North Carolina Department of the Secretary of State

NEWS

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For Immediate Release
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Elaine F. Marshall
Secretary of State

NC Department of the Secretary of State Joins $106 Million Multi-State Settlement with Vanguard over Big Tax Bills, Remediation to Investors

Raleigh — NC Secretary of State Elaine F. Marshall today announced that the Secretary of State's Office has joined a taskforce of state securities regulators and the United States Securities and Exchange Commission (SEC) in a $106 million settlement with Vanguard Marketing Corporation (VMC) and The Vanguard Group, Inc. (Vanguard) for failing to supervise certain registered persons and failing to disclose potential tax consequences to investors following a change in investment minimums for certain target date retirement funds.

The settlement stems from a three-year multistate task force investigation coordinated through the North American Securities Administrators Association's Enforcement Section Committee, to conduct a comprehensive investigation, parallel to a concurrent investigation by the SEC.

The investigation revealed that in 2020, Vanguard lowered the investment minimums for its Institutional Target Retirement Funds (TRFs). As a result of the lowered investment minimums, a large number of retirement plan investors redeemed their Investor TRF shares to purchase Institutional TRF shares. The large number of redemptions caused Vanguard to sell highly appreciated assets in the Investor TRF, which triggered significant capital gains taxes for hundreds of thousands of retail investors who remained invested in the Investor TRF. Vanguard did not disclose the potential capital gains and tax implications to Investor TRF shareholders, which was a consequence of the migration of shareholders from the Investor TRF to the Institutional TRF.

"Because of the failure to disclose significant tax implications, these investors lacked crucial information to make important financial decisions or consult with their tax professionals," said Secretary Marshall.

At least 6,000 investors in North Carolina were impacted by these actions.
The Vanguard Group, Inc. is the parent company of Vanguard Marketing Corporation, a FINRA- and state-registered broker-dealer. Vanguard markets and sells target retirement funds to investors who hold shares in qualified accounts that offer special tax treatment, including deferred taxes, as well as to investors who hold shares in taxable accounts. Historically, the amount of capital gains distributions and resulting tax liability for

shareholders in Investor TRFs has been modest. Throughout this examination, Vanguard has not admitted or denied any wrongdoing.

The SEC will notify the investors that were impacted by this action and will administer the remediation payments, through its Fair Fund program, to compensate investors for the capital gains taxes.

If you have questions or concerns about your investments or financial professional, please contact the Securities Division of the NC Secretary of State's Office at (800) 688-4507.

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