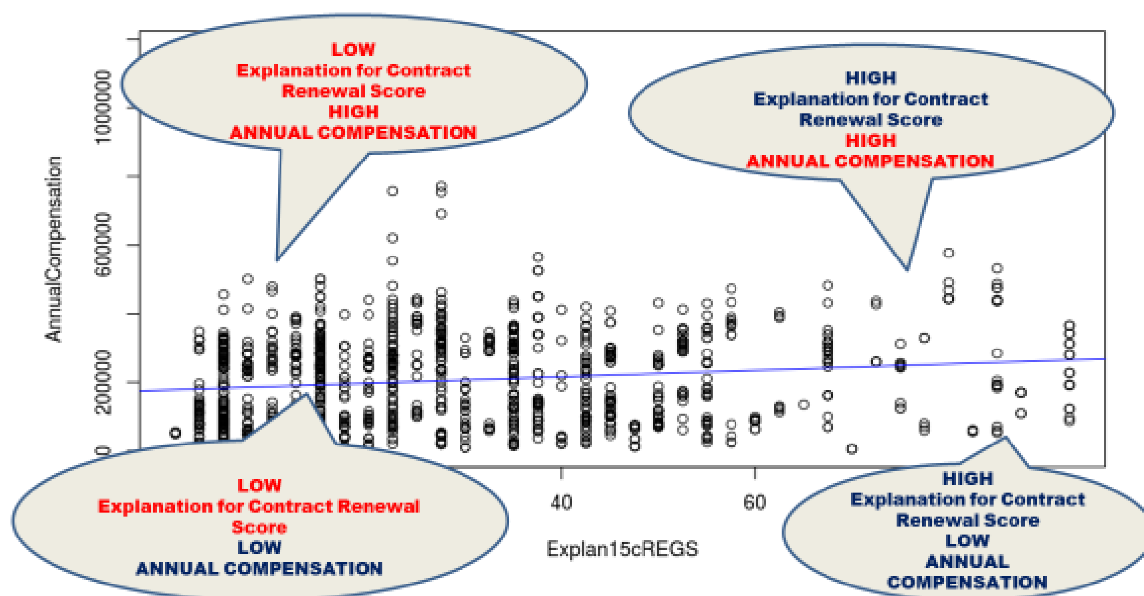
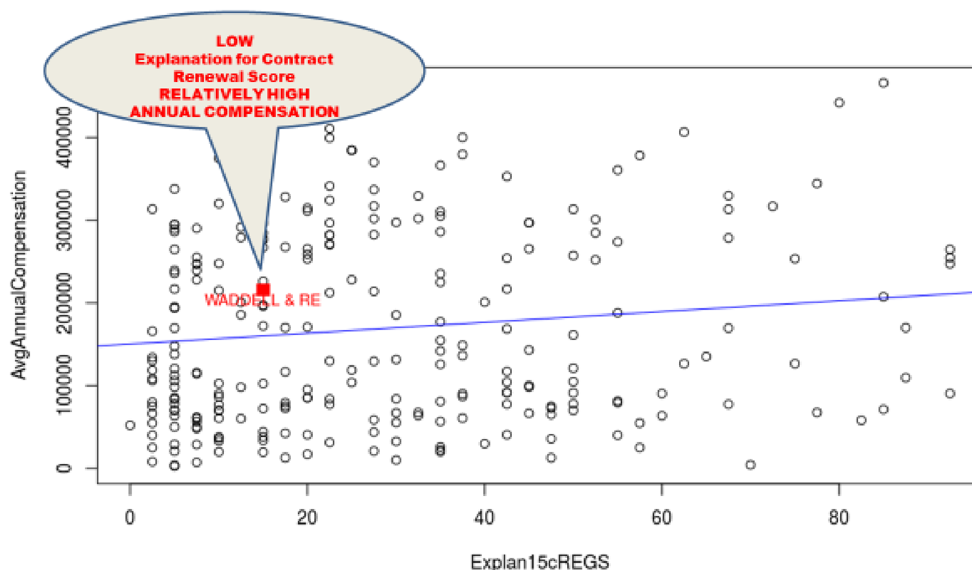


EXHIBIT 2

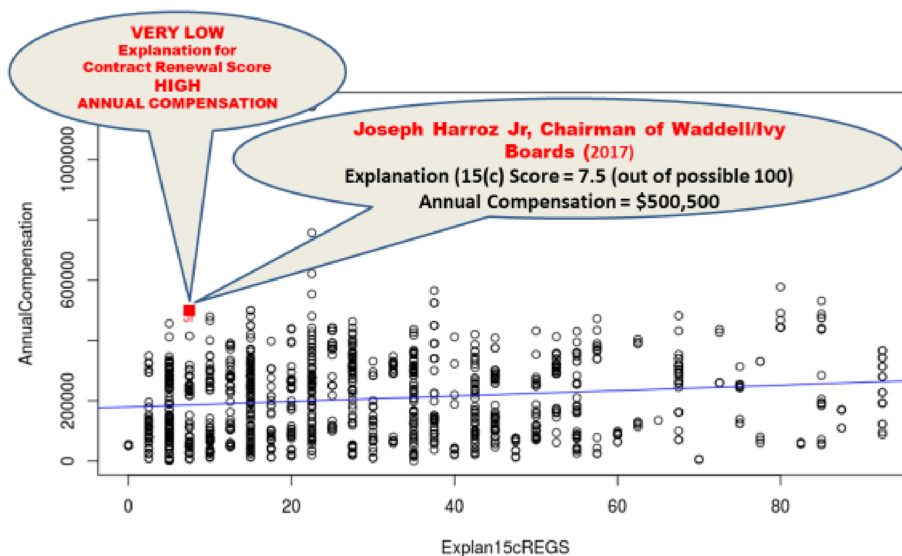
Another Scofflaw on Explanation Compliance but No Slouches Where Independent Director Compensation is Concerned

Figure 5

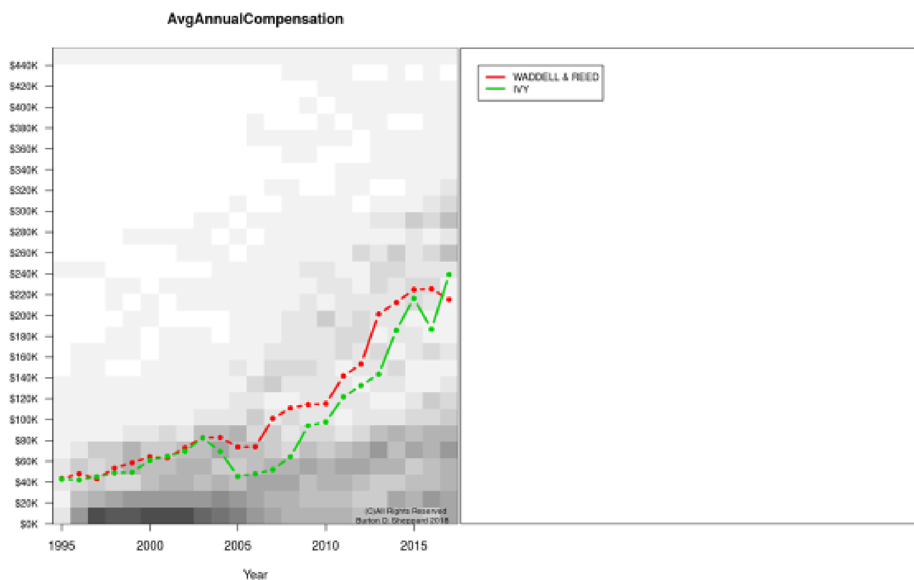
Waddell & Reed Independent Directors scored a low 15 out of a possible 100 on Explanations 15(c) REGS rose and paid themselves a relatively high average annual compensation of $215,297 (especially for a fund complex with only 22 funds and a combined total with Ivy of Net Assets of $65.9 bil.



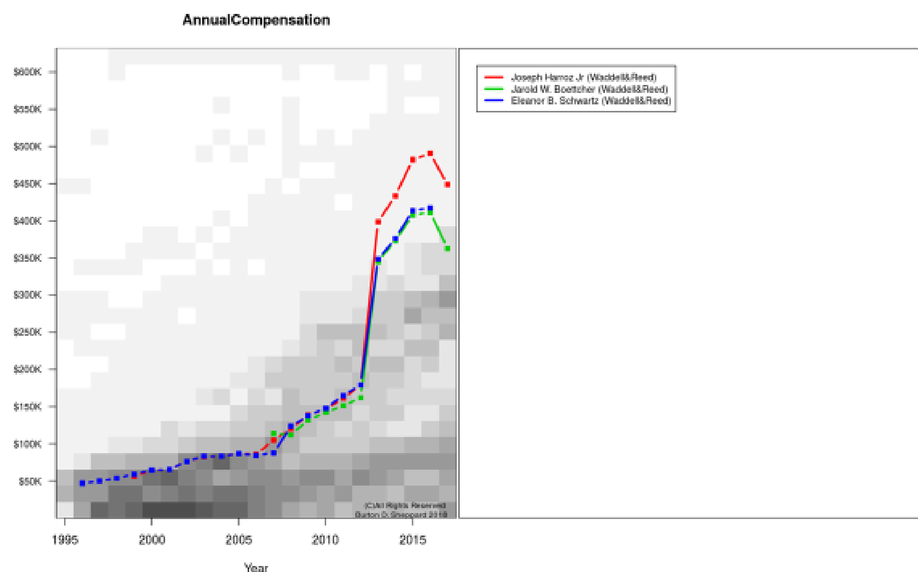
Joseph Harroz Jr, Chairman of Waddell & Ivy Funds Boards, is Dean of the University of Oklahoma Law School



Waddell & Reed Independent Directors Have Paid Themselves Well, But Not Excessively On Average Per Individual Independent Director
1995 - 2018



...But the Compensation to the Top 3 Independent Directors Who, Since 2012, Have Served on Both Waddell & Ivy Boards, Tips the Scales and Diminishes the Meaningfulness of the "Average Annual" Calculation
1995 - 2018



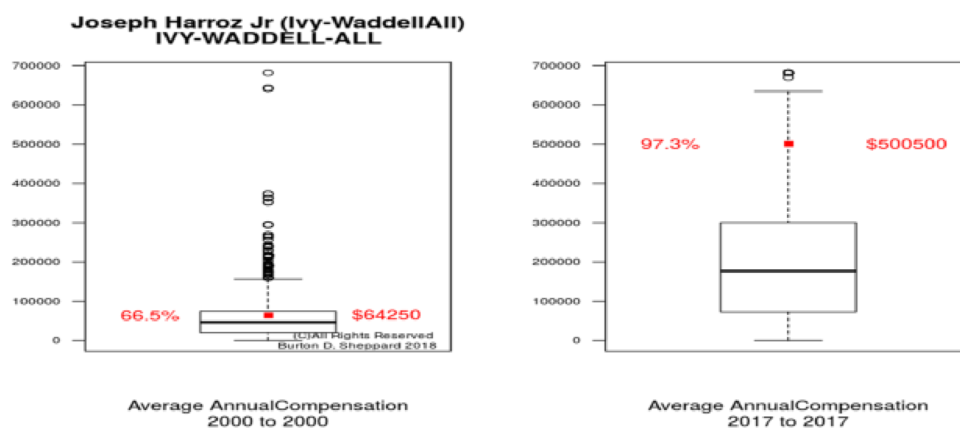
The Annual & Cumulative Compensation of Chairman Joseph Harroz Jr From Waddell Reed & Ivy Funds is Noteworthy for its Generosity

For example, in 2017, Harroz made $175,217 more from his part-time job at Waddell/Ivy than he did from his full-time job as Dean of University of Oklahoma Law School

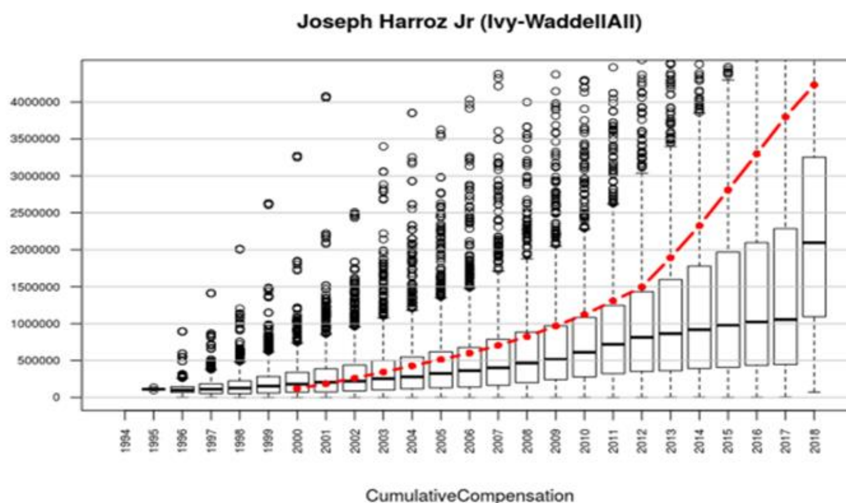
$325,283 = Joseph Harroz Jr's FY 2017 Compensation for his full-time job as VP and Dean of the Law School at the University of Oklahoma

$500,500 = Joseph Harroz Jr's 2017 Compensation for his part-time job as an independent director/chairman of the boards of Waddell Reed Funds and Ivy Funds

State of Oklahoma Higher Education Salaries
Joseph Harroz University Of Oklahoma Vice President $325,283

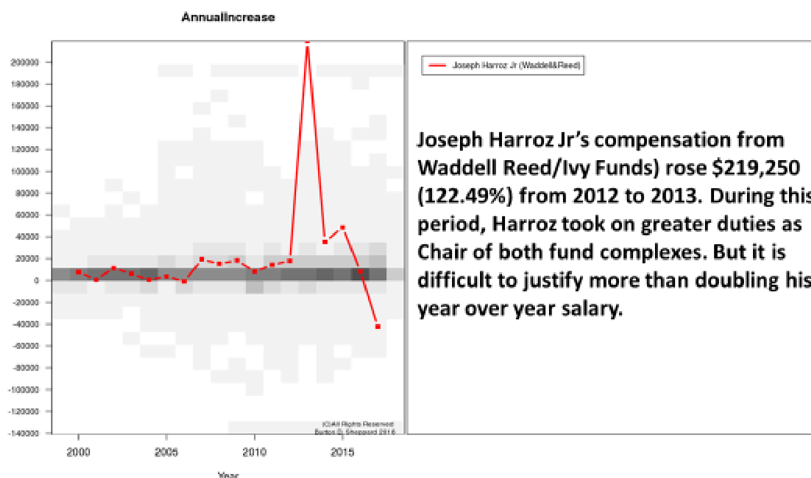


Joseph Harroz Jr has been paid $4,232,126 cumulative compensation by Ivy Funds & Waddell Reed between 1999 and 2018



Joseph Harroz Jr's Compensation rose $219,250, or 122.49%, from 2012 to 2013.

Joseph Harroz Jr (Waddell&Reed-Ivy Funds)	2012 $179,000
+122.49 %	PLUS $219,250
Joseph Harroz Jr (Waddell&Reed-Ivy Funds)	2013 $398,250



With the above as a backdrop, please find the multi-year example (below) of the sorry track record of Waddell & Reed in explaining to shareholders why they renewed all funds of the fund complex. (FYI, they did the same for the Ivy Funds, before reorganizing in 2017 to make the new brand entirely Ivy Funds.)

WADDELL & REED/Ivy Funds
15(c) VIOLATIONS & NON-COMPLIANCE

- **From the 2007 filings through 2018, with respect to all Waddell & Reed Funds, including Waddell & Reed Asset Strategy: independent trustees have submitted 15(c) Explanations to Shareholders which are substantially and consistently in non-compliance with Section 15(c) requirements including but not limited to:**

- **No "Reasonable Detail" – no customized discussion of investment performance and costs, as well as overbroad or meaningless legal mumbo jumbo on other *Gartenberg* criteria,**

- **Conclusory statements made without supporting information and data for each conclusion**

- **Excessive Boilerplate on coverage of required *Gartenberg* criteria**

- **Basis for an Informed Investment Decision? Not remotely satisfying the requirement of 2004 SEC regs and guidance that the explanation must be sufficiently detailed so that an investor could make an investment decision based on the explanation**

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Example of an Investment Performance Explanation that obliquely and euphemistically rationalizes consistently poor performance for nearly all periods, yet revels in citing the 10 year performance as being "good."

2014 Waddell & Reed Advisors Vanguard Fund

The Trustees considered that **Waddell & Reed Advisors Vanguard Fund's total return performance was lower than the Performance Universe median for the one-, three-, five-, and seven-year periods and the Lipper index for the one-, three-, and five-year periods**. They also considered the information provided by WRIMCO in its Initial Response explaining that, among other factors, the Fund's investments in **higher-quality stocks, its stock selection in the health care and financial sectors, and its overweighting in the technology sector had adversely affected the Fund's performance over the three-year period**. They further
~~~~~

considered the year-to-date performance information through June 13, 2013, provided by WRIMCO in its Initial Response and noted that, **despite the Fund's underperformance for the one-year and longer periods ended March 31, 2013, the Fund's performance relative to its Performance Universe was good for the ten-year period.**

Waddell & Reed's 15(c) independent directors' contract renewal process is formulaic, repetitious, and charitably: perfunctory. Compliance with the 2004 SEC regulations and guidance re: Explanations to Shareholders is nearly non-existent.

2018 Waddell & Reed

N-CSRS 1 d505695dncsrs.htm WADDELL & REED ADVISORS FUNDS

https://www.sec.gov/Archives/edgar/data/1072962/000119312518076405/d505695dncsrs.htm

- **Performance of the Funds and Costs of Services Provided**

- The Board considered the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, **the Board examined the investment performance of each Fund, including the percentile ranking of each Fund over various periods of time. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, the Board concluded that the Funds' performance in each asset class was acceptable. Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that WRIMCO, has taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

- The Board also considered the expenses and expense ratio of each Fund, and the expense limitation arrangements entered into by WRIMCO in light of the services provided by WRIMCO. The Board also compared each Fund's expenses, including advisory, distribution and shareholder servicing fees, with the expenses and advisory fees of other investment advisers managing similarly situated funds, as well as the advisory fees that WRIMCO (or an affiliate) charges for providing advisory services to other accounts in the same asset class for certain Funds. In that regard, the Board noted that WRIMCO performs significant additional services for the Funds as compared to those other accounts. **The Board also took into account the information on WRIMCO's profitability in managing the Funds, including the methodology used to calculate profitability. The Board finally considered the amount of assets in each Fund, each Fund's average account size and how those factors affect the Funds' expense ratios, noting that, as the Funds' assets have increased or decreased over time, the expense ratios of the Funds generally have fallen or risen, respectively. After completing this examination, the Board concluded that each Fund's expenses are appropriate at the current time.**

2017 Waddell & Reed

https://www.sec.gov/Archives/edgar/data/1072962/000119312517363467/d448367dncsr.htm

Performance of the Funds and Costs of Services Provided

The Board considered the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including the percentile ranking of each Fund over various periods of time. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, the Board concluded that the Funds' **performance in each asset class was acceptable. Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that WRIMCO, has taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

The Board also considered the expenses and expense ratio of each Fund, and the expense limitation arrangements entered into by WRIMCO in light of the services provided by WRIMCO. The Board also compared each Fund's expenses, including advisory, distribution and shareholder servicing fees, with the expenses and advisory fees of other investment advisers managing similarly situated funds, as well as the advisory fees that WRIMCO (or an affiliate) charges for providing advisory services to other accounts in the same asset class for certain Funds. In that regard, the Board noted that WRIMCO performs significant additional services for the Funds as compared to those other accounts. The Board also took into account the information on WRIMCO's profitability in managing the Funds, including the methodology used to calculate profitability. The Board finally considered the amount of assets in each Fund, each Fund's average account size and how those factors affect the Funds' expense ratios, noting that, as the Funds' assets have increased or decreased over time, the expense ratios of the Funds generally have fallen or risen, respectively. After completing this examination, the Board concluded that each Fund's expenses are appropriate at the current time.

2016 Waddell & Reed

https://www.sec.gov/Archives/edgar/data/1072962/000119312516789270/d252836dncsr.htm

- **Fund Performance, Management Fee and Expense Ratio.** The Trustees considered each Fund's performance, both on an absolute basis and in relation to the performance of its Performance Universe. The Trustees factored into its evaluation of each Fund's performance the limitations inherent in the methodology for constructing a peer group and determining which investment companies should be included in a peer group. Each Fund's performance was also compared to relevant market indices and to a Lipper index, as applicable. **In this regard, the Trustees noted that performance, especially short-term performance, is only one of factors that it deems relevant to its consideration of the continuance of the Management Agreement and that, after considering all relevant factors, it may be appropriate to approve the continuance of the Management Agreement with respect to a Fund notwithstanding the Fund's performance.**
- The Trustees considered the management fees and total expenses of each Fund and also considered each Fund's management fees and total expenses in relation to the management fees and total expenses, respectively, of its Peer Group. The Trustees' review also included consideration of each Fund's management fees at various asset levels in relation to the management fees at those asset levels of funds within a peer group of comparable mutual funds selected by and as shown in the reports from Broadridge ("Broadridge Group"). They also considered each Fund's non-management fees in relation to the non-management fees of its Peer Group, the amount of assets in each Fund, each Fund's average account size and how those factors affect the Funds' expense ratios. In addition, the Trustees considered, for each Fund, the management fees, if any, paid to WRIMCO (or its affiliate) by other mutual funds managed by WRIMCO (or its affiliate) with a similar investment objective (or objectives) and similar investment policies and strategies as the Fund ("Similar Funds"). The Trustees also considered the subadvisory fees, if any, paid to WRIMCO (or its affiliate) by other mutual funds advised by WRIMCO (or its affiliate), as well as the management fees, if any, paid by other client accounts managed by WRIMCO (or its affiliate), with a similar investment objective (or objectives) and similar investment policies and strategies as the Fund (each of such accounts, an "Other Account").

E.G.:

Additional Considerations with Respect to Each Fund

Waddell & Reed Advisors Bond Fund

The Trustees considered that **Waddell & Reed Advisors Bond Fund's** **total return performance was lower than the Performance Universe median and the Lipper index for the three-, five-, seven-, and ten-year periods. They also considered the information provided by WRIMCO in its Initial Response explaining that, among other factors, the Fund's duration management, overweighting in corporate bonds and exposure to energy sensitive credits had adversely affected the Fund's performance over the three-year period. They further considered the year-to-date performance information through May 31, 2016, provided by WRIMCO in its Initial Response and noted that, despite the Fund's underperformance for the three-year and longer periods ended March 31, 2016, the Fund's performance relative to its Performance Universe appeared to be improving and was good for the one-year period. In addition, the Trustees considered the recent changes to the Fund's portfolio management team.**

2015

https://www.sec.gov/Archives/edgar/data/883622/000119312515399648/d18261dncsrs.htm#tx18261_17

The Board considered the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including the percentile ranking of each Fund over various periods of time. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. **After extensively reviewing all of the performance information provided, the Board concluded that the Funds' performance in each asset class was acceptable. Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that IICO, or the applicable Subadviser, had taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2014

https://www.sec.gov/Archives/edgar/data/883622/000119312514435983/d791504dncsrs.htm

The Board considered, on a Fund by Fund basis, the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including quartile ranking for short- and long-term time periods and each Fund's **performance against its peers**. The Board also examined the performance of each Fund against its respective **Lipper index for the same periods**. **After extensively reviewing all of the performance information provided, the Board concluded that the Funds' performance in each asset class was acceptable**. **Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that IICO, or the applicable Subadviser, had taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2013

https://www.sec.gov/Archives/edgar/data/883622/000119312513464856/d608155dncsrs.htm

The Board considered, on a Fund by Fund basis, the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, **the Board concluded that the Funds' performance in each asset class was acceptable.** **Although the performance of some of the focus Funds identified by the**

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independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that IICO, or the applicable Subadviser, had taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.

2012

https://www.sec.gov/Archives/edgar/data/883622/000119312512493516/d421832dncsrs.htm

The Board considered, on a Fund by Fund basis, the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including quartile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, the Board concluded that the Funds' performance in each asset class was acceptable. **Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that IICO, or the applicable Subadviser, had taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2011

https://www.sec.gov/Archives/edgar/data/883622/000119312511325364/d239022dncsrs.htm

The Board considered, on a Fund by Fund basis, the performance of each Fund and the costs of the services provided, focusing on a number of Funds that the independent fee consultant had identified. Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided**, the Board concluded that the Funds' performance in each asset class was acceptable**. **Although the performance of some of the focus Funds identified by the independent fee consultant lagged that of their peers or respective Lipper index, the Board recognized that IICO, or the applicable Subadviser, had taken, or was taking, steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2010

https://www.sec.gov/Archives/edgar/data/883622/000110560710000040/ivy_mainpart-93010.htm

Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, the Board concluded that the Funds' performance in each asset class was acceptable. **Although the performance of some of the Funds lagged that of their peers or respective Lipper index, the Board recognized that IICO had taken, or was taking, the steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2009

https://www.sec.gov/Archives/edgar/data/883622/000110560709000205/ifi_mainpart.htm

Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, **the Board concluded that the Funds' performance in each asset class was acceptable. Although the performance of some of the Funds lagged that of their peers or respective Lipper index, the Board recognized that IICO had taken, or was taking, the steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2008

https://www.sec.gov/Archives/edgar/data/883622/000110560708000250/ivyinc_ncsrs-93008.htm

Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided, **the Board concluded that the Funds' performance in each asset class was acceptable. Although the performance of some of the focus Funds lagged that of their peers or respective Lipper index, the Board recognized that IICO had taken, or was taking, the steps to address that underperformance, and determined to continue to monitor closely the performance of those Funds.**

2007

https://www.sec.gov/Archives/edgar/data/883622/000110560707000442/ifi_mainpart093007.htm

Specifically, the Board examined the investment performance of each Fund, including quintile ranking for short- and long-term time periods and each Fund's performance against its peers. The Board also examined the performance of each Fund against its respective Lipper index for the same periods. After extensively reviewing all of the performance information provided**, the Board concluded that the Funds' performance in each asset class was acceptable. Although the performance of some of the focus Funds lagged that of their peers or respective Lipper index, the Board recognized that IICO had taken, or was taking, the steps to address that underperformance, including changes in portfolio managers, and determined to continue to monitor closely the performance of those Funds.**