



VIA ELECTRONIC MAIL

May 26, 2004

Jonathan G. Katz, Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549-0609

**Re: Disclosure Regarding Portfolio Managers of Registered Management Investment Companies; File No. S7-12-04**

Dear Mr. Katz:

The Vanguard Group, Inc. (“Vanguard”)<sup>1</sup> appreciates the opportunity to comment on the Securities and Exchange Commission’s proposal to increase the transparency of information about portfolio managers of registered management investment companies.<sup>2</sup> While Vanguard largely endorses the Commission’s objectives, our support for this proposal is limited. We believe that the Commission could achieve its objectives more effectively and less disruptively by taking a more tailored approach to disclosing portfolio manager information. Specifically, we believe that the new disclosure requirements should focus squarely on: (i) a portfolio manager’s potential material conflicts of interest in managing the fund and other accounts; and (ii) the structural elements of a portfolio manager’s compensation.<sup>3</sup> The range of disclosures required by the proposal in its current form far exceeds that which would be useful or necessary to investors in evaluating fund management.

**I. Overview**

The proposal is rooted in a difficult chapter in mutual fund history, the end of which is still being written. Over the past nine months, there have been numerous surprising revelations involving betrayals of investor trust by mutual fund insiders. With good reason, the Commission, investors, and public officials have demanded strict regulatory measures to prevent future

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<sup>1</sup> Headquartered in Malvern, Pennsylvania, Vanguard is the nation’s second largest mutual fund company. Vanguard serves 18 million shareholder accounts, and manages more than \$730 billion in U.S. mutual fund assets.

<sup>2</sup> *Disclosure Regarding Portfolio Managers of Registered Management Investment Companies*, Investment Company Act Release No. 26383 (Mar. 11, 2004); 69 Fed. Reg. 12752 (Mar. 17, 2004) (hereinafter, the “Proposing Release”).

<sup>3</sup> While not specifically discussed in this letter, Vanguard supports the Commission’s proposal to require disclosure about portfolio management team members.

misconduct. The proposal, however, responds in an overbroad fashion to these legitimate calls for action. Vanguard's major concerns with the proposal are as follows:

- The dense array of new information required under the proposal would serve to obscure rather than illuminate the extent of a portfolio manager's faithfulness to fund investors. In addition, the new information could add pages of text to a fund's disclosure documents, which would only reinforce the unfortunate view of many investors that picking mutual funds is a complicated and difficult task.
- Investors may misinterpret information about other accounts managed by a fund's portfolio managers. The proposal requires detailed disclosure regarding other accounts managed by each of a fund's portfolio managers, implicitly suggesting that this is an unusual situation and therefore a red flag for potential abuses. In fact, the vast majority of experienced fund managers have day-to-day management responsibilities for a variety of other accounts. Potential conflicts of interest involving different accounts managed by the same portfolio manager are well understood, and policies and procedures to address such conflicts are an established—and effective—feature of the regulatory landscape.
- Investors may attach undue significance to whether and how much a portfolio manager "eats his own cooking." A portfolio manager's personal holdings should not be considered an important indicator of how closely his interests are aligned with those of fund shareholders. Like anyone else, portfolio managers invest their personal assets based on any number of factors, some of which might have to do with age, family and financial situation, and others of which might have to do with investment strategy.
- Subadvised funds raise special considerations. The proposed disclosure requirements will be especially difficult to apply in the case of subadvised funds. These funds obtain investment advisory services from firms other than the sponsoring management company. As independent firms, subadvisers control the amount and structure of their own employees' compensation, including the compensation of portfolio managers. Subadvisers do not typically share compensation or holdings information with a fund or its management company, nor do funds or management companies demand this information. However, subadvisory relationships are fully negotiated at arm's length, subject to regulatory controls and industry realities that place a subadviser at meaningful risk of termination in the event of poor fund performance. Accordingly, the onus is on subadvisers to monitor and appropriately compensate their portfolio managers, or lose business for the firm.
- The proposal ignores existing regulatory controls that govern potential conflicts of interest for portfolio managers. In proposing a sprawling new disclosure regime, the Commission fails to give existing regulatory protections their due. Portfolio manager conduct is already extensively regulated, and has been for decades. In addition, the Commission has recently taken significant steps to enhance these obligations with the adoption of new compliance rules for mutual funds and investment advisers. We believe

that the more targeted approach to disclosure we recommend is appropriate in the best interest of shareholders because there is an extensive regulatory framework that already exists to address concerns about portfolio manager conflicts of interest.

The Discussion below expands on each of the above points, and is followed by Additional Comments on the Commission's proposal. An Appendix to this letter reflects Vanguard's recommended changes to the proposal, which affect proposed Item 15 of Form N-1A.

## **II. Discussion**

### **A. Vanguard Recommends a More Targeted Approach to Increasing Portfolio Manager Transparency.**

Vanguard believes that the new disclosure requirements should be carefully tailored to provide investors with information that is of genuine use in evaluating fund management. Towards this end, we recommend narrowing the proposal to focus squarely on: (i) a portfolio manager's potential material conflicts of interest in managing the fund and other accounts; and (ii) the structural elements of a portfolio manager's compensation.

#### **1. The Current Proposal**

As currently drafted, the proposal's disclosure requirements are far too sweeping. Funds would be required to provide a myriad of information concerning their named portfolio managers, much of which would have only tangential bearing on a portfolio manager's fulfillment of his or her responsibilities to a fund. This information would include data relating to: (i) other accounts managed by the named portfolio managers; (ii) securities ownership by the named portfolio managers and their immediate family members; and (iii) the compensation structure of the named portfolio managers, with emphasis on structural differences between compensation relating to the fund as compared to that relating to other accounts. In a general sense, this data might hold clues to whether a portfolio manager is sufficiently focused on shareholders' best interests. However, we believe that the data could easily lead investors to erroneous conclusions based on some common myths, including for example:

- a. MYTH: *Picking mutual funds is a complicated task.*** The proposal would add pages of text to a fund's disclosure documents, particularly for multi-manager (subadvised) funds, which would have to provide disclosure for numerous portfolio managers.<sup>4</sup> Most of the new disclosure would be added into a fund's statement of additional information (SAI), to be read only by the most diligent investors. Unfortunately, most investors shy away from the sheer size and complexity of SAIs. Over the past few years, various Commission disclosure initiatives have transformed SAIs into far longer documents that contain many

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<sup>4</sup> Thirty-seven Vanguard funds are managed under a multi-manager structure. Approximately 30% of all Vanguard fund assets are managed by independent third party investment advisory firms.

pages of technical information.<sup>5</sup> While well intended, each set of disclosure enhancements has added layers of complexity for investors and operational burdens for fund companies. At this point, we believe the Commission should exercise great discipline in determining the sort of information that is of genuine use to investors, as opposed to that which merely creates a complicating distraction.

- b. MYTH: *Fund portfolio managers who simultaneously manage other accounts are more likely to be susceptible to conflicts of interest.*** By requiring detailed disclosure regarding other accounts managed by each of a fund's portfolio managers, the proposal creates the impression that there is something inappropriate about a portfolio manager managing multiple accounts. In fact, this situation is the norm and the proposed disclosure will serve mainly as a red herring that distracts investors from more important information about a fund. Most of the portfolio managers employed by Vanguard concurrently manage multiple mutual funds and other accounts, which include separate accounts, collective trusts, and other unregistered investment companies. These situations and any potential conflicts of interest involving different accounts managed by the same portfolio manager are well understood by Vanguard's management and directors, and policies and procedures to address such conflicts are an established—and effective—feature of the regulatory landscape.
- c. MYTH: *Portfolio managers can only signal alignment with the interests of fund shareholders by investing significantly in their own funds.*** A portfolio manager's personal holdings should not be considered an important indicator of how closely his interests are aligned with those of fund shareholders. Like anyone else, portfolio managers invest their personal assets based on any number of factors. A portfolio manager's age, family situation, net worth, and future plans will all play a role. In addition, traditional investment concepts, such as diversification of assets and income sources, personal risk tolerance, potential redundancy among investments, and asset allocation goals will be relevant. It is unreasonable to expect that portfolio managers will forgo sound financial planning in order to signal alignment with the interests of fund investors.<sup>6</sup>

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<sup>5</sup> See, e.g., *Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies*, Investment Company Act Release No. 25922 (Jan. 31, 2003) (adopting amendments requiring funds to provide disclosure about how they vote proxies relating to portfolio securities); *Disclosure Regarding Nominating Committee Functions and Communications*, Investment Company Act Release No. 26262 (Nov. 24, 2003); 68 Fed. Reg. 69204 (Dec. 11, 2003) (adopting disclosure requirements to enhance transparency of the operations of boards of directors); *Disclosure Regarding Market Timing and Selective Disclosure of Portfolio Holdings*, Investment Company Act Release No. 26287 (Dec. 11, 2003); 68 Fed. Reg. 70402 (Dec. 17, 2003) (proposing amendments to Form N-1A to require certain disclosure relating to frequent purchases and redemptions of fund shares); *Disclosure Regarding Approval of Investment Advisory Contracts by Directors of Investment Companies*, Investment Company Act Release No. 26350 (Feb. 11, 2004); 69 Fed. Reg. 7852 (Feb. 19, 2004) (proposing improved disclosure regarding board evaluation and approval of investment advisory contracts).

<sup>6</sup> For example, a manager of a state municipal bond fund who does not reside in that state would not ordinarily invest in that fund. Similarly, a manager of an aggressive equity fund might limit investments in the fund when preparing to send children to college.

## 2. Details of the Recommended Approach

The Appendix attached to this letter reflects Vanguard's recommended approach to increasing portfolio manager transparency as well as our technical comments on the proposal. As previously explained, we recommend narrowing the proposal to focus squarely on: (i) a portfolio manager's potential material conflicts of interest in managing the fund and other accounts; and (ii) the structural elements of a portfolio manager's compensation.<sup>7</sup> Additional details of our recommendation, as reflected in the Appendix, are as follows:

- a. *Disclosure pertaining to other accounts managed by a fund's portfolio managers should be presented in the most useful context.*** In keeping with the approach of highlighting information that is most beneficial to investors, we recommend limiting "other accounts" disclosure to: (i) the total number of other accounts managed by a portfolio manager; (ii) the total assets within such other accounts; and (iii) the total assets of the fund. If funds are already required to disclose potential material conflicts of interest involving other accounts, we see no real purpose in also requiring details regarding the types of other accounts managed or performance fee arrangements for these other accounts. Rather, we recommend clarifying that the factors to be considered in disclosing material conflicts of interest should include: the amount and structure of the portfolio manager's compensation relating to other accounts, personal investments in other accounts by the portfolio manager and his family members, and any agreements or understandings between the portfolio manager and third parties with respect to investments in the fund or other accounts.
- b. *The materiality of a portfolio manager's conflicts of interest should be assessed based on the same standard that applies to disclosure of any interests of directors in fund transactions.*** Item 13(b) of Form N-1A requires a fund to describe in its SAI any material interest of a fund director in certain transactions with the fund. For these purposes, funds are instructed to determine the materiality of any interest "on the basis of the significance of the information to investors in light of all the circumstances of the particular case." We recommend this same standard for determining the materiality of any conflicts of interest that may arise in connection with a portfolio manager's management of the fund's investments, on the one hand, and the investments of the other accounts, on the other.
- c. *Information should be required as of the end of the most recently completed calendar year.*** All portfolio manager disclosure data should be required as of calendar year end. If fiscal year end data were required, funds would need to gather information several times a year for a portfolio manager who manages several funds with different fiscal year ends. Providing information as of calendar year end would greatly ease administrative burdens on, and related costs to, the fund and would serve the same purpose for investors as fiscal year end data.
- d. *Securities ownership disclosure for portfolio managers and their families should be eliminated, or, at the very least, limited to holdings in the fund.*** Under the proposal,

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<sup>7</sup> In Item 15(b), Instruction 2 of the Appendix, we have limited compensation structure disclosure to exclude health and welfare benefits that are provided to substantially all of a firm's full-time employees.

funds would be required to disclose a portfolio manager's personal investments, and those of his immediate family members, in potentially dozens of accounts.<sup>8</sup> Particularly for subadvised funds, this requirement could result in securities ownership disclosure spanning scores of individuals and hundreds of different funds and accounts. As previously explained, information about a portfolio manager's personal investments is of very limited use to investors. In addition, information about a portfolio manager's potential material conflicts of interest involving other accounts would be separately disclosed. Accordingly, we believe that the Commission should eliminate the securities ownership portion of the proposal. Or, at a minimum, such disclosure should be limited to a portfolio manager's investments in the fund, with the dollar ranges for securities ownership disclosure adapted to match those that apply to fund directors. By eliminating or at least limiting the scope of holdings disclosure, the Commission could also address industry concerns that some professional money managers might avoid managing mutual funds in an effort to protect their financial privacy.

## **B. The Commission's Proposed Approach May Not Be Feasible for Subadvised Funds.**

The drawbacks of the proposal are greatly magnified for funds that engage subadvisers and calls into question whether the proposed approach is even feasible for subadvised funds. An ever-increasing proportion of all funds obtain investment advisory services from one or more unaffiliated subadvisers.<sup>9</sup> Vanguard alone uses 22 independent advisory firms to manage \$220 billion in 37 separate funds. We believe that providing the proposed disclosures for each portfolio manager at each of the fund's subadvisers will be a costly and complex process, and that the information, even if it can be obtained, will be less relevant, and may overwhelm and confuse investors.<sup>10</sup> In contrast to a fund that is managed solely by the fund sponsor, each subadviser will likely have a different compensation structure, resulting in the disclosure of multiple compensation arrangements. This disclosure will make it difficult to ascertain the overall impact of portfolio manager compensation structure on the management of the fund as a whole.<sup>11</sup>

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<sup>8</sup> The proposal would require disclosure relating to investments in: (i) the fund; (ii) other accounts managed by the portfolio manager; and (iii) any other account managed by an investment adviser of the fund, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the fund.

<sup>9</sup> See *Exemption from Shareholder Approval for Certain Subadvisory Contracts*, Investment Company Act Release No. 26230 (Oct. 23, 2003); 68 Fed. Reg. 61720 (Oct. 29, 2003), at 3 ("Since they were first introduced in the early 1990s, manager of managers funds have grown in popularity. Today more than 100 fund complexes offer these types of funds, which hold more than 400 billion dollars in assets.").

<sup>10</sup> Taking the example of Vanguard Explorer Fund, which has five separate investment advisers, the proposed rule would require disclosure of the compensation structure and method used to determine compensation for at least seven individual portfolio managers with respect to the fund, in addition to the compensation structure and method used to determine compensation for every other account managed by each portfolio manager. Similarly, the securities holding disclosure requirement would require information for at least seven portfolio managers and their immediate families, listing their holdings in Vanguard Explorer Fund as well as all other accounts managed by that manager and all other accounts managed by any other investment adviser of the Fund.

<sup>11</sup> The goal of previous amendments to fund disclosure on Form N-1A focused on providing investors with clear, concise and understandable information about an investment in a fund. Each piece of the disclosure is intended to

If the proposal is adopted, fund sponsors, who have already negotiated fees on an arms-length basis, will be required to obtain compensation and personal investment information from subadvisers. Vanguard hires investment advisory firms, not individual portfolio managers, to provide investment advisory services to certain Vanguard funds. Each advisory agreement, which contains advisory fee information, is between the fund and the advisory firm, not between the fund and the portfolio manager. Vanguard and other similarly situated fund companies do not control how unaffiliated subadvisers compensate their portfolio manager employees and do not ordinarily have access to such information. We see no value to our investors in requiring subadvisers to provide this information and, in fact, we have never asked for nor been interested in, such data.

In Vanguard's experience, the flexibility to use both internal investment management professionals and hire outside subadvisers is a great asset that has substantial benefits for investors, including:

- Access to a broader and deeper pool of talented portfolio managers who have diverse investment approaches and research capabilities.
- Increased capacity, as Vanguard can engage additional advisers to increase a fund's capacity to invest more assets from investors without the fund's larger size diminishing the effectiveness of existing managers.
- The combination of a diverse set of investment offerings and the centralized, consistent compliance and investor service standards a single management firm provides.

Vanguard is very concerned that the Commission's proposal will have the unintended effect of making it much more burdensome, and therefore less desirable, for independent advisory firms to provide portfolio management services to mutual funds as compared to other types of accounts.

**C. Our Recommendation Is Appropriate Because Current Regulations, As Recently Enhanced by the Commission, Will Effectively Address the Commission's Concerns About Portfolio Manager Conflicts.**

As discussed previously, Vanguard strongly recommends that the Commission revise the proposed disclosure requirements to more closely match the Commission's objective to provide investors with useful information about how portfolio managers are compensated and the potential for conflicts to arise in the management of multiple accounts. We believe that the more targeted approach to disclosure we recommend is appropriate and in the best interest of shareholders because there is an extensive regulatory framework that already exists to address concerns about portfolio manager conflicts of interest. Consider the following:

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provide essential information about the fund as a whole to assist investors in deciding whether to invest in the fund. *See Registration Form Used by Open-End Management Investment Companies*, Investment Company Act Release No. 23064 (Mar. 13, 1998), at 10 (For example, the risk/return summary "was intended to summarize the risks of a fund's anticipated portfolio holdings as a whole, and the circumstances reasonably likely to affect adversely the fund's net asset value, yield, and total return. Commenters generally. . . [agreed] that it would be specific and brief and would assist investors in identifying the principal risks of investing in a particular fund.").

Fiduciary Obligation. All investment advisers are required to perform as fiduciaries and must place the interests of their clients above their own at all times. Under the Investment Advisers Act of 1940 (“Advisers Act”), a registered adviser has a fiduciary duty to recognize and disclose potential conflicts and carefully manage them through appropriate policies and oversight of its personnel.

Compliance Policies and Procedures. Investment firms typically manage potential conflicts that may arise in the management of multiple accounts through allocation policies and procedures, internal review processes, and oversight by independent directors and third parties. Portfolio managers are subject to such procedures and policies and other requirements through supervision and oversight by their registered investment advisory firms.

The Commission has recently adopted rules that will raise industry-wide standards for addressing these potential conflicts for the protection of all investors.<sup>12</sup> The new rules require each mutual fund, and each registered investment adviser, to have written compliance policies and programs administered by a designated chief compliance officer. Fund boards must approve not only the policies and programs of the fund, but also those of the fund’s adviser. Fund chief compliance officers will report directly to fund directors. These changes will enhance the accountability of portfolio managers and also require fund directors to review their activities closely to determine that fair and equitable allocation policies are in place and are being followed.

Codes of Ethics. The ethical conduct and personal trading of portfolio managers is currently subject to strict regulation under the code of ethics each mutual fund and mutual fund adviser must have under rule 17j-1 of the Investment Company Act. Most 17j-1 codes contain provisions requiring portfolio managers to conduct their business in an ethical manner, to adhere to the highest standards of professional behavior, and to act for the benefit of fund shareholders at all times. Moreover, the Commission has proposed a new rule under the Advisers Act that would require each registered investment adviser, including advisers to mutual funds, to adopt an additional code of ethics.<sup>13</sup> Under proposed rule 204A-1, advisers’ codes would have to “set forth a standard of business conduct that . . . reflect[s] the adviser’s fiduciary obligations and those of its supervised persons, and . . . require[s] compliance with the federal securities laws.” Portfolio managers, under the 204A-1 code, would have to report their personal holdings and personal transactions in mutual funds managed by the adviser or a control affiliate.

Commission oversight. All registered investment advisers are subject to the Commission’s jurisdiction, inspection and enforcement powers for all of their business. The Commission’s oversight of the investment adviser extends to all of its management activities, regardless of whether the investment activity is otherwise regulated. This provides the Commission with enhanced insight into unregulated investment activity and potential conflicts of interest.

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<sup>12</sup> See *Compliance Programs of Investment Companies and Investment Advisers*, Investment Company Act Release No. IC-26299 (Dec. 17, 2003); 68 Fed. Reg. 74714 (Dec. 24, 2003).

<sup>13</sup> *Investment Adviser Codes of Ethics*, Investment Company Act Release No. 26337 (Jan. 20, 2004); 69 Fed. Reg. 4040 (Jan. 27, 2004).

In addition to enhancing the regulatory regime, the Commission has been extremely vigilant in addressing violations of its regulations through its enforcement program.<sup>14</sup> As the Commission has pursued these cases it has sent clear messages to the industry that portfolio managers who breach their fiduciary responsibilities to clients (and the firms that supervise them) will be held accountable. In many ways, these enforcement efforts have had the most dramatic impact, as advisers have taken considerable steps to avoid similar transgressions and the punishing effects of penalties and fines, and harm to their reputations and business.

In sum, there are effective tools to protect investors against harms associated with potential conflicts of interests and we urge the Commission to rely on its existing tools first, before resorting to regulation through disclosure that will have adverse effects on mutual funds and their shareholders. We urge the Commission to consider the breadth and effectiveness of the current laws and regulations that directly regulate portfolio manager conflicts, and the deterrent effect of recent enforcement actions, before it adds such a widespread, and in many respects unhelpful, disclosure regime.

### **III. Additional Comments**

#### **A. Vanguard Supports the Commission's Proposal to Require Portfolio Manager Disclosure for Index Funds.**

Vanguard agrees with the Commission that portfolio managers for index funds should provide the same disclosures as for managers of actively managed funds. Since some index fund managers also manage other index funds and actively managed funds, conflicts of interest may arise that should be included in the conflicts discussion pursuant to Proposed Item 15(a)(4).

#### **B. Vanguard Recommends that the Compliance Date Provide Adequate Lead Time for Funds to Collect the Required Information.**

The current proposal requires all new registration statements and annual reports on Form N-CSR, and all post-effective amendments that are annual updates to effective registration statements, filed on or after the effective date of the amendments to comply with the proposed disclosure requirements. In order to gather the required information, funds would need a significant period of time to update their systems and create processes to collect the data from portfolio managers. This lead time is particularly necessary for multi-managed funds that employ a number of subadvisers and must collect information from numerous portfolio managers. Vanguard alone would be required to gather data from portfolio managers at 22 subadvisers as well as from its internal portfolio managers. To provide adequate lead time and facilitate administrative concerns, Vanguard recommends that the Commission require funds to provide the information as of the first calendar year end after adoption of the final rule, with at least 6 months

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<sup>14</sup> See *Mandatory Redemption Fees for Redeemable Fund Securities*, Investment Company Act Release No. 26375A (Mar. 5, 2004), 69 Fed. Reg. 11762 (Mar. 11, 2004) n.5 (listing enforcement actions settled, in addition to those actions instituted that involve market timing).

lead time after the end of each calendar year for funds to gather and process the required information.

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Vanguard appreciates the opportunity to provide these comments on the Commission's proposal to expand the disclosure provided by registered management investment companies regarding their portfolio managers. Vanguard would be happy to discuss these comments in greater detail with Commission staff or to provide additional information that would assist the Commission in considering the proposed rule. Please do not hesitate to call me if you have any questions or would like additional information.

Sincerely,

/s/ Heidi Stam

Heidi Stam  
Principal  
Securities Regulation

cc: The Honorable William H. Donaldson, Chairman  
The Honorable Paul S. Atkins, Commissioner  
The Honorable Roel S. Campos, Commissioner  
The Honorable Cynthia A. Glassman, Commissioner  
The Honorable Harvey J. Goldschmid, Commissioner

Paul F. Roye, Director  
Susan Nash, Associate Director  
Division of Investment Management  
U.S. Securities and Exchange Commission

John J. Brennan, Chairman and Chief Executive Officer  
R. Gregory Barton, Managing Director and General Counsel  
The Vanguard Group, Inc.

## APPENDIX

### Vanguard's Recommended Revisions to Proposed Disclosure Requirements

#### Item 15. Portfolio Managers

(a) *Other Accounts Managed.* If a Portfolio Manager identified in response to Item 5(a)(2) is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

(1) The Portfolio Manager's name;

(2) The total number of other accounts managed, the total assets within ~~each of the following categories~~ such other accounts, and the total assets ~~in the accounts managed within each category~~ of the Fund.

~~(A) Registered investment companies;~~

~~(B) Other investment companies;~~

~~(C) Other pooled investment vehicles; and~~

~~(D) Other accounts.~~

~~(3) For each of the categories in paragraph (a)(2) of this Item, the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and~~

~~(4)~~ A description of any material conflicts of interest that may arise in connection with the Portfolio Manager's management of the Fund's investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(2) of this Item, on the other. This description would include, for example, conflicts between the investment strategy of the Fund and the investment strategy of other accounts managed by the Portfolio Manager and conflicts in allocation of investment opportunities between the Fund and other accounts managed by the Portfolio Manager. Include a description of the policies and procedures used by the Fund or the Fund's adviser to address any such conflicts.

(4) Include a description of the policies and procedures used by the fund or the Fund's adviser to address any such conflicts.

#### *Instructions.*

1. Information should be provided as of the end of the ~~Fund's most recently completed fiscal~~ recent calendar year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, the account should be included in responding to paragraph (a) of this Item.

3. For purposes of this Item, the materiality of any conflict of interest is to be determined on the basis of the significance of the information to investors in light of all the circumstances of the particular case. Among the factors to be considered in determining the significance of the information to investors are the following: the amount and structure of the Portfolio Manager's compensation relating to other accounts, personal investments in other accounts by the Portfolio Manager and his family members, and any agreements or understandings between the Portfolio Manager and third parties with respect to investments in the Fund or other accounts.

~~3.4.~~ A Fund may satisfy the requirement to provide a description of the policies and procedures used by it or the adviser to address conflicts of interest by including a copy of the policies and procedures themselves.

(b) *Compensation.* Describe the structure of, and the method used to determine, the compensation of each Portfolio Manager identified in response to Item 5(a)(2) who is employed by the Fund's management company. For each type of compensation (e.g., salary, bonus, deferred compensation, retirement plans and arrangements), include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based on Fund pre- or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the Fund's portfolio.

*Instructions.*

1. Information should be provided as of the end of the ~~Fund's most recently completed fiscal~~ recent calendar year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash. The value of compensation is not required to be disclosed under this Item. In addition, health and welfare benefits provided to substantially all of a firm's full-time employees are not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to determine, any compensation received by the Portfolio Manager from the Fund, the Fund's investment adviser, or any other source with respect to management of the Fund and any other accounts included in the response to paragraph (a)(2) of this Item. This description should clearly disclose the existence of any differences between the method used to determine the Portfolio Manager's compensation with respect to the Fund and other accounts, e.g., if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the Fund, this should be disclosed. Any such differences that result in a material conflict of interest in connection with the

Portfolio Manager's management of the Fund's investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(2) of this Item, on the other, should be described under Item 15(a)(3). -

~~(c) *Ownership of Securities.* For each Portfolio Manager identified in response to Item 5(a)(2), furnish the information required by the following table as to each class of securities owned beneficially or of record by the Portfolio Manager or his immediate family members in:~~

~~(i) the Fund;~~

~~(ii) accounts included in the response to paragraph (a)(2) of this Item; and~~

~~(iii) any other account, including an investment company, managed by an investment adviser of the Fund, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund;~~

<del>(1)</del>	<del>(2)</del>	<del>(3)</del>	<del>(4)</del>
<del>Name of Portfolio Manager</del>	<del>Investment Company or Account</del>	<del>Title of Class</del>	<del>Dollar Range of Securities in the Investment Company or Account</del>

~~*Instructions.*~~

~~(1) Information should be provided as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Specify the valuation date by footnote or otherwise.~~

~~(2) An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act (17 CFR 240.13.d-3 or 240.16a-1(a)(2)).~~

~~(3) Provide the information required by the table on an aggregate basis for each Portfolio Manager and his immediate family members.~~

~~(4) For purposes of this Item, the term "immediate family member" means a person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code (26 U.S.C. 152).~~

~~(5) In disclosing the dollar range of securities owned by a Portfolio Manager and his immediate family members in column (4), use the following ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.~~