

# Interview

## Competitive Advantage

An Interview with F. William McNabb III,  
Chairman and Chief Executive Officer, The Vanguard Group



F. William McNabb III

**EDITORS' NOTE** William McNabb was elected President and CEO of The Vanguard Group in 2008, and became Board Chairman in 2010. McNabb has been a Vanguard board member since 2008 and a trustee of each of the Vanguard funds since 2009.

**COMPANY BRIEF** Headquartered in Valley Forge, Pennsylvania, The Vanguard Group ([www.vanguard.com](http://www.vanguard.com)) is one of the world's largest investment management companies and a leading provider of company-sponsored retirement plan services. The firm manages roughly \$1.6 trillion in U.S. mutual fund assets, including \$148 billion in ETF assets, and offers more than 170 funds to U.S. investors and more than 50 additional funds in non-U.S. markets.

### How has Vanguard's business performed during the recession and how is the brand positioned for growth?

We've come through the crisis in very good shape. One of the things my predecessor, Jack Brennan, emphasized was never getting complacent.

Our portfolio teams, in particular, were worried about the state of the markets, so we positioned our fixed income funds conservatively beginning in 2007. As we got into 2008 and the crisis, we were as well positioned as one could be and, as a result, found ourselves in a strong position to talk frankly with our investors.

If you don't think the world is going to end, you begin to make decisions that are more long-term oriented despite the fact that the short term seems so painful. In terms of communicating with investors and talking long term, the message to be balanced, be diversified, and be patient is really difficult when there is a crisis. But investors who did "stay the course" were rewarded for that relative to others.

We did see our volumes dry up a bit in terms of phone calls and transaction activity, so we reoriented people who were less busy into longer-term projects to improve the organization. We had half a dozen Vanguard Action Teams deployed throughout the organization doing that kind of work.

We also didn't cut back on our technology spending, for example. We felt strongly that this was not a time to back away but to stay steady, much like we were telling people from an investment perspective. So the investment guidance we were giving people and the practice of running the business side of the organization were in sync.

The net result was that we led the industry in investor cash flows over the past several years.

### Are you growing internationally?

We began experimenting with building overseas businesses about 15 years ago. We set up shop in Australia and then in Europe. Our Australian business has been extremely successful – we're the fourth largest investment manager there. In Europe, we had hoped for greater economic harmonization on the continent than has occurred but Europe, and most recently the U.K., continue to be an important part of our future. We also plan to have a larger presence in Asia in the coming years. The demand for prudently managed, transparent, and low-cost investments is universal.

### How critical is technology and is it impacting the way you operate?

Technology has been a huge source of competitive advantage for us.

Technology provides efficiency, it helps our people serve our clients well, and it makes it easier for our clients to do things themselves.

Today, Vanguard has 12,700 people, nearly 3,000 of which are in our IT group. We write tens of millions of lines of code every year and we support a massive technology infrastructure. We're a prominent 401(k) administrator, which is a technology-intensive business. And our retail

business is driven in large part by our Web site, which was one of Jack Brennan's great legacies as CEO that we're all beneficiaries of today.

In 2000, we managed about \$500 billion in our U.S. mutual funds; today, we manage \$1.6 trillion. In 2000, we had roughly 12,000 crew members; today, we have roughly 12,700. So we have barely grown the work force, even though the assets under management have tripled.

In 2000, we estimated that by 2010 we'd have 20,000-plus people. And we didn't think we'd be managing as much money as we are today.

So technology overall, and the Web in particular, has enabled us to do that. We're providing better service and a lower price to more investors, and that has all been technology driven.

### For Vanguard, how critical is your focus on supporting the community and how do you engage your employees in that process?

I'm not sure how the outside world looks at it, but internally, it's really important to us. The kind of people we have are doers – and they're passionate about what they do.

I can tell you many great stories of people trudging through the snow for five miles to be here to answer phones or setting up cots in our cafeteria during last year's major blizzard so they could be here to price the funds the next day.

When you have people like that, it does not turn off when they walk out the door. We believe strongly that being part of a vibrant community makes living in the region a more positive experience for people, and if that's the case, you're going to be able to attract and retain your people that much better.

For our United Way Day of Caring this year, 40 percent of the company volunteered to do something. On Martin Luther King Day, 1,500 people came in on a day off to do service somewhere.

We have also given people one paid day off per year specifically allotted for volunteer service and they've embraced that.

We maintain a virtual network, which allows staff to express interest in a cause and form a group to do something in support of it.

We try to keep our corporate initiatives to a couple of big ones every year and then we enable people to be creative and entrepreneurial by this virtual network. ●