

## Changes in Vanguard's Leadership

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*New CEO effective January 1, 2018*

On Thursday, July 13<sup>th</sup>, 2017 Vanguard announced changes in their top leadership.<sup>1</sup> On January 1, 2018, Tim Buckley, Vanguard's current Chief Investment Officer, will succeed Bill McNabb as Chief Executive Officer. Mr. Buckley joined Vanguard 26 years ago as an assistant to Vanguard's founder, John C. Bogle.<sup>2</sup> Bogle is credited with creating the first index fund.

Mr. Buckley will be Vanguard's fourth CEO in their 42 year history and is charged with overseeing Vanguard's rapid growth with approximately \$4.2 trillion in assets under management and their recent launch in the United Kingdom. Buckley was also named President and Director of Vanguard.

With this planned succession, several other leadership changes will be necessary.

With Buckley's move, Greg Davis, currently the head of fixed income at Vanguard, will take on the position of Chief Investment Officer. Davis has 18 years of service at Vanguard previously serving as the Asia-Pacific Chief Investment Officer and the head of bond indexing. Current CEO, McNabb, noted that Mr. Davis's "experience as a portfolio manager and as a leader of investment management teams, long-term orientation, and exceptional judgement, make him an excellent steward of our clients' assets."

To replace Mr. Davis, Vanguard names John Hollyer, CFA as the global head of fixed income. Mr. Hollyer joined Vanguard in 1989 and has served in many roles in the bond and money market sectors.

Other changes are two new directors, Deanna Mulligan and Sarah Bloom Raskin. The two females, along with African-American, Greg Davis, provide diversity in Vanguard's leadership team.

### Risks

Extremely fast growth leads to service and technology risks. Vanguard, which grew from \$1.25 trillion in 2008 to \$4.2 trillion just 9 years later, has been able to manage such staggering growth due to its core strategy of indexing. In addition to managing growth, Vanguard has focused on cutting costs, which has been credited for some service stumbles including longer wait times, improper fund transfers, and website

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<sup>1</sup> Vanguard Flagship Services. (2017, July 13). Vanguard announces leadership changes, proxy filing. Wayne, PA, USA.

<sup>2</sup> Reuters. (2017, July 13). *Vanguard CIO Buckley to Take Over as CEO From McNabb on Jan. 1*. Retrieved July 16, 2017, from The New York Times: <https://nyti.ms.2vi5ASm>

outages.<sup>3</sup> Vanguard's response has been to add staff especially on their retail side. Now software engineers account for 1/4<sup>th</sup> of Vanguard's 15,000 strong workforce. With continued expansion planned overseas, Vanguard may still have some growing pains.

Mr. Buckley recognizes this potential risk and states that "The goal is that we not only lead on investment returns, we lead on our level of service to clients."<sup>4</sup>

Another potential risk is indexing going out of favor. In a market downturn, it is likely that investors will seek active management, taking assets away from Vanguard who is perceived as strictly a passive manager; however Buckley is quick to point out that Vanguard offers active funds as well, so any concern is misplaced and further states that "There's no good environment for high costs."<sup>4</sup>

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<sup>3</sup> Thomas Jr., Landon. (2017, April 14). *Vanguard Is Growing Faster Than Everybody Else Combined*. Retrieved July 16, 2017, from The New York Times: <https://nyti.ms.2p3lwrF>

<sup>4</sup> Reuters. (2017, July 13). *Vanguard CIO Buckley to Take Over as CEO From McNabb on Jan. 1*. Retrieved July 16, 2017, from The New York Times: <https://nyti.ms.2vi5ASm>