

establishing and administering separate funds; (2) allowing for the development of larger pools of assets resulting in greater cost efficiencies; and (3) encouraging more insurance companies to offer variable contracts, which should result in increased competition and lower contract costs. Applicants assert that the Fund's series will not be managed to favor or disfavor any particular insurer or type of insurance contract.

7. Finally, Applicants state that, as a member of The Vanguard Group, the Fund receives the same benefits and advantages offered to the other funds in The Vanguard Group. As discussed in the application and the Vanguard Order, such benefits include the name recognition, growth of complex-wide assets, and reduced per share expenses resulting from Vanguard's complex-wide and individual fund marketing and advertising. Applicants submit that VMC incurs costs and obligations to make such benefits available and it would not be fair to the other funds in The Vanguard Group, or permissible under the Vanguard Order, to free the Fund of its share of such costs, since it participates in the benefits of such efforts.

Applicants' Conditions

Applicants consent to the following conditions if an order is granted:

1. A majority of the Fund's Board of Trustees ("Board") shall consist of persons who are not "interested persons" of the Fund, as defined by Section 2(a) (19) of the 1940 Act, except that if this condition is not met by reason of death, disqualification, or bona fide resignation of any trustee, then the operation of this condition shall be suspended (a) For a period of 45 days if the vacancy or vacancies may be filled by the Board; (b) for a period of 60 days if a vote of shareholders is required to fill the vacancy or vacancies; or (c) for such longer period as the Commission may prescribe by order upon application.

2. The Board will monitor the Fund for the existence of any material irreconcilable conflict between the interests of the contractowners of all separate accounts investing in the Fund. An irreconcilable material conflict may arise for a variety of reasons, including: (i) An action by any state insurance regulatory authority; (ii) a change in applicable federal or state insurance, tax, or securities laws or regulations, or a public ruling, private letter ruling, or any similar action by insurance, tax, or securities regulatory authorities; (iii) an administrative or judicial decision in any relevant proceeding; (iv) the manner

in which the investments of any series are being managed; (v) a difference in voting instructions given by variable annuity contractowners and variable life insurance contractowners or contractowners of different Participating Insurance Companies; or (vi) a decision by an insurer to disregard the voting instructions of contractowners.

3. Participating Insurance Companies and Vanguard will report any potential or existing conflicts to the Board. Participating Insurance Companies and Vanguard will be responsible for assisting the Board in carrying out its responsibilities under these conditions by providing the Board with all information reasonably necessary for the Board to consider any issues raised. This includes, but is not limited to, an obligation by each Participating Insurance Company to inform the Board whenever contractowner voting instructions are disregarded. The responsibility to report such information and conflicts and to assist the Board will be contractual obligations of all Participating Insurance Companies under their agreements governing participation in the Fund and such agreements shall provide that such responsibilities will be carried out with a view only to the interests of the contractowners.

4. If it is determined by a majority of the Board, or a majority of its disinterested trustees, that a material irreconcilable conflict exists, the relevant Participating Insurance Companies shall, at their expense and to the extent reasonably practicable (as determined by a majority of the disinterested trustees), take whatever steps are necessary to remedy or eliminate the material irreconcilable conflict, which could include: (i) Withdrawing the assets allocable to some or all of the separate accounts from the Fund or any series thereof and reinvesting such assets in a different investment medium (including another series of the Fund) or submitting the question of whether such segregation should be implemented to a vote of all affected contractowners and, as appropriate, segregating the assets of any appropriate group (*i.e.*, annuity contractowners, life insurance contractowners, or variable contractowners of one or more Participating Insurance Companies) that votes in favor of such segregation, or offering to the affected contractowners the option of making such a change; and (ii) establishing a new registered management investment company or managed separate account. If a material irreconcilable conflict arises because of a Participating Insurance Company's

decision to disregard contractowner voting instructions and that decision represents a minority position or would preclude a majority vote, the Participating Insurance Company may be required, at the Fund's election, to withdraw its separate account's investment in the Fund, and no charge or penalty will be imposed as a result of such withdrawal. The responsibility to take remedial action in the event of a Board determination of a material irreconcilable conflict and to bear the cost of such remedial action shall be a contractual obligation of all Participating Insurance Companies under agreements governing their participation in the Fund and these responsibilities will be carried out with a view only to the interests of the contractowners.

For the purposes of this condition (4), a majority of the disinterested members of the Board shall determine whether or not any proposed action adequately remedies any irreconcilable conflict, but in no event will the Fund be required to establish a new funding medium for any variable contract. No Participating Insurance Company shall be required by this condition (4) to establish a new funding medium for any variable contract if an offer to do has been declined by a vote of a majority of contractowners materially adversely affected by the material irreconcilable conflict.

5. The Board's determination of the existence of an irreconcilable material conflict and its implications shall be made known promptly in writing to all Participating Insurance Companies.

6. Participating Insurance Companies will provide pass-through voting privileges to all variable contractowners for so long as the Commission continues to interpret the 1940 Act as requiring passthrough voting privileges for variable contractowners. Accordingly, the Participating Insurance Companies will vote shares of the Fund held in their separate accounts in a manner consistent with the voting instructions timely received from contractowners. Participating Insurance Companies will be responsible for assuring that each of their separate accounts investing in the Fund calculates voting privileges in a manner consistent with other Participating Insurance Companies. The obligation to calculate voting privileges in a manner consistent with all other separate accounts investing in the Fund shall be a contractual obligation of all present and future Participating Insurance Companies under their agreements governing participation in the Fund. Each Participating Insurance Company also will vote shares of the