INTRODUCING THE NEW CIO

Rebecca Katz: Well, good afternoon to you and welcome to this very special conversation for the consultant community. I’m Rebecca Katz.

When Vanguard announced that legendary Chief Investment Officer Gus Sauter was retiring at the end of 2012, it made worldwide business news. While we miss Gus, we have a veteran successor who will skillfully lead our investment team. Who better to talk about the transition and the impact of change than the two leaders joining us today, Vanguard’s CEO, Bill McNabb and our new CIO, Tim Buckley?

Thanks for being here.

Tim Buckley: It’s our pleasure.

Bill McNabb: Great to be here, Rebecca.

Rebecca Katz: How can [we] feel assured that investors are in good hands with Tim Buckley as CIO?

Tim Buckley: Yeah, thank you for not hitting me with that question.

Bill McNabb: Well, look, you know, Gus did so much for us and we're all going to miss him. But one of the things Gus and I spent a number of years thinking about [was] this succession and I would make a couple of points. One, the team is very deep. So the portfolio managers who manage our various fixed income and equity portfolios in-house are the same portfolio managers who have been doing so for quite some time. This is a team that Gus and his colleagues built up over the last decade or so. So, deep team would be point one.

Point two would be: When Gus and I talked about what should the next CIO look like, Gus actually was the one giving me really good advice here. And he said, “You should look for three qualities.” So, you want somebody with a lot of investment acumen but it doesn't have to be someone who's actually [been a] practitioner as Gus was, somebody who's actually sat on a trading desk for most of his career.

Second, the team is so big and diverse and complex now, and we’ve grown quite a bit, you really want somebody who is a proven people developer and leader. He really stressed the leadership qualities that were going to be needed.

Then the third thing he said that he thought would be exceedingly important is actually being pretty facile with technology because so much of what we do today is technologically based, you know, trading
systems and so forth. We actually have a lot of opportunities to enhance our investment operations through technology.

So, Gus and I both came to the same conclusion, well, we know somebody who fits that bill perfectly and it was Tim Buckley. Tim has been with us for more than 20 years and really started out as an economics major and kind of an investment geek.

**Rebecca Katz:** He's still an investment geek.

**Bill McNabb:** Okay. He spent a lot of his career actually helping us select outside managers and monitoring them and so forth. But importantly, Tim also served as our chief information officer, so he was head of our technology group for a long time and [in] my judgment—and I think Gus totally agreed—Tim is one of our best people developers and selectors of talent. And that's something we think is going to be really, really valuable in this role.

And then Gus, just to put a punctuation mark on it, when Gus sat with me after the last time he said, “You know, I wouldn't be retiring and leaving all my money here if I didn't have a thousand percent confidence in Tim.” I think that was the ultimate accolade. So, there you have it.

**Rebecca Katz:** So, Tim, a question for you. As you step up and take the helm as Vanguard’s Chief Investment Officer, what opportunities or strategies should we come to expect?

**Tim Buckley:** Well, it really comes down to investment management; it comes down to talent. And we continue to be committed to have the top talent out there. I inherit, Bill, a fantastic team from Gus. And I want to keep it that way. And so we will attract the talent, we’ll develop that talent. And as Gus goes out and as I come in, there are some changes to be celebrated. Some people who have really stepped up and blossomed as PMs [portfolio managers], so you’ll see a couple of changes out there. So that’s the talent side of things.

You can expect, Bill, let’s say cost. We expect cost, so we’ll continue to push the cost of investing down. Consultants should embrace that. I know that they will, and their clients will love that. But [low-cost funds] also have to have great results. Even with the big index transition, we expect to have excellent tracking. On the active side, appropriate risk-adjusted return will remain paramount. And to have that, you’ve got to have great risk controls.
So if you look at that, that’s what consultants can expect from Vanguard, and I look forward to working with them. I look forward to working with them as they help their clients and giving them the appropriate level of transparency.

Rebecca Katz: And what are we hearing from consultants today?

Bill McNabb: Well, we hear a lot from consultants. You know, in particular with regard to Vanguard, I think there’s a lot more alignment around our long-term investment approach and what we’re hearing from consultants in that cost is very important and that seems to be acknowledged broadly. Indexing seems to be a continued evolution and a very important trend. It’s really playing out in a very large way in defined contribution plans, in particular.

We also are hearing from consultants that Vanguard stability has been a great source of comfort, if you will, during this crisis. You know, lots of firms have struggled coming through the great financial crisis. And I think a lot of the consultant community found our approach through that crisis to be (A) pretty remarkable and (B) very reassuring in terms of working with us over a very long period of time.

Rebecca Katz: That’s great. Well, Bill, Tim, thanks so much for being here. And thanks to the consultant community for watching. We appreciate your interest and we hope to connect on many more occasions.

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