



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



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After 25 years at Vanguard, Chief Investment Officer George "Gus" Sauter, 58, announced he will be retiring at the end of this year. Sauter was the driving force behind Vanguard's decision to launch an ETF share class for many of its existing mutual funds. His departure represents a changing of the guard, but investors in Vanguard's funds likely won't notice any difference in management or performance in their investments.

- Vanguard Veteran Stepping Down

Sauter's biggest contribution to the inner workings at Vanguard was not his investment acumen per se, but rather his management of the indexing group, which does an incredible job of tracking its various benchmarks with near pinpoint accuracy. As head of equity index management, Sauter helped develop new trading programs and strategies that minimized trading costs and enhanced benchmark tracking precision. This enabled Vanguard to offer index funds with lower costs than its competitors could offer.

When Sauter joined the firm two weeks prior to the stock market crash of 1987, Vanguard offered just two index funds (500 Index and Total Bond Market Index), with total assets of \$1.2 billion. Throughout the early and mid 1990s, Vanguard rolled out several new index funds. But it was Sauter who, in 1998, championed the idea of launching a line of ETFs that would operate as a separate share class of existing Vanguard index funds, rather than as standalone funds.

The firm originally attempted to roll out ETF share classes of 500 Index, Growth Index, SmallCap Index, Total Stock Market Index and Value Index in 2000. However, Standard & Poor's filed a lawsuit to block any Vanguard ETFs based on its indexes (all but Total Stock Market Index tracked S&P indexes at that time), claiming a breach of contract. Vanguard ultimately lost the legal battle, and was forced to delay its entry into the ETF marketplace, an embarrassment for Sauter and the firm. (S&P and Vanguard have since made up, and the firm now offers a handful of ETFs tracking S&P index products.)

Despite the early speed bumps, 2001 saw the introduction of Vanguard Total Stock Market ETF (VTI). With more than \$20

billion in assets, VTI today is one of the industry's largest ETFs. In all, Vanguard now manages 64 ETFs with nearly \$200 billion in assets and is the third-largest provider of ETFs, behind iShares and State Street Global Advisors.

In 2003, Sauter was named Vanguard's first chief investment officer (CIO), responsible for all in-house stock and fixed-income management. However, as Vanguard spokesman John Woerth told *Bloomberg*, the CIO job at Vanguard is not like the CIO job at other firms: "He doesn't make market calls or predict the direction of interest rates."

Sauter was also responsible for developing and managing Vanguard's active quantitative equity strategies, which include Strategic Equity and Strategic SmallCap Equity. His track record here was less noteworthy. Sauter rarely, if ever, put his investment predictions on the line and his actively-managed creations were not barnburners on the performance front.

Tim Buckley, managing director, will take over as chief investment officer after Sauter departs. His task will be to keep the gears running smoothly while managing his managers. Buckley, 43, has been a member of Vanguard's senior staff since 2001 and has directed Vanguard's Retail Investor Group since 2006. He joined Vanguard in 1991 as assistant to then Chairman John C. Bogle. Buckley is also a member of Vanguard's Portfolio Review Group, which has oversight responsibilities for in-house investment management functions and 30 external investment advisory firms employed by Vanguard in the United States and abroad. He earned an A.B. in economics from Harvard in 1991, and an M.B.A. from Harvard Business School in 1996.

As we mentioned above, we don't think there's any reason for Vanguard investors to be concerned by Sauter's retirement. While he is a skilled manager, his departure should have no impact on the performance of Vanguard's funds or ETFs.

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