

# Semiannual Report

DECEMBER 31, 2008

Waddell & Reed Advisors Vanguard Fund



# CONTENTS

3	President's Letter
5	Illustration of Fund Expenses
7	Portfolio Highlights
8	Investments
12	Statement of Assets & Liabilities
13	Statement of Operations
14	Statement of Changes in Net Assets
15	Financial Highlights
19	Notes to Financial Statements
28	Renewal of Investment Management Agreement
35	Shareholder Meeting Results
37	Proxy Voting Information
38	Quarterly Portfolio Schedule Information
38	IRA Disclosure

**This report is submitted for the general information of the shareholders of Waddell & Reed Advisors Vanguard Fund, Inc. It is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by a current Waddell & Reed Advisors Vanguard Fund, Inc. prospectus and current Fund performance information.**

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# President's Letter

*December 31, 2008*



DEAR SHAREHOLDER:

Not since the 1930s have investors faced so many challenges. A severe global credit crunch took hold this past calendar year as commodity prices collapsed. The financial sector faced extreme stress as the country's largest savings and loan, its largest insurer, its two largest mortgage providers, its largest brokerage firm and a leading commercial bank all either were the subject of a takeover, government bailout or failure.

Since June 2008, confidence has been shaken in equity and corporate bond markets around the globe, and mutual fund returns of the past year reflect the emotional insecurity that comes with hard times and recession. One encouraging sign is that it appeared to us that the equity market's long process of forming a bottom may have begun in late autumn. Also, in some parts of the fixed-income market, there were tremendous rallies in late 2008. Most occurred in government-supported securities, where the U.S. government either slashed rates or had indicated or purchased securities bonds through the Federal Reserve or the U.S. Treasury. Enclosed is our report on your Waddell & Reed Advisors equity funds' operations for the six-month period ended Dec. 31, 2008. For the same six-month period, the Standard & Poor's 500 Index dropped 22.56 percent.

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## A need for global leadership

We believe that today's U.S. government safety nets and financial safeguards – including the Fed, deposit insurance on bank accounts, unemployment insurance, municipal bond default insurance and social security – are likely to help cushion the effects of the economic downturn that our country now faces. However, the scope of the current financial crisis is global, and this is a new phenomenon. It will likely test whether we are becoming one world that can act together for the common good, or one where national trade supremacy, resource hoarding or parochial political interests take precedence. We are encouraged by the new Obama administration's swift steps to build a team that we hope can learn from the many lessons of history and take additional action to revive economic growth and restore investor faith.

As shown in the Economic Snapshot table that accompanies this letter, the U.S. economy at Dec. 31, 2008 is not in as good a shape as it was six months earlier. The unemployment rate is higher. The economy is shrinking. For consumers, the good news is that inflation is much lower and oil prices are less than a third what they were six months ago. Mortgage rates are also lower, and could be headed further down.

## Economic Snapshot

12-31-2008    6-30-2008

U.S. unemployment rate	7.20%	5.50%
Inflation (U.S. Consumer Price Index)	0.10%	5.00%
U.S. GDP	-3.80%	1.90%
30 year fixed mortgage rate	5.10%	6.45%
Oil price per barrel	\$44.60	\$140.00

Source: Bloomberg, U.S. Department of Labor

All government statistics shown are subject to periodic revision.

The U.S. Consumer Price Index is the government's measure of the change in the retail cost of goods and services. Gross domestic product measures year-over-year changes in the output of goods and services. Mortgage rates shown reflect the average rate on a conventional loan with a 60-day lender commitment. Oil prices reflect the market price of West Texas intermediate grade crude.

Respectfully,



Henry J. Herrmann, CFA  
President

We believe that the investing and economic climate will get better in time, although not right away. With perseverance, initiative and ingenuity, we believe the strengths of our nation's character will surface and prosperity will be restored. In this uncertain environment, we believe a very strong effort to manage risk is paramount. With that approach in mind, we will strive to earn your continued confidence.

The opinions expressed in this letter are those of the President of the Fund, and are current only through the end of the period of the report, as stated on the cover. The President's views are subject to change at any time, based on market and other conditions, and no forecasts can be guaranteed.

# Illustration of Fund Expenses

## VANGUARD FUND

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, redemption fees and exchange fees; and (2) ongoing costs, including management fees, distribution and service fees, and other Fund expenses. The following table is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the six-month period ended December 31, 2008.

### Actual Expenses

The first line for each share class in the following table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, a \$7,500 account value divided by \$1,000 = 7.5), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. There may be additional fees charged to holders of certain accounts that are not included in the expenses shown in the table. These fees apply to Individual Retirement Accounts (IRAs), IRA Rollovers, Roth IRAs, Conversion Roth IRAs, Simplified Employee Pension (SEP), Simple IRAs, Tax-Sheltered Accounts (TSAs), Keogh Plans, Owner Only 401(k) (Exclusive K) Plans and Final Pay Plans. As of the close of the six months covered by the table, a customer is charged an annual fee of \$15 within each plan type. This fee is waived for IRA Rollovers and Conversion Roth IRAs if the customer owns another type of IRA. Coverdell Education Savings Account plans are charged an annual fee of \$10 per customer. You should consider the additional fees that were charged to your Fund account over the six-month period when you estimate the total ongoing expenses paid over the period and the impact of these fees on your ending account value as such additional expenses are not reflected in the information provided in the expense table. Additional fees have the effect of reducing investment returns.

### Hypothetical Example for Comparison Purposes

The second line for each share class in the following table provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of five percent per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this five percent hypothetical example with the five percent hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees or exchange fees. Therefore, the second line of each share class in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

## Fund Expenses

For the Six Months Ended December 31, 2008	Beginning Account Value 6-30-08	Ending Account Value 12-31-08	Annualized Expense Ratio Based on the Six-Month Period	Expenses Paid During Period*
<b>Based on Actual Fund Return<sup>(1)</sup></b>				
Class A. ....	\$1,000	\$ 690.30	1.23%	\$ 5.24
Class B. ....	\$1,000	\$ 684.80	2.40%	\$10.19
Class C. ....	\$1,000	\$ 686.30	2.32%	\$ 9.86
Class Y. ....	\$1,000	\$ 690.40	0.87%	\$ 3.72
<b>Based on 5% Return<sup>(2)</sup></b>				
Class A. ....	\$1,000	\$1,019.01	1.23%	\$ 6.26
Class B. ....	\$1,000	\$1,013.11	2.40%	\$12.18
Class C. ....	\$1,000	\$1,013.51	2.32%	\$11.78
Class Y. ....	\$1,000	\$1,020.81	0.87%	\$ 4.45

\*Fund Expenses for each share class are equal to the Fund's annualized expense ratio for each share class (provided in the table), multiplied by the average account value over the period, multiplied by 184 days in the six-month period ended December 31, 2008, and divided by 365.

(1) This section uses the Fund's actual total return and actual Fund expenses. It is a guide to the actual expenses paid by the Fund in the period. The "Ending Account Value" shown is computed using the Fund's actual return and the "Expenses Paid During Period" column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the Fund. A shareholder may use the information here, together with the dollar amount invested, to estimate the expenses that were paid over the period. For every thousand dollars a shareholder has invested, the expenses are listed in the last column.

(2) This section uses a hypothetical five percent annual return and actual Fund expenses. It helps to compare the Fund's ongoing costs with other mutual funds. A shareholder can compare the Fund's ongoing costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

The above illustration is based on ongoing costs only and does not include any transactional costs, such as sales loads, redemption fees or exchange fees.

# SHAREHOLDER SUMMARY OF VANGUARD FUND

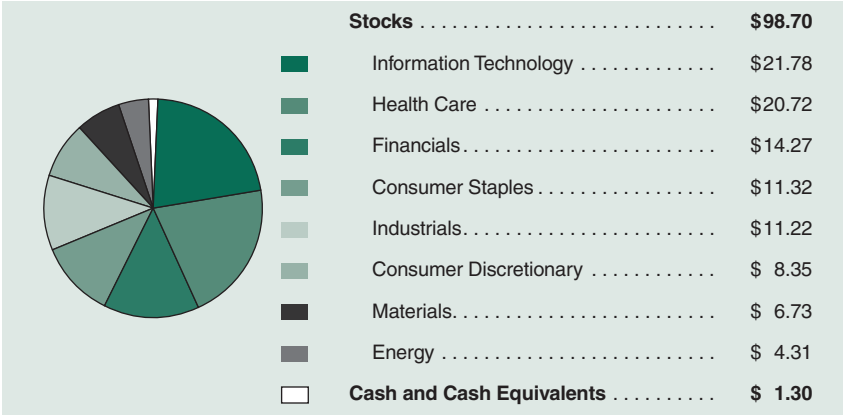
## Portfolio Highlights

On December 31, 2008, Waddell & Reed Advisors Vanguard Fund had net assets totaling \$1,025,353 (in thousands) invested in a diversified portfolio of:

98.70%	Domestic Common Stocks
1.30%	Cash and Cash Equivalents

## Sector Weightings

As a shareholder of the Fund, for every \$100 you had invested on December 31, 2008, your fund owned:



# The Investments of Vanguard Fund

December 31, 2008  
(In Thousands)

(Unaudited)

COMMON STOCKS	Shares	Value
<b>Aerospace &amp; Defense – 7.50%</b>		
General Dynamics Corporation .....	382	\$ 22,022
Lockheed Martin Corporation .....	164	13,806
Raytheon Company .....	587	29,940
United Technologies Corporation .....	208	11,144
		<u>76,912</u>
<b>Asset Management &amp; Custody Banks – 0.82%</b>		
T. Rowe Price Group, Inc. ....	237	<u>8,385</u>
<b>Biotechnology – 10.87%</b>		
Genentech, Inc. (A) .....	485	40,228
Gilead Sciences, Inc. (A) .....	1,392	71,207
		<u>111,435</u>
<b>Casinos &amp; Gaming – 0.19%</b>		
Wynn Resorts, Limited (A) .....	46	<u>1,931</u>
<b>Communications Equipment – 6.92%</b>		
Cisco Systems, Inc. (A) .....	973	15,862
QUALCOMM Incorporated .....	1,327	47,528
Research In Motion Limited (A) .....	186	7,560
		<u>70,950</u>
<b>Computer Hardware – 8.28%</b>		
Apple Inc. (A) .....	473	40,405
Hewlett-Packard Company .....	1,225	44,455
		<u>84,860</u>
<b>Construction &amp; Farm Machinery &amp; Heavy Trucks – 1.11%</b>		
Deere & Company .....	298	<u>11,408</u>
<b>Data Processing &amp; Outsourced Services – 2.05%</b>		
MasterCard Incorporated, Class A .....	89	12,735
Visa Inc., Class A .....	158	8,303
		<u>21,038</u>
<b>Department Stores – 2.18%</b>		
Kohl's Corporation (A) .....	617	<u>22,336</u>
<b>Diversified Banks – 4.48%</b>		
Wells Fargo & Company .....	1,560	<u>45,989</u>

See Notes to Schedule of Investments on page 11.



# The Investments of Vanguard Fund

December 31, 2008  
(In Thousands)

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Electrical Components &amp; Equipment – 1.20%</b>		
Emerson Electric Co. ....	336	\$ 12,297
<b>Fertilizers &amp; Agricultural Chemicals – 4.15%</b>		
Monsanto Company .....	604	42,513
<b>Health Care Equipment – 3.20%</b>		
Baxter International Inc. ....	612	32,792
<b>Household Products – 5.68%</b>		
Colgate-Palmolive Company .....	849	58,218
<b>Hypermarkets &amp; Super Centers – 4.88%</b>		
Wal-Mart Stores, Inc. ....	892	50,000
<b>Industrial Gases – 1.62%</b>		
Praxair, Inc. ....	281	16,668
<b>Internet Software &amp; Services – 1.96%</b>		
Google Inc., Class A (A) .....	65	20,089
<b>Investment Banking &amp; Brokerage – 1.12%</b>		
Charles Schwab Corporation (The) .....	128	2,063
Goldman Sachs Group, Inc. (The) .....	111	9,405
		11,468
<b>Life Sciences Tools &amp; Services – 0.87%</b>		
Thermo Fisher Scientific Inc. (A) .....	262	8,930
<b>Oil &amp; Gas Equipment &amp; Services – 4.31%</b>		
Schlumberger Limited .....	432	18,303
Smith International, Inc. ....	796	18,229
Weatherford International Ltd. (A) .....	704	7,622
		44,154
<b>Other Diversified Financial Services – 4.22%</b>		
J.P. Morgan Chase & Co. ....	1,374	43,310
<b>Pharmaceuticals – 5.78%</b>		
Abbott Laboratories .....	1,112	59,321

See Notes to Schedule of Investments on page 11.

# The Investments of Vanguard Fund

December 31, 2008  
(In Thousands)

(Unaudited)

<b>COMMON STOCKS (Continued)</b>	<b>Shares</b>	<b>Value</b>
<b>Railroads – 1.41%</b>		
Union Pacific Corporation .....	302	\$ 14,412
<b>Regional Banks – 1.02%</b>		
PNC Financial Services Group, Inc. (The) .....	214	10,471
<b>Restaurants – 5.98%</b>		
McDonald's Corporation .....	711	44,186
YUM! Brands, Inc. ....	546	17,199
		61,385
<b>Semiconductors – 2.57%</b>		
Microchip Technology Incorporated .....	1,349	26,351
<b>Soft Drinks – 0.76%</b>		
Coca-Cola Company (The) .....	173	7,822
<b>Specialized Finance – 2.61%</b>		
CME Group Inc. ....	72	14,921
IntercontinentalExchange, Inc. (A) .....	143	11,822
		26,743
<b>Specialty Chemicals – 0.96%</b>		
Ecolab Inc. ....	279	9,810
<b>TOTAL COMMON STOCKS – 98.70%</b>		<b>\$1,011,998</b>
(Cost: \$1,052,621)		

<b>SHORT-TERM SECURITIES</b>	<b>Principal</b>	
<b>Commercial Paper</b>		
Air Products and Chemicals, Inc., 0.050%, 1–2–09 .....	\$3,684	3,684
PepsiCo, Inc., 0.100%, 1–28–09 .....	5,000	5,000
Siemens Capital Corp., 0.150%, 1–8–09 .....	3,000	3,000
Toyota Motor Credit Corporation, 0.550%, 1–28–09 .....	4,000	3,998
<b>TOTAL SHORT-TERM SECURITIES – 1.53%</b>		<b>\$ 15,682</b>
(Cost: \$15,682)		

See Notes to Schedule of Investments on page 11.

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# The Investments of Vanguard Fund

December 31, 2008  
(In Thousands)

(Unaudited)

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**Value**

<b>TOTAL INVESTMENT SECURITIES – 100.23%</b>	<b>\$1,027,680</b>
(Cost: \$1,068,303)	
<b>LIABILITIES, NET OF CASH AND OTHER ASSETS – (0.23%)</b>	<b>(2,327)</b>
<b>NET ASSETS – 100.00%</b>	<b>\$1,025,353</b>

**Notes to Schedule of Investments**

(A) No dividends were paid during the preceding 12 months.

# Statement of Assets and Liabilities

## VANGUARD FUND

December 31, 2008

(In Thousands, Except for Per Share Amounts)

(Unaudited)

### ASSETS

Investment securities – at value: (cost – \$1,068,303) .....	\$1,027,680
Receivables:	
Fund shares sold .....	1,622
Dividends and interest .....	1,434
Prepaid and other assets .....	76
Total assets .....	<u>1,030,812</u>

### LIABILITIES

Payable to Fund shareholders .....	4,608
Accrued shareholder servicing .....	378
Accrued distribution and service fees .....	194
Due to custodian .....	27
Accrued accounting services fee .....	21
Accrued management fee .....	19
Other .....	212
Total liabilities .....	<u>5,459</u>
Total net assets .....	<u>\$1,025,353</u>

### NET ASSETS

\$1.00 par value capital stock:	
Capital stock .....	\$ 181,165
Additional paid-in capital .....	1,001,074
Accumulated undistributed income (loss):	
Accumulated undistributed net investment income .....	32
Accumulated net realized loss on investment transactions .....	(116,295)
Net unrealized depreciation in value of investments .....	(40,623)
Net assets applicable to outstanding units of capital .....	<u>\$1,025,353</u>

### Net asset value per share (net assets divided by shares outstanding):

Class A .....	\$5.68
Class B .....	\$4.95
Class C .....	\$4.99
Class Y .....	\$5.85

### Capital shares outstanding:

Class A .....	169,186
Class B .....	4,425
Class C .....	1,670
Class Y .....	5,884

Capital shares authorized .....	600,000
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See Accompanying Notes to Financial Statements.

# Statement of Operations

## VANGUARD FUND

For the Six Months Ended December 31, 2008

(In Thousands)

(Unaudited)

### INVESTMENT INCOME

#### Income:

Dividends (net of foreign withholding taxes of \$36) .....	\$ 9,601
Interest and amortization .....	268
Total income .....	<u>9,869</u>

#### Expenses:

Investment management fee .....	4,603
Shareholder servicing:	
Class A .....	1,655
Class B .....	101
Class C .....	34
Class Y .....	31
Distribution and service fees:	
Class A .....	1,565
Class B .....	152
Class C .....	56
Accounting services fee .....	130
Legal fees .....	32
Custodian fees .....	23
Audit fees .....	20
Other .....	205
Total .....	<u>8,607</u>
Less expenses in excess of limit .....	(151)
Total expenses .....	<u>8,456</u>
Net investment income .....	<u>1,413</u>

### REALIZED AND UNREALIZED LOSS ON INVESTMENTS

Realized net loss on investments .....	(113,250)
Unrealized depreciation in value of investments during the period .....	(384,357)
Net loss on investments .....	<u>(497,607)</u>
Net decrease in net assets resulting from operations .....	<u><u>\$(496,194)</u></u>

See Accompanying Notes to Financial Statements.

# Statement of Changes in Net Assets

## VANGUARD FUND

(In Thousands)

(Unaudited)

	For the six months ended December 31, 2008	For the fiscal year ended June 30, 2008
<b>DECREASE IN NET ASSETS</b>		
Operations:		
Net investment income (loss) . . . . .	\$ 1,413	\$ (4,442)
Realized net gain (loss) on investments . . . . .	(113,250)	144,987
Unrealized depreciation . . . . .	(384,357)	(70,318)
Net increase (decrease) in net assets resulting from operations . . . . .	(496,194)	70,227
Distributions to shareholders from:		
Net investment income:		
Class A . . . . .	(1,010)	—
Class B . . . . .	—	—
Class C . . . . .	—	—
Class Y . . . . .	(198)	—
Realized gains on investment transactions:		
Class A . . . . .	(84,955)	(160,221)
Class B . . . . .	(2,153)	(5,043)
Class C . . . . .	(801)	(1,666)
Class Y . . . . .	(2,902)	(4,951)
	(92,019)	(171,881)
Capital share transactions . . . . .	(18,305)	14,548
Total decrease . . . . .	(606,518)	(87,106)
<b>NET ASSETS</b>		
Beginning of period . . . . .	1,631,871	1,718,977
End of period . . . . .	\$1,025,353	\$1,631,871
Accumulated undistributed net investment income (loss) . . . . .	\$ 32	\$ (173)

See Accompanying Notes to Financial Statements.

# Financial Highlights

## VANGUARD FUND

Class A Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-08	2008	2007	2006	2005	2004
Net asset value, beginning of period. . . . .	\$9.07	\$9.58	\$9.54	\$8.83	\$8.24	\$7.03
Income (loss) from investment operations:						
Net investment income (loss) . . . . .	0.00	(0.02)	(0.02)	(0.04)	0.00	(0.05)
Net realized and unrealized gain (loss) on investments . . . . .	(2.84)	0.51	0.89	1.19	0.60	1.26
Total from investment operations. . . . .	(2.84)	0.49	0.87	1.15	0.60	1.21
Less distributions from:						
Net investment income. . . . .	(0.00) *	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Capital gains . . . . .	(0.55)	(1.00)	(0.83)	(0.44)	(0.00)	(0.00)
Total distributions . . . . .	(0.55)	(1.00)	(0.83)	(0.44)	(0.01)	(0.00)
Net asset value, end of period . . .	\$5.68	\$9.07	\$9.58	\$9.54	\$8.83	\$8.24
Total return <sup>(1)</sup> . . . . .	-30.97%	3.78%	9.64%	12.96%	7.32%	17.21%
Net assets, end of period (in millions). . . . .	\$961	\$1,530	\$1,600	\$1,719	\$1,644	\$1,771
Ratio of expenses to average net assets including expense waiver . . . . .	1.23% <sup>(2)</sup>	1.16%	1.19%	1.19%	1.23%	1.22%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	0.24% <sup>(2)</sup>	-0.22%	-0.26%	-0.43%	0.03%	-0.56%
Ratio of expenses to average net assets excluding expense waiver . . . . .	1.25% <sup>(2)</sup>	1.18%	1.20%	1.19% <sup>(3)</sup>	1.23% <sup>(3)</sup>	1.22% <sup>(3)</sup>
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	0.22% <sup>(2)</sup>	-0.24%	-0.27%	-0.43% <sup>(3)</sup>	0.03% <sup>(3)</sup>	-0.56% <sup>(3)</sup>
Portfolio turnover rate . . . . .	36%	65%	81%	74%	101%	137%

\*Not shown due to rounding.

(1) Total return calculated without taking into account the sales load deducted on an initial purchase.

(2) Annualized.

(3) There was no waiver of expenses during the period.

See Accompanying Notes to Financial Statements.

# Financial Highlights

## VANGUARD FUND

Class B Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-08	2008	2007	2006	2005	2004
Net asset value, beginning of period. . . . .	\$8.04	\$8.63	\$8.77	\$8.23	\$7.75	\$6.69
Income (loss) from investment operations:						
Net investment loss . . . . .	(0.13)	(0.21)	(0.20)	(0.15)	(0.13)	(0.08)
Net realized and unrealized gain (loss) on investments . . . . .	(2.43)	0.58	0.89	1.13	0.61	1.14
Total from investment operations. . . . .	(2.56)	0.37	0.69	0.98	0.48	1.06
Less distributions from:						
Net investment income. . . . .	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.53)	(0.96)	(0.83)	(0.44)	(0.00)	(0.00)
Total distributions. . . . .	(0.53)	(0.96)	(0.83)	(0.44)	(0.00)	(0.00)
Net asset value, end of period . . .	<u>\$4.95</u>	<u>\$8.04</u>	<u>\$8.63</u>	<u>\$8.77</u>	<u>\$8.23</u>	<u>\$7.75</u>
Total return . . . . .	-31.52%	2.74%	8.38%	11.81%	6.19%	15.85%
Net assets, end of period (in millions). . . . .	\$22	\$39	\$48	\$57	\$55	\$59
Ratio of expenses to average net assets including expense waiver. . . . .	2.40% <sup>(1)</sup>	2.21%	2.28%	2.28%	2.37%	2.38%
Ratio of net investment loss to average net assets including expense waiver. . . . .	-0.93% <sup>(1)</sup>	-1.28%	-1.35%	-1.52%	-1.11%	-1.72%
Ratio of expenses to average net assets excluding expense waiver. . . . .	2.42% <sup>(1)</sup>	2.23%	2.29%	2.28% <sup>(2)</sup>	2.37% <sup>(2)</sup>	2.38% <sup>(2)</sup>
Ratio of net investment loss to average net assets excluding expense waiver. . . . .	-0.95% <sup>(1)</sup>	-1.30%	-1.36%	-1.52% <sup>(2)</sup>	-1.11% <sup>(2)</sup>	-1.72% <sup>(2)</sup>
Portfolio turnover rate . . . . .	36%	65%	81%	74%	101%	137%

(1) Annualized.

(2) There was no waiver of expenses during the period.

See Accompanying Notes to Financial Statements.



# Financial Highlights

## VANGUARD FUND

Class C Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-08	2008	2007	2006	2005	2004
Net asset value, beginning of period. . . . .	\$8.08	\$8.67	\$8.80	\$8.26	\$7.77	\$6.70
Income (loss) from investment operations:						
Net investment loss . . . . .	(0.05)	(0.17)	(0.16)	(0.11)	(0.13)	(0.06)
Net realized and unrealized gain (loss) on investments . . . . .	(2.51)	0.54	0.86	1.09	0.62	1.13
Total from investment operations. . . . .	(2.56)	0.37	0.70	0.98	0.49	1.07
Less distributions from:						
Net investment income. . . . .	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.53)	(0.96)	(0.83)	(0.44)	(0.00)	(0.00)
Total distributions . . . . .	(0.53)	(0.96)	(0.83)	(0.44)	(0.00)	(0.00)
Net asset value, end of period . . .	\$4.99	\$8.08	\$8.67	\$8.80	\$8.26	\$7.77
Total return . . . . .	-31.37%	2.73%	8.46%	11.77%	6.31%	15.97%
Net assets, end of period (in millions). . . . .	\$8	\$14	\$17	\$19	\$17	\$20
Ratio of expenses to average net assets including expense waiver . . . . .	2.32% <sup>(1)</sup>	2.16%	2.22%	2.22%	2.25%	2.17%
Ratio of net investment loss to average net assets including expense waiver . . . . .	-0.86% <sup>(1)</sup>	-1.23%	-1.29%	-1.45%	-0.98%	-1.51%
Ratio of expenses to average net assets excluding expense waiver . . . . .	2.34% <sup>(1)</sup>	2.18%	2.23%	2.22% <sup>(2)</sup>	2.25% <sup>(2)</sup>	2.17% <sup>(2)</sup>
Ratio of net investment loss to average net assets excluding expense waiver . . . . .	-0.88% <sup>(1)</sup>	-1.25%	-1.30%	-1.45% <sup>(2)</sup>	-0.98% <sup>(2)</sup>	-1.51% <sup>(2)</sup>
Portfolio turnover rate . . . . .	36%	65%	81%	74%	101%	137%

(1)Annualized.

(2)There was no waiver of expenses during the period.

See Accompanying Notes to Financial Statements.

# Financial Highlights

## VANGUARD FUND

Class Y Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-08	2008	2007	2006	2005	2004
Net asset value, beginning of period. . . . .	\$9.36	\$9.86	\$9.76	\$9.00	\$8.39	\$7.14
Income (loss) from investment operations:						
Net investment income (loss) . . . . .	0.01	0.02	(0.00)	(0.02)	0.03	(0.04)
Net realized and unrealized gain (loss) on investments . . . . .	(2.94)	0.52	0.93	1.22	0.62	1.29
Total from investment operations. . . . .	(2.93)	0.54	0.93	1.20	0.65	1.25
Less distributions from:						
Net investment income. . . . .	(0.04)	(0.00)	(0.00)	(0.00)	(0.04)	(0.00)
Capital gains . . . . .	(0.54)	(1.04)	(0.83)	(0.44)	(0.00)	(0.00)
Total distributions . . . . .	(0.58)	(1.04)	(0.83)	(0.44)	(0.04)	(0.00)
Net asset value, end of period . . .	\$5.85	\$9.36	\$9.86	\$9.76	\$9.00	\$8.39
Total return . . . . .	-30.96%	4.08%	10.06%	13.28%	7.82%	17.51%
Net assets, end of period (in millions). . . . .	\$34	\$49	\$54	\$49	\$39	\$38
Ratio of expenses to average net assets including expense waiver . . . . .	0.87% <sup>(1)</sup>	0.85%	0.86%	0.87%	0.88%	0.87%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	0.61% <sup>(1)</sup>	0.09%	0.07%	-0.10%	0.38%	-0.20%
Ratio of expenses to average net assets excluding expense waiver . . . . .	0.89% <sup>(1)</sup>	0.87%	0.87%	0.87% <sup>(2)</sup>	0.88% <sup>(2)</sup>	0.87% <sup>(2)</sup>
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	0.59% <sup>(1)</sup>	0.07%	0.06%	-0.10% <sup>(2)</sup>	0.38% <sup>(2)</sup>	-0.20% <sup>(2)</sup>
Portfolio turnover rate . . . . .	36%	65%	81%	74%	101%	137%

(1) Annualized.

(2) There was no waiver of expenses during the period.

See Accompanying Notes to Financial Statements.

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# Notes to Financial Statements

December 31, 2008  
(In Thousands, Except Where Otherwise Noted)

(Unaudited)

## 1. SIGNIFICANT ACCOUNTING POLICIES

Waddell & Reed Advisors Vanguard Fund, Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. Its investment objective is to provide appreciation of your investment.

The Fund offers Class A, Class B, Class C and Class Y shares. Class A shares are sold at their offering price, which is normally net asset value plus a front-end sales charge. Class B and Class C shares are sold without a front-end sales charge but may be subject to a contingent deferred sales charge (CDSC). Class Y shares are sold to certain institutional investors without either a front-end sales charge or a CDSC. All classes of shares have identical rights and voting privileges with respect to the Fund in general and exclusive voting rights on matters that affect that class alone. Earnings, net assets and net asset value per share may differ due to each class having its own expenses, such as transfer and shareholder servicing agent fees, directly attributable to that class. Class A, B, and C have separate distribution and/or service plans. No such plan has been adopted for Class Y shares. Class B shares will automatically convert to Class A shares 96 months after the date of purchase.

The following is a summary of significant accounting policies consistently followed by the Fund.

**Securities Valuation.** The Fund calculates the net asset value of its shares as of the close of the New York Stock Exchange (the NYSE), normally 4:00 P.M. Eastern time, on each day the NYSE is open for trading.

Securities traded on U.S. or foreign securities exchanges or included in a national market system are valued at the official closing price at the close of each business day unless otherwise stated below. Over-the-counter securities and listed securities for which no price is readily available are valued at the average of the last bid and asked prices. Security prices are based on quotes that are obtained from an independent pricing service approved by the Board of Directors.

To determine values of fixed-income securities, the independent pricing service takes into consideration such factors as current quotations by broker/dealers, coupon, maturity, quality, type of issue, trading characteristics, and other yield and risk factors it deems relevant in determining valuations. Securities which cannot be valued by the independent pricing service are valued using valuations obtained from dealers that make markets in the securities.

Options and swaps are valued by the independent pricing service unless the price is unavailable, in which case they are valued at the mean between the last bid and asked price. Futures contracts traded on an exchange are generally valued at the settlement price. Mutual funds are valued at the net asset value at the close of each business day.

Short-term securities are valued on the basis of amortized cost (which approximates market value), whereby a portfolio security is valued at its cost initially, and thereafter valued to reflect a constant amortization to maturity of any discount or premium.

Because many foreign markets close before the U.S. markets, events may occur between the close of the foreign market and the close of the U.S. markets that could have a material impact on the valuation of foreign securities. The Fund, under the supervision of the Board of Directors, evaluates the impacts of these events and may adjust the valuation of foreign securities to reflect the fair value as of the close of the U.S. markets.

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In addition, all securities for which market values are not readily available or deemed unreliable are appraised at fair value as determined in good faith under the direction of the Board of Directors.

**Security Transactions and Related Investment Income.** Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Securities gains and losses are calculated on the identified cost basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Fund is informed of the ex-dividend date.

**Foreign Currency Translation.** The Fund's accounting records are maintained in U.S. dollars. The values of securities denominated in foreign currencies and amounts related to the purchase and sale of foreign securities and foreign investment income are translated into U.S. dollars as of the close of the NYSE, normally 4:00 P.M. Eastern time, on each day the NYSE is open for trading. Foreign exchange rates are valued primarily using an independent pricing service authorized by the Board of Directors.

All assets and liabilities denominated in foreign currencies are translated into U.S. dollars daily. Purchases and sales of investment securities and accruals of income and expenses are translated at the rate of exchange prevailing on the date of the transaction. For assets and liabilities other than investments in securities, net realized and unrealized gains and losses from foreign currency translation arise from changes in currency exchange rates. The Fund combines fluctuations from currency exchange rates and fluctuations in market value when computing net realized and unrealized gain or loss from investments.

**Repurchase agreements.** The Fund may purchase securities subject to repurchase agreements, which are instruments under which the Fund purchases a security and the seller (normally a commercial bank or broker-dealer) agrees, at the time of purchase, that it will repurchase the security at a specified time and price. Repurchase agreements are collateralized by the value of the resold securities which, during the entire period of the agreement, generally remains at least equal to the value of the loan, including accrued interest thereon. The collateral for the repurchase agreement is held by a custodian bank.

**Investments with Off-Balance Sheet Risk.** The Fund may enter into financial instrument transactions (such as swaps, futures, written options and other derivatives) that may have off-balance sheet market risk. Off-balance sheet market risk exists when the maximum potential loss on a particular financial instrument is greater than the value of such financial instrument, as reflected in the Statement of Assets and Liabilities.

**Allocation of Income, Expenses, Gains and Losses.** Income, expenses (other than those attributable to a specific class), gains and losses are allocated on a daily basis to each class of shares based upon the relative proportion of net assets represented by such class. Operating expenses directly attributable to a specific class are charged against the operations of that class.

**Federal Taxes.** It is the Fund's policy to distribute all of its taxable income and capital gains to its shareholders and otherwise qualify as a regulated investment company under Subchapter M of the Internal Revenue Code. In addition, the Fund intends to pay distributions as required to avoid imposition of excise tax. Accordingly, provision has not been made for Federal income taxes. During the current fiscal year, the Fund instituted the provisions of Financial Accounting Standards Board No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). As required by FIN 48, management of the Fund periodically reviews all tax positions to assess that it is more likely than not that the position would be sustained upon examination by the relevant tax authority based on the technical merits of each position. As of December 31, 2008, management believes that under this standard no liability for unrecognized tax positions is required. The Fund is subject to examination by U.S. federal and state authorities for returns filed for years after 2004.

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**Dividends and Distributions to Shareholders.** Dividends and distributions to shareholders are recorded by the Fund on the business day following record date. Net investment income dividends and capital gains distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America.

**Custodian Fees.** “Custodian fees” in the Statement of Operations may include interest expense incurred by the Fund on any cash overdrafts of its custodian account during the period. Such cash overdrafts may result from the effects of failed trades in portfolio securities and from cash outflows resulting from unanticipated shareholder redemption activity. The Fund pays interest to its custodian on such cash overdrafts, to the extent they are not offset by positive cash balances maintained by the Fund, at a rate equal to the Federal Funds Rate plus 0.50%. The “Earnings credit” line item, if applicable, represents earnings on cash balances maintained by the Fund during the period. Such interest expense and other custodian fees may be paid with these earnings.

**Indemnifications.** The Fund’s organizational documents provide current and former directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Fund. In the normal course of business, the Fund may also enter into contracts that provide general indemnifications. The Fund’s maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

**Recent Accounting Pronouncements.** In March 2008, FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 amends and expands disclosures about derivative instruments and hedging activities. SFAS 161 requires qualitative disclosures about the objectives and strategies of derivative instruments, quantitative disclosures about the fair value amounts of and gains and losses on derivative instruments, and disclosures of credit-risk-related contingent features in hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Fund will institute SFAS 161 during the fiscal year ending June 30, 2010 and its potential impact, if any, on the financial statements is currently being assessed by management.

**Other.** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

## 2. INVESTMENT MANAGEMENT AND PAYMENT TO AFFILIATED PERSONS

**Management Fees.** Waddell & Reed Investment Management Company (WRIMCO), a wholly owned subsidiary of Waddell & Reed, Inc. (W&R), serves as the Fund’s investment manager. The Fund pays a fee for investment management services. The fee is computed and paid daily based on the net asset value at the close of business. Until September 30, 2006, the fee was payable by the Fund at the annual rates of: 0.70% of net assets up to \$1 billion, 0.65% of net assets over \$1 billion and up to \$2 billion, 0.60% of net assets over \$2 billion and up to \$3 billion, and 0.55% of net assets over \$3 billion. Effective October 1, 2006, under terms of a settlement agreement reached in July 2006 (see Note 7), the fee is as follows: 0.67% of net assets up to \$1 billion, 0.65% of net assets over \$1 billion and up to \$2 billion, 0.60% of net assets over \$2 billion and up to \$3 billion, and 0.55% of net assets over \$3 billion. During the six-month period ended December 31, 2008, the amount waived was \$151.

**Accounting Services Fees.** The Fund has an Accounting Services Agreement with Waddell & Reed Services Company (WRSCO), an indirect subsidiary of WDR. Under the agreement, WRSCO acts as the agent in providing bookkeeping and accounting services and assistance to the Fund, including maintenance of Fund records, pricing of Fund shares and preparation of certain

shareholder reports. For these services, the Fund pays WRSCO a monthly fee of one-twelfth of the annual fee shown in the following table:

Accounting Services Fee	
Average Net Asset Level (in millions)	Annual Fee Rate for Each Level
From \$ 0 to \$ 10	\$ 0
From \$ 10 to \$ 25	\$ 11.5
From \$ 25 to \$ 50	\$ 23.1
From \$ 50 to \$ 100	\$ 35.5
From \$100 to \$ 200	\$ 48.4
From \$200 to \$ 350	\$ 63.2
From \$350 to \$ 550	\$ 82.5
From \$550 to \$ 750	\$ 96.3
From \$750 to \$1,000	\$121.6
\$1,000 and Over	\$148.5

In addition, for each class of shares in excess of one, the Fund pays WRSCO a monthly per-class fee equal to 2.5% of the monthly accounting services base fee.

**Administrative Fee.** The Fund also pays monthly a fee at the annual rate of 0.01%, or one basis point, for the first \$1 billion of net assets with no fee charged for net assets in excess of \$1 billion. This fee may be voluntarily waived until a Fund's net assets are at least \$10 million.

**Shareholder Servicing. General.** Under the Shareholder Servicing Agreement between the Fund and WRSCO, with respect to Class A, Class B and Class C shares, for each shareholder account that was in existence at any time during the prior month the Fund pays a monthly fee of \$1.5292. For Class Y shares, the Fund pays a monthly fee equal to one-twelfth of 0.15 of 1% of the average daily net assets of the class for the preceding month. The Fund also reimburses WRSCO for certain out-of-pocket costs for all classes.

**Non-networked accounts.** Effective September 1, 2006, the Shareholder Servicing Agreement with respect to Class A, Class B and Class C shares was revised so that the Fund pays WRSCO an annual fee (payable monthly) for each account of the Fund that is non-networked and is as shown above; however, WRSCO has agreed to reduce that fee if the number of total shareholders accounts within the Complex (Waddell & Reed Advisors Funds, Waddell & Reed InvestEd Portfolios, Inc., Ivy Funds and Ivy Funds, Inc.) reaches certain levels.

**Networked accounts.** For certain networked accounts (that is, those accounts whose Fund shares are purchased through certain financial intermediaries), WRSCO has agreed to reduce its per account fees charged to the Fund to \$0.50 per month per shareholder account. Additional fees may be paid by the Fund to those intermediaries.

**Broker accounts.** Certain broker-dealers maintain shareholder accounts with the Fund through an omnibus account and provide transfer agent and other shareholder-related services that would otherwise be provided by WRSCO if the individual accounts that comprise the omnibus account were opened by their beneficial owners directly. The Fund, or WRIMCO (including any affiliate of WRIMCO) or both, may pay such broker-dealers a per account fee for each open account within the omnibus account, or a fixed rate (e.g., 0.35%) fee, based on the average daily net asset value of the omnibus account (or a combination thereof).

**Distribution and Service Plan for Class A Shares.** Under a Distribution and Service Plan for Class A shares adopted by the Fund pursuant to Rule 12b-1 under the Investment Company Act of 1940, the Fund may pay a distribution and/or service fee to W&R in an amount not to exceed 0.25% of the Fund's average annual net assets. The fee is to be paid to compensate W&R for amounts it expends in connection with the distribution of the Class A shares and/or provision of personal services to Fund shareholders and/or maintenance of shareholder accounts.

**Distribution and Service Plan for Class B and Class C Shares.** Under the Distribution and Service Plan adopted by the Fund for Class B shares and Class C shares, respectively, the Fund may pay W&R a service fee not to exceed 0.25% and a distribution fee not to exceed 0.75% of the Fund's average annual net assets attributable to that class to compensate W&R for its services in connection with the distribution of shares of that class and/or provision of personal services to Class B or Class C shareholders and/or maintenance of shareholder accounts of that class.

**Sales Charges.** As principal underwriter for the Fund's shares, W&R received gross sales commissions for Class A shares (which are not an expense of the Fund) of \$608. A contingent deferred sales charge (CDSC) may be assessed against a shareholder's redemption amount of Class A, Class B and Class C shares and paid to W&R. During the six-month period ended December 31, 2008, W&R received \$0, \$14 and \$1 in CDSC for Class A, Class B and Class C shares, respectively. With respect to Class A, Class B and Class C shares, W&R paid sales commissions of \$388 and all expenses in connection with the sale of Fund shares, except for registration fees and related expenses.

**Compensation to Directors.** During the six-month period ended December 31, 2008, the Fund paid Directors' regular compensation of \$22, which is included in other expenses.

### 3. INVESTMENT VALUATIONS

The Fund has adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an asset or paying to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Fund's investment in its entirety is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund's investments by the above FAS 157 fair value hierarchy levels as of December 31, 2008.

	Investments	Other Financial Instruments+
Level One – Quoted Prices . . . . .	\$1,011,998	\$ —
Level Two – Other Significant Observable Inputs . . . . .	15,682	—
Level Three – Significant Unobservable Inputs . . . . .	—	—
Total . . . . .	<u>\$1,027,680</u>	<u>\$ —</u>

+Other financial instruments are derivative instruments not reflected in the schedule of investments, such as options, futures and forward currency contracts. Options are shown at market value above, but only appreciation/depreciation is shown in the Statement of Assets and Liabilities.

## 4. INVESTMENT SECURITIES TRANSACTIONS

Purchases of investment securities, other than U.S. government obligations, aggregated \$476,065, while proceeds from maturities and sales of investment securities aggregated \$573,093.

For Federal income tax purposes, cost of investments owned at December 31, 2008 was \$1,069,195, resulting in net unrealized depreciation of \$41,515, of which \$105,678 related to appreciated securities and \$147,193 related to depreciated securities.

## 5. FEDERAL INCOME TAX MATTERS

For Federal income tax purposes, the Fund's distributed and undistributed earnings for the fiscal year ended June 30, 2008 and the related net capital losses and post-October activity were as follows:

Net ordinary income . . . . .	\$ 10,613
Distributed ordinary income . . . . .	7,887
Undistributed ordinary income . . . . .	2,726
Realized long-term capital gains . . . . .	132,173
Distributed long-term capital gains . . . . .	163,994
Undistributed long-term capital gains . . . . .	88,084
Post-October losses deferred . . . . .	—

Internal Revenue Code regulations permit the Fund to defer into its next fiscal year net capital losses or net long-term capital losses incurred between each November 1 and the end of its fiscal year (post-October losses).



## 6. MULTICLASS OPERATIONS

Transactions in capital stock are summarized below:

	For the six months ended December 31, 2008	For the fiscal year ended June 30, 2008
Shares issued from sale of shares:		
Class A .....	9,225	17,684
Class B .....	182	563
Class C .....	149	315
Class Y .....	683	948
Shares issued from reinvestment of dividends and/or capital gains distribution:		
Class A .....	15,435	14,825
Class B .....	455	499
Class C .....	164	171
Class Y .....	555	460
Shares redeemed:		
Class A .....	(24,041)	(30,917)
Class B .....	(1,136)	(1,740)
Class C .....	(374)	(695)
Class Y .....	(547)	(1,650)
Increase in outstanding capital shares .....	<u>750</u>	<u>463</u>
Value issued from sale of shares:		
Class A .....	\$ 67,395	\$175,867
Class B .....	1,185	5,013
Class C .....	950	2,812
Class Y .....	4,695	10,294
Value issued from reinvestment of dividends and/or capital gains distribution:		
Class A .....	83,506	154,771
Class B .....	2,146	4,645
Class C .....	779	1,597
Class Y .....	3,097	4,946
Value redeemed:		
Class A .....	(168,038)	(306,942)
Class B .....	(7,535)	(15,567)
Class C .....	(2,351)	(6,188)
Class Y .....	(4,134)	(16,700)
Increase (decrease) in outstanding capital .....	<u>\$ (18,305)</u>	<u>\$ 14,548</u>

## 7. REGULATORY AND LITIGATION MATTERS

On July 24, 2006, WRIMCO, W&R and WRSCO (collectively, Waddell & Reed) reached a settlement with each of the SEC, the New York Attorney General (NYAG) and the Securities Commissioner of the State of Kansas to resolve proceedings brought by each regulator in connection with its investigation of frequent trading and market timing in certain Waddell & Reed Advisors Funds.

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Under the terms of the SEC's cease-and desist order (SEC Order), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, among other provisions Waddell & Reed has agreed to: pay \$40 million in disgorgement and \$10 million in civil money penalties; cease and desist from violations of the antifraud provisions and certain other provisions of the federal securities laws; maintain certain compliance and ethics oversight structures; retain an independent consultant to periodically review Waddell & Reed's supervisory, compliance, control and other policies and procedures; and retain an independent distribution consultant (described below). According to the SEC Order, the SEC found that some market timers made profits in some of the Waddell & Reed Advisors Funds, and that this may have caused some dilution in those Funds. Also, the SEC found that Waddell & Reed failed to make certain disclosures to the Waddell & Reed Advisors Funds' Boards of Directors and shareholders regarding the market timing activity and Waddell & Reed's acceptance of service fees from some market timers.

The Assurance of Discontinuance with the NYAG (NYAG Settlement), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, among its conditions requires that Waddell & Reed: reduce the aggregate investment management fees paid by certain of the Waddell & Reed Advisors Funds and certain of the Ivy Funds Variable Insurance Portfolios, Inc. (formerly, W&R Target Funds, Inc.) (the Funds) by \$5 million per year for five years, for a projected total of \$25 million in investment management fee reductions; bear the costs of an independent fee consultant to be retained by the Funds to review and consult regarding the Funds' investment management fee arrangements; and make additional investment management fee-related disclosures to Fund shareholders. The NYAG Settlement also effectively requires that the Funds implement certain governance measures designed to maintain the independence of the Funds' Boards of Directors and appoint an independent compliance consultant responsible for monitoring the Funds' and WRIMCO's compliance with applicable laws.

The consent order issued by the Securities Commissioner of the State of Kansas (Kansas Order), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, requires Waddell & Reed to pay a fine of \$2 million to the Office of the Commissioner.

The SEC Order further requires that the \$50 million in settlement amounts described above will be distributed in accordance with a distribution plan developed by an independent distribution consultant, in consultation with Waddell & Reed, and that is agreed to by the SEC staff and the Funds' Disinterested Directors. The SEC Order requires that the independent distribution consultant develop a methodology and distribution plan pursuant to which Fund shareholders shall receive their proportionate share of losses, if any, suffered by the Funds due to market timing. Therefore, it is not currently possible to specify which particular Fund shareholders or groups of Fund shareholders will receive distributions of those settlement monies or in what proportion and amounts.

The foregoing is only a summary of the SEC Order, NYAG Settlement and Kansas Order. A copy of the SEC Order is available on the SEC's website at [www.sec.gov](http://www.sec.gov). A copy of the SEC Order, NYAG Settlement and Kansas Order is available as part of the Waddell & Reed Financial, Inc. Form 8-K as filed on July 24, 2006.

In addition, pursuant to the terms of agreement in the dismissal of separate litigation, Waddell & Reed has also agreed to extend the reduction in the aggregate investment management fees paid by the Funds, as described above, for an additional five years.

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## 8. SUBSEQUENT EVENT

On December 12, 2008, a special shareholder meeting for the Fund was held to approve a proposed Agreement and Plan of Reorganization and Termination, pursuant to which the Fund would be reorganized into a corresponding series of a newly established Delaware statutory trust, to be named Waddell & Reed Funds. On January 30, 2009, that reorganization took place.

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# Renewal of Investment Management Agreement for Waddell & Reed Advisors Vanguard Fund, Inc.

At its meeting on August 11, 12 and 13, 2008, the Fund's Board of Directors, including all of the Disinterested Directors, considered and approved the continuance of the existing Investment Management Agreement ("Management Agreement") between WRIMCO and the Fund with respect to the Fund. The Disinterested Directors were assisted in their review by independent legal counsel and met with such counsel separately from representatives of WRIMCO. The Disinterested Directors also received and considered a memorandum from their independent legal counsel regarding the Disinterested Directors' responsibilities in evaluating the Management Agreement. This memorandum explained the regulatory requirements pertaining to the Disinterested Directors' evaluation of the Management Agreement. In addition, the Disinterested Directors engaged an independent fee consultant whose responsibilities included managing the process by which the proposed management fees under the Management Agreement were negotiated with WRIMCO.

Prior to the Board meeting, independent legal counsel sent to WRIMCO a request for information to be provided to the Directors in connection with their consideration of the continuance of the Management Agreement. WRIMCO provided materials to the Directors that included responses to the request letter and other information WRIMCO believed was useful in evaluating the continuation of the Management Agreement. Thereafter, independent legal counsel sent to WRIMCO a supplemental request for certain additional information, and WRIMCO provided additional information in response to this request. The Directors also received reports prepared by an independent third party, Lipper Inc. ("Lipper"), relating to the Fund's performance and expenses compared to the performance of the universe of comparable mutual funds selected by Lipper (the "Performance Universe") and to the expenses of a peer group of comparable funds selected by Lipper (the "Peer Group"), respectively. Further, the Directors received a written evaluation from the independent fee consultant, a summary of which is included in this Semiannual Report. At their meeting, the Directors received a presentation from representatives of WRIMCO regarding services provided by it and its affiliates (collectively, "W&R") to the Fund. In addition, during the course of the year, WRIMCO had provided information relevant to the Directors' consideration of the continuance of the Management Agreement.

## **Nature, Extent and Quality of Services Provided to the Fund**

The Directors considered the nature, extent and quality of the services provided to the Fund pursuant to the Management Agreement and also the overall fairness of the Management Agreement.

The Directors considered WRIMCO's research and portfolio management capabilities and that W&R also provides oversight of day-to-day fund operations, including but not limited to fund accounting and administration and assistance in meeting legal and regulatory requirements. The Directors also considered WRIMCO's practices regarding the selection and compensation of brokers and dealers that execute portfolio transactions for the Fund, those brokers' and dealers' provision of brokerage and research services to WRIMCO, and the benefits derived by the other funds in the Advisors Fund Complex and by other clients of WRIMCO from such services. The Directors also considered the favorable history, reputation, qualification and background of WRIMCO and W&R's extensive administrative, accounting and compliance infrastructure.

Fund Performance, Management Fee and Expense Ratio. The Directors considered the Fund's performance, both on an absolute basis and in relation to the performance of its Performance Universe. The Fund's performance was also compared to relevant market indices and to a Lipper index, as applicable.

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The Directors considered the management fees and total expenses of the Fund and also considered the Fund's management fees and total expenses in relation to the management fees and total expenses, respectively, of its Peer Group. The Directors' review also included consideration of the Fund's management fees at various asset levels, which reflected breakpoints in the management fee structure, and average account size information. In addition, the Directors considered the investment 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 and similar investment policies and strategies as the Fund ("Similar Funds"). The Directors 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 and similar investment policies and strategies as the Fund ("Other Accounts").

The Directors considered that the Fund's total return performance was higher than the Performance Universe median and the Lipper index for the one-, three-, five-, seven-, and ten-year periods.

The Directors considered the range and average of the management fees and expense ratios of the Peer Group. They considered that the Fund's management fee was higher than the Peer Group median but that the overall expense ratio was lower than the Peer Group median. They considered that the Fund's non-management fee expenses were equal to the Peer Group median on an unadjusted basis but that, when adjusted for the Fund's average account size, the non-management fee expenses were higher than the Peer Group median. The Directors considered the transfer agency fee reduction that became effective September 1, 2006. They also considered that, with the breakpoints in the fee schedule, the Fund's effective management fees at certain asset levels were higher than, and at other asset levels were lower than, the asset-weighted average for its Peer Group.

The Directors also considered that the Similar Funds had advisory fee schedules that were the same as or higher than the Fund's advisory fee schedule and that the Other Accounts had average advisory fees that were lower than the management fee of the Fund. The Directors considered the relevance of the fee information provided for the Similar Funds and Other Accounts to evaluate the appropriateness and reasonableness of the Fund's management fee. The Directors recognized that differences in fees paid by the Other Accounts were consistent with the additional management and other services provided by WRIMCO to the Fund.

## **Profitability and Economies of Scale**

The Directors also considered that the Fund's management fee structure includes breakpoints that provide for a reduction of payments to reflect anticipated economies of scale. The Directors also considered the management fee rate reductions that became effective October 1, 2006, for the Fund and certain other funds in the Advisors Fund Complex, and the anticipated impact of the fee rate reduction for the Fund on its investment management fees and overall expense ratio. In concluding that the benefits accruing to WRIMCO and its affiliates by virtue of their relationship to the Fund were reasonable in comparison with the costs of providing the investment management services and the benefits accruing to the Fund, the Directors considered specific data as to WRIMCO's profit with respect to the Fund for a recent period. The Directors also considered WRIMCO's methodology for determining this data. In addition, the Directors considered the soft dollar arrangements with respect to the Fund's portfolio transactions.

In determining whether to approve the proposed continuance of the Management Agreement, the Directors considered the best interests of the Fund and the overall fairness of the proposed Management Agreement. The Directors considered the following factors to be of primary importance to their approval of the continuance of the Fund's Management Agreement, without any one factor being dispositive:

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- the performance of the Fund compared with the average performance of its Performance Universe and with relevant indices;
  - the Fund's investment management fees and total expenses compared with the management fees and total expenses of the Peer Group;
  - the existence or appropriateness of breakpoints in the Fund's management fees;
  - the cost/profitability to WRIMCO and any actual or anticipated economies of scale in relation to the services it provides to the Fund;
  - the other benefits that accrue to WRIMCO as a result of its relationship to the Fund; and
  - the favorable history, reputation, qualification and background of WRIMCO as well as the qualifications of its personnel.

Based on the discussions, considerations and information described generally above, including the evaluation provided by the independent fee consultant, the Board determined that the Fund's Management Agreement is fair and reasonable and that continuance of the Management Agreement is in the best interests of the Fund. In reaching these determinations, the Board concluded that: the nature, extent and quality of the services provided by WRIMCO for the Fund are adequate and appropriate; the performance of the Fund was satisfactory; it retained confidence in WRIMCO's overall ability to manage the Fund; and the management fee paid to WRIMCO is reasonable in light of comparative management fee information, the breakpoints in the proposed management fee for the Fund, the services provided by WRIMCO, the costs of the services provided, and the profits realized and other benefits likely to be derived by WRIMCO from its relationship with the Fund.

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The Disinterested Directors of Waddell & Reed Advisors Funds, Ivy Funds Variable Insurance Portfolios, Inc.<sup>1</sup> and Waddell & Reed InvestEd Portfolios, Inc. (the “Funds”) have appointed an independent fee consultant. Below is a summary of the written fee evaluation of such consultant for the most recent year.

## Summary

Pursuant to the Assurance of Discontinuance between Waddell & Reed, Inc., Waddell & Reed Investment Management Company (“WRIMCO”) and Waddell & Reed Services Company (“WRSCO”) (collectively, “Waddell”) and the Office of the New York Attorney General dated July 10, 2006 (“AOD”), the Disinterested Directors of each Fund’s Board appointed an Independent Fee Consultant (“IFC”) to manage the process by which proposed management fees paid by the Funds to WRIMCO are negotiated. The IFC does not replace the Directors in negotiating management fees and does not substitute his or her judgment for that of the Directors about the reasonableness of the proposed fees.

In the IFC’s 2008 written evaluation of the proposed management fees of the Funds (“Report”), the IFC addressed the following six factors:

1. The nature and quality of Waddell’s services, including Fund performance
2. Management fees (including any components thereof) charged by other mutual fund companies for like services
3. Possible economies of scale as the Funds grow larger
4. Management fees (including any components thereof) charged to institutional and other clients of Waddell for like services
5. Costs to Waddell and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit
6. Profit margins of Waddell and its affiliates from supplying such services

The following is a summary of the Report’s discussion of the contract renewal process, related materials, and the IFC’s findings.

## Analysis of the Process

The Report noted that the Boards previously created the Special Compliance & Governance Committee (“Compliance Committee”), which is composed of Disinterested Directors and charged with the responsibility for certain work associated with the contract renewal process.

The Report stated that the contract renewal process includes a number of sequential steps by which the Disinterested Directors go about determining the reasonableness of the proposed management fees for the Funds in the context of their annual consideration of the proposed continuance of the Funds’ respective investment management agreements with WRIMCO and the sub-advisory agreements with certain sub-advisors. The Report stated that the IFC participated throughout the contract renewal process.

The Disinterested Directors instructed independent legal counsel to the Disinterested Directors, K&L Gates LLP (“K&L Gates”), to prepare a letter requesting information from WRIMCO needed for the contract renewal process, which was provided. Lipper, Inc. (“Lipper”) was asked to provide independently compiled comparative information about the Funds. The Report stated

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1. Formerly, W&R Target Funds, Inc.

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that Lipper selected the peer group with input from WRIMCO to ensure that Lipper understood the investment and distribution intricacies of the Funds and that the IFC observed and concurred in the selection.

The Report noted that the Compliance Committee met with the IFC and K&L Gates to discuss the information provided by WRIMCO and Lipper and to determine whether to request any additional information from WRIMCO prior to the August Disinterested Directors and Board meetings. At the Compliance Committee's direction, K&L Gates sent a supplemental request to WRIMCO for certain additional information, which was provided prior to the Disinterested Directors' August 2008 meetings.

## **Analysis of Materials**

Materials refer to the informational materials that were prepared by Waddell and Lipper in response to the data requested by the Disinterested Directors through the Compliance Committee and K&L Gates. The IFC reviewed the information produced and found it to be responsive to the requests by the Disinterested Directors. He also reviewed certain other materials that he considered relevant.

The IFC used these materials to analyze trends and comparative information about the six factors listed above. The Report noted that, apart from these materials, the Disinterested Directors also received information throughout the year, some of which the IFC reviewed, that was also relevant to the contract renewal process.

### **(1) Nature and Quality of Services**

In the Report, the IFC commented on the investment performance of the Funds. The performance data for these comparisons were drawn from the Lipper materials. Performance information was based on March 31, 2008 data, and references in the Report to 1-, 3- and 5-year periods referred to the periods ended on March 31, 2008.

The Report stated that the IFC's experience is that fund directors should focus on longer-term performance during the contract renewal process (though they may choose to focus on shorter-term performance for other purposes). Accordingly, the Report concentrated on 3-year performance in comparison to the "performance universe," rather than on the more limited "performance group," because, in the IFC's experience, fund investors are more typically concerned with the objective and style of management than the size of the fund. The Report recommended that the Disinterested Directors focus on a 3-year view of investment performance for the purposes of contract renewal, because it is long enough to reflect most market cycles and short enough to be relevant to the holding period for many mutual fund shareholders.

The Report stated that, overall, the Funds reflect strong and improving performance in the 1-, 3- and 5-year periods. The collective (Advisors Funds, Ivy VIP Funds and InvestEd Portfolios together) 5-year performance has 50% of the Funds in the first two quintiles of their performance universe and 3% in the 5th quintile. The 3-year figures improve to 65% of the Funds in the first two quintiles and 8% in the 5th quintile, and the 1-year figures reflect similar performance with 64% in the first two quintiles and 5% in the 5th quintile. Emphasizing the improvement, the Report noted that the 1-year short-term performance has only 7% of the Funds in the combined 4th and 5th quintiles, a decrease from 18% in the 3-year performance, and 31% in the 5-year performance periods.

Although the IFC found that the Funds have strong performance, it also noted that certain Funds have experienced either continuing or recent challenges. The IFC suggested that the Disinterested Directors request additional information from WRIMCO regarding certain Funds. The Disinterested Directors reviewed the information provided by WRIMCO.



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The Report suggested that, if a Fund consistently demonstrates poor performance, higher than average expenses, or a combination of both, it may be appropriate for the Disinterested Directors to consider taking affirmative action. Possible actions cited by the Report include requesting more frequent reports, WRIMCO's providing more research support, WRIMCO's providing more portfolio management capability, seeking an outside sub-advisor, or requesting a voluntary fee waiver. The IFC did not identify any individual Funds that required this attention at this time.

The Report noted that, with respect to services provided by WRIMCO affiliates, WRSCO maintained internal statistics to track shareholder service quality, which showed marked improvement in 2008, and also retained Dalbar, Inc. to provide an independent quality assessment. WRSCO scored either very good or excellent in all categories evaluated by Dalbar.

## **(2) Fund Fees**

The Report stated that information for this metric is drawn from the Lipper analysis and is compared with a peer group for each Fund. The Report noted that the majority of Funds have management fees above the median of their peer groups. It concluded that, overall, more Funds have improved their comparative ranking of actual management fees in 2008 than declined.

The Report also noted that, in general, the Funds have higher total expenses than the peer group and that this is often caused by non-management fees. The Report noted that a number of Advisors Funds have smaller average account sizes relative to the general mutual fund industry and commented on the impact of such account sizes on the Funds' non-management expenses. The Report also noted the Disinterested Directors' prior discussions regarding possible means of addressing this impact and their continuing attention to this matter.

## **(3) Possible Economies of Scale**

The Report noted that economies of scale occur when assets grow and a fund's fixed costs are spread over a larger asset base. The Report also pointed out that fund managers usually share economies of scale by implementing breakpoints, or scale-downs, in the structure of the management fee. As a general rule, fund directors establish breakpoints prospectively at an asset level beyond the current asset level so that shareholders benefit from future asset growth. Lipper provided the Disinterested Directors with a comprehensive listing of breakpoints in the Funds and compared the Funds' and peer groups' effective fees at uniform asset levels.

The IFC found that the Funds, except for Waddell & Reed Advisors Money Market Fund and Ivy VIP Money Market Fund, already have breakpoints in place and that these breakpoints appear adequate in providing economies of scale. However, the IFC suggested that the Disinterested Directors review the current breakpoint structure of certain Funds to determine whether an adjustment might be needed. The Disinterested Directors did so and determined that the current breakpoint structure of the Funds is appropriate.

## **(4) Management Fees for Comparable and Alternative Products**

The Report noted that the Advisors and Ivy VIP Funds have Funds with similar investment styles and therefore anticipated comparable management fees. The Report stated that management fee variances can be explained with the larger average asset size of the Advisors Funds, causing some of the Funds to reach breakpoints and reductions in management fees, or Funds that have remaining waivers. The Report further stated that, although their management fees are comparable, the Advisors Fund total expense ratio is on average higher than the comparable Ivy VIP Fund total expense ratio because of the shareholder service expenses of the Advisors Fund.

The Report noted that WRIMCO manages money for different types of clients besides mutual funds. These include corporate and municipal pension funds and investment pools for wealthy individuals (collectively, "separate accounts"). Several of these separate accounts are managed with the same investment objective and in the same style as some of the Advisors and Ivy VIP

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Funds. In most cases, the data provided by WRIMCO show that net management fees for the Funds are higher than that of the equivalent separate accounts. WRIMCO has explained these differences by reference to the different type of responsibilities borne by WRIMCO as a mutual fund manager and as a separate account manager. The IFC found these differences reasonable.

#### **(5) Costs to Waddell and its Affiliates of Supplying Services**

The Report pointed out that an important component of the profit margin analysis involves ensuring that advisor's allocation procedures are reasonable and consistent from year to year. WRIMCO uses multiple methodologies for allocation including assets, revenue, time, and square footage. The Report found that the bases of allocation have remained consistent over the past several years and that the allocation methodologies are reasonable.

#### **(6) Profit Margins from Supplying Management Services**

The Report noted that the disinterested directors of mutual funds are required to assess that the profitability of the advisory contracts to the advisor is not excessive. In connection with the Fund-by-Fund profitability review, WRIMCO provided an analysis of the profitability of each Fund. The IFC did not find the profit margins excessive.

The Report also noted that disinterested directors often review the overall profitability of the investment management company. Lipper provided benchmarks against which to evaluate the overall profitability of Waddell and other public companies in the investment business. The Report found that this analysis places Waddell near the median of Lipper peers.

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The Report stated that the IFC monitored the process, reviewed the materials, and reached the following conclusions:

- The contract renewal process conducted under the supervision of the Disinterested Directors has been careful, deliberate, and conscientious.
- The materials were prepared without bias and in sufficient detail to facilitate meaningful decisions by the Disinterested Directors and the full Boards.
- The discussion which took place leading up to and at the Disinterested Directors and Board meetings was substantive and conducted in accordance with the best interests of the shareholders of the Funds.

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# Shareholder Meeting Results

On December 12, 2008, a special shareholder meeting (Meeting) for Waddell & Reed Advisors Vanguard Fund, Inc. (Fund) was held at the offices of Waddell & Reed Financial, Inc., 6300 Lamar Avenue, Overland Park, Kansas, 66202. The Meeting was held for the following purpose (and with the following results):

**Proposal 1:** To elect thirteen Directors for the Fund.

**Michael L. Avery**

For	Against
121,493,952.891	4,277,342.664

**Jarold W. Boettcher**

For	Against
121,474,837.915	4,296,457.640

**James M. Concannon**

For	Against
121,342,110.214	4,429,185.341

**John A. Dillingham**

For	Against
121,296,825.798	4,474,469.757

**David P. Gardner**

For	Against
121,038,586.946	4,732,708.609

**Joseph Harroz, Jr.**

For	Against
121,460,213.414	4,311,082.141

**John F. Hayes**

For	Against
120,698,303.481	5,072,992.074

**Robert L. Hechler**

For	Against
120,892,288.365	4,879,007.190

**Albert W. Herman**

For	Against
121,360,127.763	4,411,167.792

**Henry J. Herrmann**

For	Against
121,522,244.347	4,249,051.208

**Glendon E. Johnson, Sr.**

For	Against
120,819,226.004	4,952,069.551

**Frank J. Ross, Jr.**

For	Against
121,447,957.777	4,323,337.778

**Eleanor B. Schwartz**

For	Against
121,264,949.776	4,506,345.779

**Proposal 2:** To approve for the Fund a proposed Agreement and Plan of Reorganization and Termination, pursuant to which the Fund would be reorganized into a corresponding series of a newly established Delaware statutory trust, to be named Waddell & Reed Advisors Funds.

For	Against	Abstain
108,161,750.310	3,439,504.606	4,804,074.941

On January 30, 2009, the Fund was reorganized as a series of Waddell & Reed Advisors Funds, a Delaware statutory trust.

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# Proxy Voting Information

## Proxy Voting Guidelines

A description of the policies and procedures Waddell & Reed Advisors Group of Mutual Funds uses to determine how to vote proxies relating to portfolio securities is available (i) without charge, upon request, by calling 1.888.WADDELL and (ii) on the Securities and Exchange Commission's (SEC) website at [www.sec.gov](http://www.sec.gov).

## Proxy Voting Records

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on Form N-PX through Waddell & Reed's website at [www.waddell.com](http://www.waddell.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

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## Quarterly Portfolio Schedule Information

A complete schedule of portfolio holdings for the first and third quarters of each fiscal year will be filed with the Securities and Exchange Commission (SEC) on the Fund's Form N-Q. This form may be obtained in the following ways:

- On the SEC's website at [www.sec.gov](http://www.sec.gov).
  - For review and copy at the SEC's Public Reference Room in Washington, DC. Information on the operations of the Public Reference Room may be obtained by calling 1.800.SEC.0330.
  - On Waddell & Reed's website at [www.waddell.com](http://www.waddell.com).
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## To All Traditional IRA Planholders:

As required by law, we are hereby providing notice to you that income tax may be withheld automatically from any distribution or withdrawal from a traditional IRA. The Fund is generally required to withhold taxes unless you make a written election not to have taxes withheld. The election may be made on the distribution/withdrawal form provided by Waddell & Reed, Inc. which can be obtained from your Waddell & Reed financial advisor or by submitting Internal Revenue Service Form W-4P. Once made, an election can be revoked by providing written notice to Waddell & Reed, Inc. If you elect not to have tax withheld you may be required to make payments of estimated tax. Penalties may be imposed by the IRS if withholding and estimated tax payments are not adequate.

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## The Waddell & Reed Advisors Funds Family

### Global/International Funds

Waddell & Reed Advisors International Growth Fund

### Domestic Equity Funds

Waddell & Reed Advisors Accumulative Fund

Waddell & Reed Advisors Core Investment Fund

Waddell & Reed Advisors Dividend Opportunities Fund

Waddell & Reed Advisors New Concepts Fund

Waddell & Reed Advisors Small Cap Fund

Waddell & Reed Advisors Tax-Managed Equity Fund

Waddell & Reed Advisors Value Fund

Waddell & Reed Advisors Vanguard Fund

### Fixed Income Funds

Waddell & Reed Advisors Bond Fund

Waddell & Reed Advisors Global Bond Fund

Waddell & Reed Advisors Government Securities Fund

Waddell & Reed Advisors High Income Fund

Waddell & Reed Advisors Municipal Bond Fund

Waddell & Reed Advisors Municipal High Income Fund

### Money Market Funds

Waddell & Reed Advisors Cash Management

### Specialty Funds

Waddell & Reed Advisors Asset Strategy Fund

Waddell & Reed Advisors Continental Income Fund

Waddell & Reed Advisors Energy Fund

Waddell & Reed Advisors Retirement Shares

Waddell & Reed Advisors Science and Technology Fund

1.888.WADDELL

Visit us online at [www.waddell.com](http://www.waddell.com)

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. For a prospectus containing this and other information for the Waddell & Reed Advisors Funds, call your financial advisor or visit us online at [www.waddell.com](http://www.waddell.com). Please read the prospectus carefully before investing.



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