

Serving the Client

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

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



F. William McNabb III

COMPANY BRIEF *Vanguard (www.vanguard.com) is one of the world's largest investment management companies and a leading provider of company-sponsored retirement plan services. Headquartered in Valley Forge, Pennsylvania, the firm manages roughly \$1.75 trillion in U.S. mutual fund assets, including \$188 billion in ETF assets, and offers more than 170 funds to U.S. investors and more than 70 additional funds in non-U.S. markets.*

How were you able to position the brand during the downturn and what has helped it continue to perform during challenging times?

My predecessor Jack Brennan did a great job building the team here. When I transitioned, I inherited a great team and a company with a lot of positive momentum. There were course corrections with all the stuff going on in the markets in 2008 and 2009, but I had a great group of people already in place.

The second thing was that we chose to handle the crisis differently than everybody else. We didn't know when it was going to end but we knew assets and revenues would be down, so we moved aggressively to sharpen our focus. The mantra inside was, drop anything that is not essential in terms of serving clients. Everybody was very focused on keeping Web availability at 100 percent because we were hitting record levels every day. We didn't get as many phone calls as we thought we would, but we wanted to make sure we were ready so we had people staffed up to do that.

Inwardly, we told our people not to worry about job security – focus on doing your job well and on serving the client incredibly well. We didn't have any staff reductions. Sending that message early was an important part of the success. People stopped worrying about losing their jobs and focused on doing a great job for the client.

We also tried to be transparent and available to our investors via the Web, television, and a number of live meetings where we had a lot of 401(K) plan sponsors. Even on the retail side, we held a few forums around the country where we could touch base and hear what was on people's minds so we could come back and keep our people focused on the right issues.

We had already begun expanding what we did in the fixed income market from a talent standpoint and we accelerated that to take advantage

of the marketplace and built our team. So in the second half of 2009 and in 2010 in particular, we had a much more robust investment team than we did going into this. We were able to pick up some great expertise in a couple of areas that have since proven to be incredibly helpful to us.

Is it more challenging today to manage and evaluate risk and is this how we're going to be living going forward?

I don't necessarily think this is a secular change. When you're in the middle of it, it feels like its forever and nothing will ever be "normal" again. But there have been other periods that, when you were in the middle of them, felt like the world was ending.

Right now, what has people more concerned is that there is a stronger correlation between macro events – whether geopolitical or economic in nature – and market movement. You can measure this and we're at a pretty high correlation levels, as high as it has ever been. There is a certain level of dysfunction right now, not just in Washington but in the entire developed world, between what is going on in Europe and our own fiscal situation.

The instability or lack of confidence that the right policy steps are being taken casts a pall on the business world. So you see companies building up their cash positions to a higher level than before and being more thoughtful about hiring and tighter in terms of capital spending. As soon as things begin to feel a little better, you'll see moves that are positive.

I don't know what the catalyst is for us to flip the switch and for people to feel better. My own view is that some sort of debt deal in Washington, like the Super Committee was

trying to do, would be an incredibly powerful medicine for the world markets. But whether that happens or not is anybody's guess.

Is the differentiation all about the people or is it the impact of technology?

Technology is huge, but it has to be coupled with not letting people go and, in fact, hiring. We've kept our technology investing at the same levels as when times were more ebullient. Our investment spending has gone up in each of the past three years and that has been purposeful. Most of our investment spending is technology based.

The fact that we're owned by our clients is a massive differentiator for us. Strategy follows structure and being client-owned drives everything here – it's in everybody's DNA. In our world, that structure is probably the single most important thing that has helped us stand out. When you don't have any other conflicted constituency that you're going to serve, you've got one focus; and when times get tough, the more you can simplify, the better life is.

What makes an effective CEO today?

A leader's job is to make sure you have the right talent in place for today but also for a generation from now.

You also have to clarify for people what you're trying to do. We were well positioned coming out of the downturn and we have an incredible competitive advantage because of our structure, but you still have to translate that to determine what specific things you will do to make a difference coming out of it.

We defined a set of initiatives, which was a liberating and important event for us in terms of getting a leadership team that had to come together through the heart of the crisis, emerge from it, and lay down what we wanted to get done. Jack Bogle created the vision that started the company; Jack Brennan succeeded him and did a phenomenal job building the team and the business, and our second generation as a company. The job for my team, many of whom were part of Jack's team, is to take it to the next level. So we tried to clarify what that meant and we had 10 broad initiatives that emerged from this, which gave us a sharper focus on making sure we were delivering to our core constituents exactly what that higher level promise has always been: great value to the end investor. ●