Reflections on Wellington Fund's 75th Birthday

From an Investor and Crewmember for 53 years, and a Chairman for 27 Years

Before the events of Wellington Fund's past 75 years vanish into the dustbin of history, I'm pleased to contribute a few memories of that era of, as we said a half-century ago, "prosperity and depression, war and peace, and political change." In the years since then, we've clearly seen more of the same—except that *recession* has, so far at least, replaced *depression*.

Founded by Walter L. Morgan on December 27, 1928, Wellington Fund has followed the same balanced approach to investing ever since it began operations in mid-1929. Without exception, it has maintained an extremely broad diversification of stock and bond investments, and, with only a few intermittent aberrations (later corrected), a relentless focus on high investment quality.

From the very outset, Wellington's three-fold objective has remained constant: (1) Conservation of Capital, (2) Reasonable Current Income, and (3) Profits Without Undue Risk. These goals have stood the test of time, and have been importantly responsible for the remarkable string of 298 consecutive quarterly dividends paid to the Fund's shareholders. The Fund's stalwart consistency in hewing to its conservative investment approach has played a major role in its asset growth and acceptance by millions of investors.

But while consistency has been the hallmark of the Fund's role as *trustee* of other people's money, change has punctuated its *business* activities. As was the mode of the early mutual fund industry, the Fund was formed as a "stand-alone" fund, and didn't even adopt the Wellington Fund name until 1935. Three decades passed before it was joined by Windsor Fund in 1958 as the second member of today's 118-fund Vanguard family. Further, during almost all of Wellington's first half-century, its shares were distributed to investors by stockbrokers who were paid sales loads for their efforts, a system abandoned in 1977 when shares began to be offered directly to investors on a commission-free basis.

Perhaps the biggest change of all came in 1974, when The Vanguard Group was formed and Wellington became a charter member. With the creation of this innovative *mutual* structure, Wellington and its sister funds assumed responsibility for, in effect, the *trusteeship* side of the enterprise, with Wellington Management Company, the fund's long-time investment adviser, handling the management of the Fund's securities portfolio in accordance with the policies established by the Fund's board of directors.

The change in structure resulted in a sharp reduction in the Fund's management fees and operating costs, and recognition by the advisor that improved performance was essential to the firm's continuing engagement. At the same time, the climate of the stock and bond markets began an improvement that would continue for most of the subsequent quarter-century-plus. These changes, along with, most importantly, the modifications in Wellington's investment strategy that the Board adopted in 1978 would lead to an era that would prove to be by far the most productive in the Fund's long history.

Asset growth has been remarkable. Wellington Fund began, all those 75 years ago, with just $100,000 of assets. When assets crossed the $1,000,000 mark in 1934, Mr. Morgan was exuberant. The $10-million mark was crossed in 1943, the $100 million mark in 1949, and the $1-billion mark in 1959. After cresting at $2 billion in 1965, the Wellington's long era of growth came to a temporary halt. Performance faltered badly, the dividend tumbled, and fund assets plummeted by 75 percent, to $470 million by mid-1982. Then the renaissance began. The performance laggard became a performance leader among its balanced fund peers, and self-motivated, independent investors joined the fund in droves. Fund assets steadily rose, and now total $27 billion, the largest balanced fund in the world.

Walter Morgan served as Wellington's Chairman for 42 years before turning the reins over to me in 1972. I'm proud to have served in that role for another 27 years, including two years as senior chairman. As an employee ever since 1951, to say nothing of being a pleased and proud shareholder throughout that entire long period, I have been a witness to more than 52 years of Wellington's 75-year history, and privileged to play a major role in shaping that history. In each of these capacities—leader, servant, and owner—I'm proud to dedicate this extensive 75th birthday card to the memory of Mr. Morgan, my predecessor, my sponsor, my mentor, my hero, and my friend for a full half-century.

Walter Morgan would want you to enjoy reading this history, to learn from it, and to take from it what you may. Happy 75th Birthday to Wellington Fund!

Sincerely,

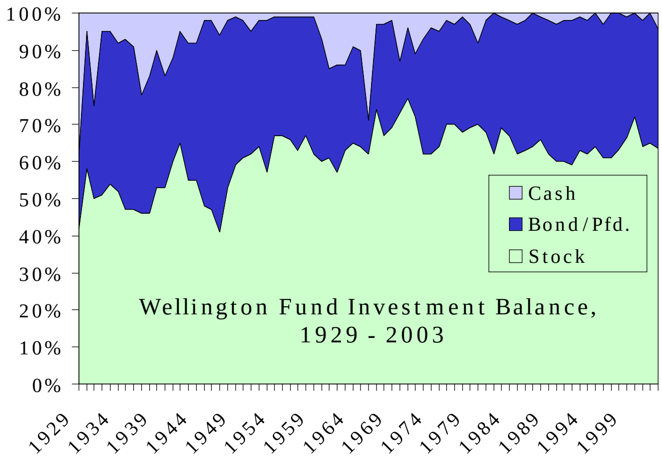
John C. Bogle

Note: The opinions expressed in this speech do not necessarily represent the views of Vanguard's present management.

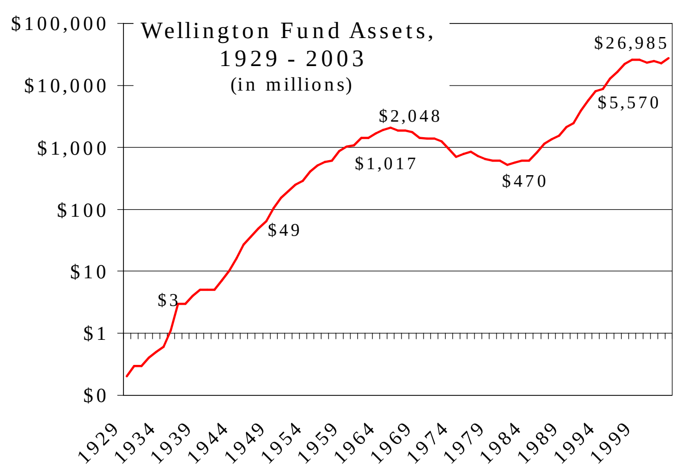
The Key to Wellington's Success

Ever since it began operating, Wellington Fund has been committed to a policy of *balanced* investing—a portfolio mix centered around 60 percent common stocks and 40 percent bonds, preferred stocks, and cash. During the Fund's first three decades, the cash portion varied widely, and preferred stocks constituted a major asset class, but since 1970 neither has constituted a significant portfolio component. Over the past quarter-century, the common stock ratio has rarely varied far from 65 percent of assets, with bonds (and a small cash position) constituting the remainder.

Consistent Policies . . .



. . . Lead to Strong Asset Growth



While the investment conditions affecting each of these asset classes varied wildly, the over-all consistency of Wellington's balanced policy during its 75-year existence has clearly fostered Wellington Fund's growth. Note especially the remarkably steady growth in assets from 1929 through the 1965 peak. (This semi-log chart reflects annual percentage changes in the Fund's assets.) As balanced funds became passé during the speculative "go-go years" of the mid 1960s, that growth came to a halt. The bear market that followed in 1973-74 slashed the assets of stock funds and balanced funds alike, and the Fund's assets fell by 75 percent. A revamping of Wellington's policies in 1978, focused on a relatively stable equity ratio and an emphasis on dividend income, returned the Fund to its traditional moorings, and its earlier pattern of growth promptly resumed.

Walter Morgan on the Founding of Wellington Fund*

December 27, 1928, was the day the Fund was born. Not an important date, really, but simply the date on which were filed, in the State of Delaware, the variety of drab legal documents that breathe life into a corporation. At that point in time, then, an idea became a business in being. Small, humble, and insignificant, to be sure, but with the potential of success in its future—a future that in many respects had been determined by what went before.

The idea that kept coming into my mind in the early days was, like most good ideas, the essence of simplicity: to combine a group of individual investment accounts into a single large fund, which could be diversified broadly over perhaps a hundred or more securities, and managed efficiently by trained investment experts. To develop such a "mutual fund," of course, would require promotional, analytical and managerial abilities that were to come in part from my heredity and my training, and in even greater part from my good fortune in surrounding myself with people who knew more than I did.

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After my own accounting firm, Morgan and Company, opened its doors for business in 1925, it was not long before investment advice and tax counseling became the dominant part of my business. I was glad to advise clients, not only on their tax affairs, but also on the handling of their investments, because this was my first love and still is. At the same time, a recurrent theme kept repeating itself over and over in my mind: There must be a better way to handle investment management than to advise a large number of individual accounts. There must be a better way to diversify investments than the purchase of only a few securities. There must be a better way to handle the problems of safekeeping a large number of securities, clipping hundreds of bond interest coupons, recording multiple purchases and sales and dividends. There must be a better way. The solution to the problem was obvious: if substantially the same investment problems were shared by all of these individual accounts, why not consolidate them into a single fund?

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On July 1, 1928, Industrial and Power Securities Company [the Fund's original name] had slightly over $100,000 of assets and began operations. In retrospect, we had chosen the worst time in the financial history of the United States to launch a new investment vehicle. Yet in another way, what good fortune we had to launch a conservative fund just a few brief months before the merits of conservative investing were to be so amply demonstrated. And how fortunate we were that the perception, the ability, and of course the good luck of our management team in selling stocks in a substantial way before the crash were vindicated by the events of that tragic October.

As a result of our conservative philosophy and our management moves, the Fund's asset value demonstrated a resistance to decline, a relative stability of value, unmatched by virtually any other investment trust or mutual fund in the last half of 1929. New capital had started to flow little by little into the Fund and as our first year ended, total assets were $195,000. We were on our way!

* * * * *

I had chosen the name Wellington for the management company for a variety of reasons. I had been a student and admirer of the life of Wellington for years, and was fascinated with the history of his military campaigns. My admiration for the "Iron Duke" carried over to many things English, especially antique silver and furniture. The Wellington name, furthermore, had not been used by other American financial institutions, which was not the case with the well-known United States heroes—Washington, Jefferson, Hamilton, Lincoln, and others. Most important of all, Wellington was a name easy to remember; it was distinctive; it had a magical ring to it, a sort of indefinable air of quality about it that made it almost perfect as a name for a conservative financial organization.

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*From *Business Decisions that Changed our Lives,* "Main Street Comes to Wall Street—A New Investment Concept is Born," by Walter L. Morgan. Random House, 1964

The fund's original name was chosen because it was in tune with the 1920s. For the 1930s, however, it was rather off-key. The trials and tribulations of the closed-end trusts, many of which had gone completely and forever underwater in the cataclysm that shook the economy, had given the over-used “industrials” a bad connotation. “Power” in particular was bad news, as a result of collapse of the utility holding companies. Perhaps even more important, no one could remember our name, and more and more people began to refer to Industrial and Power Securities as “a Wellington fund,” that is, one of the accounts under Wellington Corporation management.

So (the obvious) decision was easily made. On July 11, 1935, Industrial and Power Securities Company became Wellington Fund, Inc. Since the name was easy to remember, it was well-suited to help us accomplish one of our major early objectives: to make Wellington a household name like “Cadillac,” “Coca-Cola,” or “Tiffany.” There is no question in my mind that the choice of the Wellington name was one of the cornerstones of our success.

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As trustees and experienced managers, we will continue to carry on our dutues with a high sense of fiduciary responsibility. It is this sense of responsibility, together with our constant belief in conservative investing, that help us to bring Main Street to Wall Street on a sound financial footing. The concept of conservative balance that was pioneered when Wellington Fund was born in 1928 was simply one tributary in the river of mutual fund progress that brought to the average American family a modern method of investing. It is this investment method that will help to shape the financial future of millions of Americans in the years to come.

“Beyond The Headlines”

In late 1944, Wellington published a remarkable history of the Fund’s first fifteen years, proudly noting its asset growth to almost $25 million(!), the tenth largest firm in the industry. The brochure, entitled “Beyond the Headlines,” presented a detailed analysis of the Fund’s policies and strategies, and the historical events and stock market actions during each five-year segment of the 1929-1944 period. The next two pages are excerpts from this handsome publication covering the first two of those segments. During the third segment, World War II began. Although peace was not yet at hand when the brochure was published, Mr. Morgan’s accompanying letter closes on an optimistic note: “There is no way to guarantee that just because a management has effected notably satisfactory investment achievement in the past, it is going to continue to do so in the future. It does seem logical to assume, however, that a management which has gone through the actual experience of the 1929 crash, and the depression, and the last five war years, would have a worthwhile background and a real ability to meet future problems in a satisfactory manner.” And, so, on balance, it did.

The First Five Years 1929-1933

During which WELLINGTON FUND met and overcame the problems of a boiling stock market and its subsequent collapse

1929 WELLINGTON FUND began business in April, 1929, and its management was soon faced with the question of how far to go along with the "new Era" philosophy. Should we unqualifiedly accept this philosophy and have all our funds in common stocks? Should we agree with the public that the 1928-29 rise was "only the beginning" or should we pursue a conservative course and recognize the risk factors in that boiling market?

WELLINGTON Management in the summer of 1929 believed that stocks could not advance much farther and that the price level was highly vulnerable, being away out of line with intrinsic values and earnings.

By the time the market had reached its high point in September, 1929, as the following table shows, we had built up a large cash reserve and reduced common stocks to 41.77% of assets as compared with 78.02% on June 30th.

	Cash	Bonds	Preferred Stocks	Common Stocks
June 30, 1929	7.99%	None	13.99%	78.02%
July 31, 1929	39.31%	10.37%	17.19%	33.13%
Sept. 3, 1929	37.89%	4.84%	15.50%	41.77%

Some idea of the market price level at that time may be gleaned from the prices realized by WELLINGTON FUND for some of the common stocks which we sold before the crash in 1929:

Atchison	$278
Curtis Publishing	$124
Union Pacific	$288
U.S. Steel	$258
Westinghouse	$286

1930
1931 In common with many other individual investors and groups, WELLINGTON management in 1931 temporarily invested a substantial portion of cash reserves under the widely held belief that the market might rally. The largest portion of the investments was in common stocks though preferreds were also increased.

However, during 1931 it became evident that the market decline would continue and WELLINGTON, by liquidation of both classes of securities, reaccumulated its cash reserves. Cash had been increased from 3% of total resources at the end of 1930, to 28% at the end of 1931.

1932
1933 During these two years, the chief problem was to decide when deflation would end and whether it had run its course after the summer rally of 1932.

It was in this period that WELLINGTON first began to accumulate substantial holdings of discount bonds, then selling at .40c to .50c on the dollar. Of course in these years we also continued to hold or purchase selected common stock issues.

In other words, the WELLINGTON management felt that if the market were going to advance it would enjoy profits in these securities as well as in common stocks but that if the market decline continued, the Fund's assets would be better protected in these undervalued senior securities.

The Second Five Years 1934-1938

WELLINGTON FUND profits materially from its investments in undervalued Bonds and Preferred Stocks

1934 In this year, WELLINGTON performed better than the market by approximately 20%—primarily because of our large investments in undervalued bonds and preferred stocks. Such utility bonds as Central Illinois Public Service 5½'s of 1968; Central Gas & Electric 5½'s of 1946; Indiana Service 5's of 1963; Puget Sound 5½'s of 1949' Southeastern Power & Light 6's of 2025 and Washington Suburban 5½'s of 1941 appreciated 40% to 60% during the year.

Notable appreciation was also enjoyed in certain railroad bonds, certain specialties (such as Time, Inc. Convertible Preferred) and in certain selected issues in the common stock field such as the following:

Electric Auto Lite	42%
Gillette Safety Razor	51%
Horn & Hardart, N.Y.	32%
Swift International	61%
Third National Investors	49%

1935
1936 During these years the WELLINGTON management continued its policy of broad diversification in bonds, preferred stocks and common stocks. Holdings of undervalued preferred stocks were substantially increased during 1936 while the ratio of bonds was reduced, primarily because the bonds had advanced to a price where they no longer seemed attractive. Even with this diversified investment program, WELLINGTON FUND advanced nearly as much as the common stock market during these two years. The WELLINGTON appreciation in price including dividends was 73.7% while common stock prices as measured by the Dow-Jones Composite Stock Average advanced 79% including dividends.

1937 The performance of WELLINGTON during the 1937 depression was about the same as the market. A decline was experienced despite the fact that for the first seven months of 1937 holdings of common stocks averaged less than 50% of resources and the further fact that cash reserves were increased form a low point of 1.8% on June 30, 1936 to 10.5% in March 1937 and to over 22% on December 31 of that year.

All those factors which are generally considered characteristic of sound management were offset because certain utility stocks and rail bonds declined more than the market. These two groups had less resistance to decline than we had expected, due to the Government's attitude towards utilities, drastically lower rail earnings and the change in rules for bank investments restricting holding of rail bonds.

1938 As a result of the general decline of the market and coincidental fall in corporate earnings WELLINGTON was too conservative early in 1938. The market was fluctuating nervously and WELLINGTON management built up cash reserves, thereby missing the first market advance from 98.95 on March 31 to 133.88 on June 30. WELLINGTON appreciation for 1938, therefore, was only 18% while the Dow-Jones Composite Average showed 27.6%. As events turned out, assumption of more risk and purchase of more equities in 1938 would have proved more profitable—another case of "hindsight is more accurate than foresight."

Nevertheless, 18% was a substantial appreciation. Furthermore, if WELLINGTON FUND had been fully invested in 1938, it might not have been as fortunate in its timing in 1939. If both years 1938 and 1938 are considered in conjunction as a single period, the WELLINGTON record compares favorably with that of the general market.

1945-1982: 28 Years of Feast, 10 Years of Famine

1945-1964. Peace returns. The end of World War II in June 1945 was the beginning of a new era for the financial markets. As peace returned and the post-war economy began to grow, investor confidence returned, ushering in a long period of sustained growth for the mutual fund industry. After the flat markets of 1946-1949, stocks began to generate some of the largest gains in their history—up over 100 percent in 1949-1952, and then up another 100 percent in 1954-1956. This advance was driven largely by substantial increases in corporate earnings, which nearly quadrupled from 1945 through 1955.

1965-1968. The "Go-Go" Years. What was labeled as a "New Era" for the stock market (but of course was not) came to pass during the mid-1960s, as "concept stocks," supported by illusion rather than reality, emerged as market leaders. The mutual fund industry jumped on the bandwagon with "performance funds," which quickly came to dominate both the industry's agenda and its cash flows. The earlier popularity of balanced funds began to recede.

1969-1972. The "Favorite Fifty" Boom. While the Go-Go era quickly faded, it was superceded by an equally insidious sort of speculation. Earnings of the largest companies were growing sharply, and this list of growth stocks became known as the "Favorite Fifty." Fund sponsors promoted their "established growth funds," which replaced "aggressive growth funds" as the choice of fund buyers. While the stock market faltered in 1969-1970, it made a final upward surge during 1971-1972, adding 35 percent to its earlier gains.

1973-1974. The Inevitable Bust Follows. When stock prices were soaring, alas, corporate profits were not. In fact, earnings in 1970 were actually lower than in 1964, and by early 1973 price-earnings multiples reached 21 times earnings versus a mere 7 times when the bull market began in 1949. The market was riding for a fall, and it quickly took one. From the January 1973 high to the October 1974 low, stocks fell by fully 50 percent, the largest market decline since the Great Crash of 1929-1933.

1975-1981. Recovery and Consolidation. During the first two years of this period, stocks mounted a snappy recovery, only to decline fitfully during two of the next six years. The return on stocks during the decade of the 1970s averaged just 5.8 percent per year, a return that would prove to be the second lowest for any decade of the 20th century. Meanwhile, bond yields, which had remained at historically (and artificially) low levels—in the 2 percent to 5 percent range—from the 1930s through the 1960s, soared to unprecedented heights. During the late 1970s and early 1980s, the Federal Reserve, determined to stop the high inflation that was doing great damage to the economy, pushed interest rates on long-term bonds to a peak of 16 percent in 1981, with bond prices plunging accordingly.

1951-1978: A Personal Note
Behind the Scenes at Wellington

When I joined Wellington in 1951, I quickly learned to marvel at the consistency of the Fund's investment approach. At first, the post-1949 bull market brought little change to its traditional conservatism. While balanced fund returns of course lagged the returns of their stock fund cousins, investors continued to put their money to work in Wellington Fund, albeit at gradually diminishing levels. But as the 1960's wore on, Wellington began to lag its balanced fund peers, at first slightly, then sharply. During 1963-1966, the Fund's disappointing 5.1percent annual return was barely one-half of the 9.3 percent return of the average balanced fund.

At the same time, the Go-Go years were in full flower, and the idea that we were in a new era was rife. In 1965, Mr. Morgan entrusted me with the responsibility to prepare our organization for the future, and I responded swiftly—and, alas, unwisely. I believed that we needed smart new managers to run the Fund, that we needed to add an aggressive growth fund to our "product line," and that we should diversify beyond the mutual fund field into pension management. As 1966 began, almost miraculously, an opportunity arrived, to do all three things in one fell swoop. Under my headstrong and overly-self-confident leadership, we merged Wellington Management Company with Thorndike, Doran, Paine and Lewis, Inc., a relatively small but rapidly-growing Boston investment counsel firm that also managed the aggressive Ivest Fund, which within a few years after the merger would hold the record as the top five-year performer in the entire mutual fund industry.

Departing from Tradition— Excerpts from the 1967 Annual Report

"Change is a starting point for progress, and 1967 was a year of change for Wellington Fund. Obviously, times change. We decided we too should change to bring the portfolio more into line with modern concepts and opportunities. We have chosen "dynamic conservatism" as our philosophy, with emphasis on companies that demonstrate the ability to meet, shape and profit from change. (We have) increased our common stock position from 64 percent of resources to 72 percent, with a definite emphasis on growth stocks and a reduction in traditional basic industries.

"A conservative investment fund is one that aggressively seeks rewards, and therefore has a substantial exposure to capital growth, potential profits and rising dividends . . . (one that) demands imagination, creativity, and flexibility. We will be invested in many of the great growth companies of our society. Dynamic and conservative investing is not, then a contradiction in terms. A strong offense is the best defense."

With my approval, our bullish and innovative new managers set out to "modernize" Wellington Fund. The equity ratio was raised from 62 percent in 1966 to 74 percent in 1967, and, in 1971, shortly before the bull market crested, to an all-time high of 77 percent. Holding more and more equities as the stock market became increasingly speculative was not the only problem. The equity position was also moved away from its traditional base of large blue-chip stocks to smaller stocks believed to have greater growth potential. In the Fund's 1967 Annual Report we proudly announced these changes to our shareholders. (See box on previous page.)

Rather than improving the Fund's record, however, these changes devastated it. During 1967-1972, we lagged our peers by almost four full percentage points per year (5.6 percent vs. 9.1 percent). We didn't do much better during 1973-1978, lagging by another two percentage points annually (2 percent vs. 4 percent). We had set out to improve the lagging performance that Wellington had delivered during the early 1960s, and had only succeeded in making it worse.

The Wellington problem was not the only problem created by the newly-merged firm. In the bear market, Ivest Fund collapsed, along with the other funds we had created to share in the blessings of a "New Era" that never came into existence. Our fund and counsel assets tumbled, and in January 1974, the Boston managers, strongly represented on the management company board, fired me. It was not a happy moment.

An Opportunity in Deep Disguise

But in the combination of terrible market conditions, our declining asset base, the collapse of our aggressive growth funds, and the demise of Wellington Fund's performance lay, however deeply disguised, the opportunity of a lifetime. While I was "out" as Wellington Management's chief executive, I remained "in" as chairman and president of Wellington Fund and its sister funds. After eight months of laborious study and give-and-take, I was able to persuade the Fund directors to retain me in my posts and build a small staff to administer the funds' accounting, shareholder record-keeping, and legal affairs. We formed a new corporation to handle these responsibilities, wholly-owned by the funds themselves and operating on an at-cost basis—a truly mutual structure, unique in the industry. The name I chose for the new firm, of course, was *Vanguard*—The Vanguard Group, Inc.

Under the new structure, the funds' staff would also oversee and evaluate the investment performance and marketing results of Wellington Management in its continuing role as adviser and distributor to the Vanguard funds. I was determined, above all, to restore Wellington Fund to its earlier glory, for I had failed, however unintentionally, to live up to Mr. Morgan's trust in me. Restructuring Wellington Fund would be no easy task, but, with a helping hand from Princeton professor Burton Malkiel, who had joined our Fund boards in 1977, we got it done, and directed Wellington Management Company to implement the restructuring.

Sometimes in life, we make the greatest forward progress by going backward. That is just what we did when we decided to take Wellington Fund back to its roots. The Board agreed to our policy recommendations: (1) Hold the equity ratio firmly within a range of 60 to 69 percent of assets; (2) Emphasize large blue-chip stocks, with a significant representation of both value stocks and growth stocks; (3) Sharply increase the Fund's dividend income, which, given the fund's mandatory position in high-grade bonds, would require the sale of many of the portfolio's low-yielding growth stocks, with the proceeds reinvested in higher-yielding value stocks. We announced these changes in our 1978 Annual Report. (See box below.)

Returning to Tradition— Excerpts from the 1978 Annual Report

"We believe a greater emphasis on current income would enhance Wellington Fund's ability to meet the needs of its shareholders. Your Board of Directors has approved a change in investment approach which will increase the amount of dividends earned on the Fund's common stock investments. This goal should increase the likelihood of a growing dividend, and be accomplished without any material sacrifice of "total return" potential (income *plus* capital appreciation).

"This strategy does not contemplate any change in the fund's stock/bond ratio (now 68 percent of assets), which will continue to represent between 60 percent and 70 percent of net assets. (The) additional investment income will be primarily generated by orienting portions of our common stock holdings to higher yielding issues with dividend growth potential . . . We launched a vigorous program for increasing current income in the closing months of 1978, and plan to further increase the emphasis on income in 1979."

Wellington in the Modern Era 1978-2003

From 1929 through 1964, Wellington Fund's investment policies and equity selections had been the responsibility of its Investment Committee, with Walter Morgan and investment chief A. Moyer Kulp the strongest voices. (Brandon Barringer's early active participation gradually declined, and Rawson Lloyd became the third major voice during the 1950s and early 1960s.) But even as the fund industry was shifting its *modus operandi* from the collective judgment of an investment committee to the individual judgment of a portfolio manager, so, in 1960, did Wellington—first with Robert Cummin, then Robert Steinburgh, then Walter Cabot, then Daniel Ahearn, and then, as 1973 began, Vincent Bajakian.

The record of his predecessors speaks for itself. Vin Bajakian was the first to succeed in getting the Fund moving in the right direction, though it took a few years. But when the new marching orders were handed down by the Wellington board in 1978, he was not pleased. He believed that growth stocks were the optimal choice, and that the use of higher-yielding stocks would harm performance. Happily for the Fund's shareholders, however, he signed on to the new strategy. The portfolio veered away from growth and toward value, and the Fund's income dividends began a sharp and steady increase.

Assuming the reinvestment of the substantial capital gains distributions paid by Wellington since its inception, the Fund's initial income dividend of $0.50 per share in 1930 had dropped to $0.20 in 1939, before gradually quadrupling to $0.83 in 1966. But it had increased only to $0.97 in 1977, just before the new income-oriented policy was introduced. The income leaped ahead—in 1979 to $1.32, then $1.50, then $1.68, then $1.74, then $1.82, and then, in 1984, to $1.87. In just seven years, a 93 percent increase, all the while with the Fund's bond position held constant in the 35 percent range.

Vin Bajakian deserves great credit for adjusting to the new strategy and, by judicious stock selection, making it work so effectively for shareholders. His tragic death while flying his own airplane in 1995 could have been a major setback, but Wellington Management chose investment veteran Ernst von Metzsch to succeed him, and he continued to deliver returns that were superior to those of his balanced fund peers until his retirement in 2002. His successor, Wellington's Edward Bousa, is already off to a fine start.

These equity managers did their work well. But they were more-than-ably supported by Wellington's bond managers, who maintained a fixed income portfolio for which high investment quality was the watchword. Paul Sullivan led these professionals during 1972-1995, ably succeeded by Paul Kaplan. They also share in the credit for the Fund's renaissance.

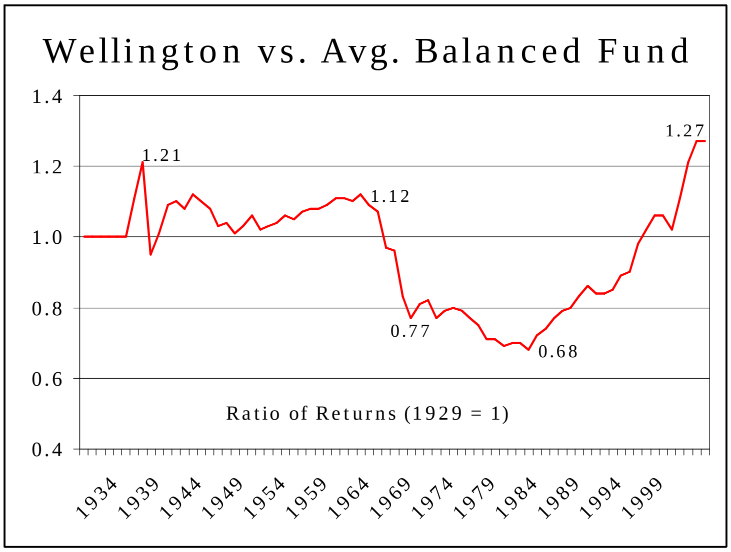
The Great Bull Market was the dominant force shaping the investment world during the past quarter century. Despite Wellington Fund's conservatism it gave a good account of itself in the long upsurge in stock prices through early 2000, and an even better account in the ensuing bear market, with its subsequent recovery during October 2002-December 2003, the Fund has actually generated a positive return of 32 percent since the bull market peak, a remarkable testimonial to the value of a balanced fund.

The chart below reflects the ratio of the cumulative returns of Wellington Fund during its lifetime to the cumulative returns of the average balanced funds. It clearly reflects: (a) the Fund's steady competitive performance from 1930-1962; (b) the lag in 1961-1965 that resulted in the decision to follow a new, more aggressive strategy; (c) the subsequent results for 1966-1968 that were even worse; and (d) the subsequent brief period of stability, followed by a further decline; and (e) the reality that the return to the Fund's conservative tradition in 1978, at first produced no more than competitive returns through 1982. Ever since, however, the Fund's performance has been a study in superiority.

During the 25 years from 1978 to 2003, Wellington has outpaced its average rival in 18 years, essentially equaled them in two, and fallen short in just five years. The returns for the full period reflect Wellington's truly remarkable superiority during the Fund's finest era.

Annual Returns – 1978-2003

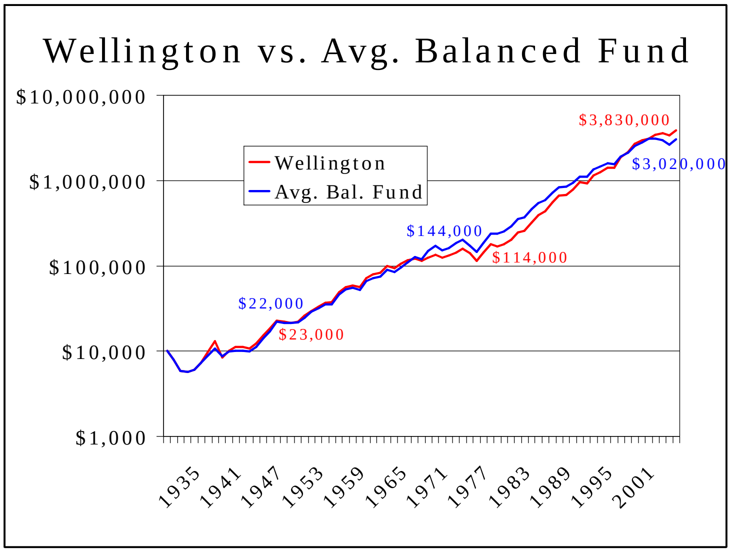
	Annual	Cumulative
Wellington Fund	+13.1%	+2058%
Average Balance Fund	+10.5	+1108
Wellington Advantage	+2.6%	+950%



Wellington's Lifetime Record-1929-2003

The chart below compares the results of an investment of $10,000 in Wellington Fund at its inception right up to its 75th birthday in 2003 with a similar investment in the average balanced fund. (Since there were only a tiny handful of similar funds until 1935, we've assumed equal records during 1930-1934.) It takes into account the Fund's beginning at one of the most inopportune moments in U.S. financial history, the following years of "prosperity and depression, war and peace, political change," the near two-decade period when it lost its traditional bearings and fell far behind, and its remarkable recovery during the past quarter-century. It is a thrill to see that the initial $10,000 investment in Wellington would now be valued at $3,830,000(!) vs. $3,020,000 for the average balanced fund.

When compounding has three-quarters of a century to work its magic, amazing things happen. Even when the initial investment is made just before the 1929-1933 stock market crash, the worst in U.S. history, the superficially modest annual returns earned by Wellington Fund (8.4 percent) and by the average balanced fund's (8.0 percent) grow to staggering levels, and that small annual advantage compounded into a *huge* cumulative margin of advantage. (Of course, these returns are measured in *nomina*l dollars, ignoring the huge bite that inflation would have taken had we used *rea*l dollars, and the burden of taxes has been ignored as well. The real world is a tough place!) Nonetheless, the Wellington Fund's 75-year record is a proud one, and we can hope that in the next quarter-century it will be maintained and enhanced. Who's to say that Wellington Fund's 100th birthday in 2028 will not call for an even larger celebration than its 75th birthday?



POSTSCRIPT #1 - Don't Forget Costs!

While we have every right to bask in the glory of Wellington Fund's record of success, it's important to note that the accomplishments of its managers have been greatly enhanced by the substantial advantage that the Fund has enjoyed by operating at a cost dramatically lower than its peers.

When I joined Wellington in 1951, its expense ratio of 0.55 percent was already well below the 0.74 percent ratio of its balanced fund peers, a 19 basis point annual advantage. A quarter century later, the gap was only slightly larger: Wellington 0.56 percent, peer group 0.84 percent, a 28 basis point advantage. Then the Fund began to operate under Vanguard's at-cost structure and, equally importantly, to negotiate fees with Wellington Management Company at arms-length. Our cost advantage then accelerated dramatically.

By 2002, under Vanguard's aegis, the Wellington Fund expense ratio had declined to just 0.36 percent. Yet the balanced fund ratio has gone *up* even faster than the Wellington's has gone down, rising to a staggering 1.28 percent last year. Result: Wellington now enjoys a truly awesome 92 basis point edge—nearly one percentage point per year in extra return! Over the full half-century-plus, Wellington's ratio averaged just 0.44 percent vs. 0.91 percent for its peers.

Think about it this way:

Annual Returns – 1951-2003

	Before Costs	Expense Ratio	After Costs
Wellington Fund	10.09%	0.44%	9.65%
Average Balance Fund	10.11	0.91	9.20
Wellington Advantage	-0.02%	-0.47%	+0.45%

Unarguably, then, it was low cost that turned Wellington Fund's competitive record into a winning record after the Fund's substantial cost advantage came into play. Compounding that advantage allowed—despite the return being a hair behind the average balanced fund *before* the deduction of costs—an initial $10,000 investment in Wellington to grow to $1,203,000 over 50 years, compared to $917,000 for the average balanced fund. Do I even need to say it? *Costs matter!*

POSTSCRIPT #2 – Something You Probably Never Knew.

One of the prime sources of Wellington's success in the marketplace of the brokers who sold the Fund's shares during its first half century, and among the investors who owned them, was the fund's dividend policy. Sadly, that same dividend policy was, in my judgment (and I was there!), a major source of the Fund's failure during the 1960s and 1970s—the gradual, yet unmistakable, deterioration of its relative investment performance.

This dividend policy was not a mystery. Indeed, it was clearly described in "Beyond the Headlines" in 1945: The Fund's policy is "to endeavor to pay dividends (sic) at such a minimum annual rate as would represent a reasonable return on asset value, including ordinary net income from interest and dividends, special dividends from security profits . . . and a portion from paid-in surplus (when necessary) to maintain a reasonable return to shareholders." An accompanying table shows a 15-year string of total distributions averaging about $0.90 per share, (unadjusted for the Fund's 2-for-1 stock split in 1956) with few major variations, but with the sources of the distributions undisclosed.

This policy of regularly paying distributions from sources other than investment income and calling them "dividends" infuriated our competitors. Many believed that such payouts of capital gains (and, of course, surplus) were simply returns of capital to investors. In 1950, the NASD banned the practice of lumping together distributions from any other source with income dividends. The Wellington figures, accordingly, were restated and later reports showed that the original $0.90 cent per share average included $0.60 of income, $0.27 of capital gains, and $0.03 from paid-in surplus.

But while the reporting rules changed, the Fund's policy did not. Shareholders and dealers had gotten used to the high payouts and couldn't be weaned away. As the income dividend grew, so the capital gains distribution grew apace. In the 1940s, income dividends averaged $0.30 per share, capital gains distributions, $0.22. In the 1950s, $0.44 and $0.34. And in the 1960s, $0.47 and $0.43. Of course, each payout of capital made it more difficult for the per share dividend income to be sustained.

The 1950s and 1960s, were robust decades for corporate dividend growth. Rising stock prices, engendered in part by this dividend growth, meant that capital gains were relatively easy to realize, simply by selling the portfolio holdings with the largest appreciation. But by 1970, well before the bear market of 1973-1974, the string ran out.

By that time, the Fund's dividend policy was importantly my responsibility. And I'd been around long enough to realize that the end of our high distributions would be both ill-accepted by shareholders and gravely harmful to Wellington's growth. So, when no unrealized capital gains remained in 1970, I recommended, and the Board reluctantly approved, a payment of $0.25 per share from surplus. While I wasn't keen about the idea, it seemed to do the job. (At least such payments were tax-free to our shareholders.)

But in 1971, a technicality in the Fund's tax-status left us in a position where even a surplus distribution would have been taxable to our owners. I couldn't recommend paying one. When we made no extra distributions in 1971, our worst fears were realized. Shareholders redeemed 9 percent of their Wellington shares that year, 19 percent the next year, and 14 percent the next, a total of nearly $490 million of liquidations in just three years. Fund assets fell to $939 million, less than half the $2 billion peak recorded in 1965. While we resumed the payments from surplus during 1972-1978, the damage had been done. Redemptions continued at high levels, and we abandoned the payout policy for once and for all in 1979. Wellington's assets would continue to decline through the third quarter of 1981, reaching a low of $470 million, 75 percent below their high.

By 1983, the Fund was again realizing capital gains, but only in the normal course of the investment activities of our portfolio managers, not to force a given total payout. Given the policy that we had adopted in 1978, however our payout from dividend income alone had risen sharply. When the capital gains payment dropped from $0.60 in 1989 to zero in 1990, it was a non-event, as was its drop from $1.48 per share in 2000, to $1.12, in 2001, and to zero in 2002. We had successfully broken away from a policy that began, innocently enough, in the 1930s, became a Frankenstein monster in the 1960s and mid-1970s, before finally being abandoned. Let the long saga described in this postscript serve as a warning to future generations of Wellington Fund managers and its directors to stick to producing income and realizing capital gains only for investment reasons.

POSTSCRIPT #3 – Staying the Course.

When Wellington Fund began operations in 1929, there were only eight other mutual funds in existence. All continue to exist today. But with current assets of $27 billion, Wellington Fund stands out among the crowd in its success. Massachusetts Investment Trust, founded in 1924, is second with $6 billion, about a fifth of Wellington's size. Amazingly, even after 25 years, four of the eight funds still have assets below $1 billion. Could Wellington's clear distinction possibly represent a more apt application of two of my favorite sayings:

"Press on, regardless."
"Stay the course."

The Nine Pioneers

Name	2003 Total Net Assets $M
Vanguard Wellington	$29,985
Massachusetts Investors Trust	6,449
Pioneer	6,066
Putnam (Incorporated) Investors	5,502
State Street Research Investment	1,488
Scudder Income (Balanced)	950
CGM (Loomis Sayles) Mutual	455
Century Shares Trust	342
Seligman (Broad Street) Stock	312

*Parentheses indicate 1929 name