

Remarks of John C. Bogle

New York City, New York

May 24, 1995

Twenty years have now passed since a fledgling organization that I named "Vanguard" entered the mutual fund industry. We have since become the second largest mutual fund complex in the world, and, just last week, Vanguard Fund assets crossed the \$150 billion mark for the first time, a 100-fold increase from where we began in 1974. I believe it is fair to say that we are changing--and will continue to change--this industry for the better, and surely to the direct benefit of the shareholders of all mutual funds.

We have had not only a challenging and exciting run, but a run that has, if possible, accelerated thus far in 1995. A few examples:

- In investment performance, our Funds are having--across the board--their best year ever. Our bond and money market funds have exceeded the returns earned by 93% of their peers during the past twelve months; our equity funds have outpaced 84% of their peers. These returns bring our average decade returns, respectively, to the 89th and 70th percentiles.
- In service quality, we have just won, for the fifth straight year, the #1 award in the *Financial World* survey, the only industry-wide survey available.
- In cash flow from investors, we have made a solid recovery from last year's industry-wide slump, with average monthly cash flow up +122%. (The Vanguard Funds' monthly cash inflow averaged \$506 million in 1994. This year, monthly cash inflow has averaged \$1,125 million.)

In combination, these achievements in investment management, fund administration, and distribution have lifted our market share to an all-time high estimated at nearly 21% of direct marketing fund assets, up from 7% fifteen years ago.

Crossing the two-decade milestone and the \$150 billion milestone virtually at the same time, and witnessing what our Vanguard crew has built, it is a small wonder that I have been tempted to relax (just a wee bit) and to consider whether, as I enter my 67th year--and my 46th year of being almost compulsively addicted to this wonderful industry (counting two years for my Princeton senior thesis)--it might be a sensible time for me to alter my role at Vanguard. Temptation and good judgment triumphed. At our Board of Directors meeting last Friday I told our Directors that I wished to relinquish my title and duties as Chief Executive Officer effective January 31, 1996, but to remain as Chairman of the Board for an indefinite period thereafter. The Board has agreed to this change, and I am therefore announcing it today.

I also informed the Board of my intention to nominate my heir-apparent, John J. Brennan, President of Vanguard, as my successor as Chief Executive Officer. I have discussed this proposal with the Directors, and I am satisfied that they have complete trust in Jack Brennan's ability to lead Vanguard. So, I am confident that at next January's Board meeting he will be elected to the position of Chief Executive Officer, reporting directly to the Board of Directors.

The facts and figures I cited at the outset, which, truth told, I never could have imagined back in 1974, are not really the important testament to what Vanguard has accomplished over the past two decades. Rather, I am proudest that my vision for Vanguard has come to pass. We have built a company whose stamp includes:

- Offering our services to some five million shareholders at operating costs that are, by magnitudes, the lowest in our industry and, given our pure no-load structure, at the most favorable terms of purchase.
- Proving that conservative investing is the best long-term philosophy for most mutual fund investors. Indeed, high-quality financial assets have always been our stock in trade. (As a result, we avoided some major potholes in 1994, for example, exotic derivative securities, Orange County, and several international debacles.)

- Putting index mutual funds "on the map," forming the industry's first index mutual fund in 1976, and now offering, with enthusiasm, fully 25 index (or quasi-index) portfolios. Today, I believe, we are witnessing the triumph of indexing.
- Eschewing the mad, hyperbolic advertising approach of touting "We're #1," a claim which even those who advertise it *know* has no relevance whatsoever to future performance.
- Not participating in the gimmickry of offering new "products" just as they get hot, including government-plus bond funds, short-term global bond funds, and adjustable rate mortgage funds.
- Articulating our Funds' investment objectives and policies with precision, carefully delineating their risk and their reward potential, and, equally important, reporting their results with candor to our shareholders.

I believe, further, that we have conducted Vanguard's business with integrity and the highest standards of commercial honor (although I recognize that more objective observers must be the ones to make that judgment).

So, I look back with pride (not, I hope, false pride) on having created the kind of corporate character to which Vanguard aspired from the very beginning 20 years ago, with values and standards that are firmly imbedded in our culture today, and will continue to be imbedded there during the next 20 years and beyond.

It's nearly time, then, to turn the helm over to a new captain. I do so with these convictions:

- That it is possible (even for me!) to overstay one's time, a fear that, paradoxically, seems to *diminish* with the passage of years. (Best to sense it early, then!) The fact that my heart has been broken (in the literal sense) for the past 35 years played a supporting role in my decision. (No point in tempting fate.)

- That Jack Brennan is the best person I could possibly have found--and I've worked closely with him since 1982--to assume my executive responsibilities. He is a man of extraordinary character, intelligence, diligence, and judgment.
- That we have built an organization, from our senior officers on down to the front line crew, that is at least as good as any in this business, fully capable, whether I am at the helm or not, of continuing to move solidly forward.
- That our unique corporate governance structure--fund shareholders owning our management company--has met the test of time.
- That our cost advantage--critical to providing excellent long-term returns--will remain overpowering to our foes. (After all, while every industry has a low cost provider, few of them operate at one-third the costs of their next lowest competitor.)
- That my vision of 20 years ago has now been firmly established, and that the major tasks at hand for Vanguard, if we are to remain a powerful competitor, lie in information technology, more sophisticated marketing programs, and the enlightened management of a large enterprise. (I've never argued that these areas were my strong point.)

So, what began as the Vanguard Experiment--a "mutual" mutual fund organization--is now firmly in the record as the Vanguard Experience. We have marched to a different drummer and the world is beginning to take note. But our impact on this industry is only at its incipient stage. Even if our corporate structure is *never* emulated, the crying need to get fund shareholders out of the back seat and into the driver's seat, where they belong, will ultimately be met. I am not sure that the mutual fund industry needed "Vanguard" (and it surely didn't want us), but mutual fund shareholders clearly needed *a* Vanguard to show that there *is* indeed a better way.