Designing a New Mutual Fund Industry

Keynote Address by

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It's a thrill—and something of a miracle—to be back with NICSA again. In fact, I've been privileged to address you pretty much like clockwork every ten years since you began, going way back to March 1977. [1] So this is a happy fourth-decade anniversary speech for me, and I'm deeply honored by your invitation to return.

Today, the title of my remarks is "Designing a New Mutual Fund Industry." But in fact I've been struggling to do that for as long as I can remember. When I first spoke to you in 1977, Vanguard had taken, just weeks earlier, the third and final giant step to become the unique organization we remain today. The first step had been the creation of Vanguard on September 24, 1974, leading to the "mutualization" of the Wellington Management Company mutual funds, then with just $1.4 billion of assets.

Under this structure, our funds would employ their own officers and staff, assume responsibility for their own operational, administrative, legal, and shareholder recordkeeping services, and operate on an "at cost" basis. (Yes, we began as sort of a mini-NICSA. Wellington continued its responsibility for all investment management and marketing services.) By so doing, we would be in a position to be the "low-cost provider" in an industry where, as we saw it then—and see it now—cost was, well, *everything,* the ultimate competitive weapon.

Following approval by the SEC and our fund shareholders, we began operations on May 1, 1975. But we were hardly unaware that if our new firm was to shape its own destiny we had to quickly move to control our investment services and distribution services as well. We immediately began that process. Within six months, we had gained our Board's approval for the world's first index mutual fund and entered the investment arena. Now known as Vanguard Index 500, its IPO took place on August 30, 1976. The new index fund ("Bogle's folly") began with a frustratingly tiny asset base of only $11

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[1] I also spoke to you in 1999, when I was honored to receive your Robert L. Gould Award for commitment to excellence in shareholder service. All five of my speeches are posted on my Bogle eBlog (note the anagram!), www.johncbogle.com.

Note: The opinions expressed in these remarks do not necessarily represent the views of Vanguard's present management.

million. But, in principle, if not in materiality, it was our second giant step forward, for it enabled us to assume responsibility for supervising fund investments for the first time.

Within months after the IPO, we took the third necessary step to complete our control over the triangle of mutual fund services—first, administrative services; next, investment services; and finally, marketing services. Our strategy, as I described it in that 1977 speech to NICSA, was to convert our distribution system—overnight and without advance notice—from the commission-based, broker-dealer-sold, demand-push system that we had relied on for a full half-century (and that then permeated the industry) to a new no-load, investor-purchased, supply-pull system. When we took this impulsive but monumental step, there was no evidence—none—that it would work. In fact, mutual fund assets had tumbled from $60 billion to $36 billion during the 1972-1974 bear market—yes, you heard those numbers right!—a 40 percent erosion in our asset base, and the industry was in the midst of a wave of net liquidations that would last for 9 of the next 11 years. That was no fun. And, by the way, yes, it could happen again.

"The Times They Were a 'Changin'"

In the midst of that bear market, our vision was simple: "the times they were a'changin'." When Vanguard began, this was an equity fund business (80 percent of assets in 1975). But money market funds and bond funds were on the rise, and by 1981 they would constitute an amazing 83 percent of assets. (Believe it or not!) It was obvious that in these two income-driven industry segments, as well as in index funds, the impact of our low-cost advantage was even more *certain*—and certainly far more *obvious*—than in the equity fund arena. So our strategy would focus largely on these three cost-sensitive investment segments. And so it was to be. Today, index funds, money market funds, and bond funds account for nearly $800 billion of our trillion-dollar-plus asset base.

We also knew that the demographics were on our side. As I noted in that 1977 speech to NICSA, "America will continue to have a population that is growing in age, education, professional status, real income, and asset accumulation," trends that, I expected, would favor "low cost (no-load) funds that would appeal to self-motivated investors who would acquire information on their own." If all of this seems obvious today, please remember that decades ago, one of my detractors said that all I had going for me was "an uncanny ability to recognize the obvious." It surely worked here!

We expected to complete the internalization of our distribution activities, as I told you then, "effective (hopefully) May 1, 1977." Alas, our hope was not rewarded. Our plan was rejected by the staff of the Securities and Exchange Commission. Only four long years later, on February 28, 1981, after what I am told remains the longest Investment Company Act hearing in history, was our internalization finally approved by the SEC. Conducting business under this cloud of uncertainty—we called it "the sword of Damocles"—was a challenge. But we never lost confidence that the Commission would eventually support our application. Finally, of course, it did.

The Commission not only approved our plan, it did so in a decision that was unanimous, sweeping, and robust. Indeed, it was so positive that we ran this excerpt in the 1981 annual reports of our mutual funds. Please listen up here:

> The Vanguard plan actually furthers the (1940) Act's objectives by ensuring that the Funds' directors . . . are better able to evaluate the cost and performance of the funds; improves disclosure to shareholders; and clearly enhances the Funds' independence. It also benefits each fund within a reasonable range of fairness, promotes a healthy and viable mutual

> fund complex within which each fund can better prosper; enables the Funds to realize substantial savings from advisory fee reductions; promotes savings from economies of scale; and provides the Funds with direct and conflict-free control over distribution functions.[2]

A Wonderful Coincidence

All those nice words have been borne out in the years that followed. In fact, the Commission's powerful endorsement marked the very moment that the uninterrupted ascendancy of Vanguard began. As 1981 ended, our share of mutual fund industry assets had fallen to just 1.7 percent. Over the next quarter century, it was to increase, without interruption, every single year.[3] By 1987 our market share had doubled to 3.5 percent. By 1997, it had doubled again, to 7.3 percent. At 10.5 percent today, our share is on track to double yet again over the next five to ten years.

The major reason that what we once called "The Vanguard Experiment" in mutual fund structure and governance has worked in the marketplace is also obvious. *It has worked for the benefit of Vanguard shareholders.* (Please forgive this commercial message!) Check almost any independent rating of mutual fund investment performance and you'll see that the returns we have earned for our shareowners have consistently ranked at or near the top among all fund complexes. Most recently, *Global Investor* ranked us #1 over-all; #1 in international equities, #1 in bonds, and #3 is U.S. Equities. (Be clear, please, that I'm not claiming that we demonstrated any extraordinary across-the-board management ability. The lion's share of our superiority in returns is accounted for simply by our lower costs.) So "the jury is in." Our system has proven itself—an *artistic* success for our shareholders and a *commercial* success for our firm. The simple system actually *works*.

So, you must think, like all ideas that prove themselves on the dog-eat-dog fields of competitive capitalism, Vanguard must have spawned legions of competitors by now . . . Mustn't we? Well, "No." Despite our enviable record of growth—an amazing $920 billion of our asset base is the result of that market share increase alone—*not a single competitor* has adopted the innovative Vanguard structure of truly *mutual* mutual funds, in which the glorious cornucopia of profits that are the product of organizing, operating, and managing mutual funds are returned to the owners of the *mutual funds,* rather than going into the pockets of the owners of the fund *management companies*.

Now, one reason that I chose the name "Vanguard" was because it echoed the proud name of HMS Vanguard, Lord Nelson's flagship at the glorious naval victory of the British over the French at the Nile in 1798. But the second reason drips with irony. The conventional definition of Vanguard is: "the leadership in a new trend." Yes, we've been some leader. Nearly 33 years after our founding, we've yet to find our first follower! A question for you: Is it possible that in today's fund industry, making money for fund investors carries a lower priority than making money for fund managers?

But I am not, well, disheartened. Whether or not the actual Vanguard *vision* is emulated, I expect that the *values* that are at the top of the Vanguard agenda will gradually work their way into our industry. So, having presented this preamble about the design of Vanguard, our history, and our record, let me now look ahead with you today and honor both the spirit of this conference and the letter of the title of my remarks: "Designing a New Mutual Fund Industry."

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[2] SEC Decision "In the Matter of the Vanguard Group" February 28, 1981, p.16.
[3] More precisely, it never declined. It was unchanged in 1992-1994 and in 1999.

Redesigning the Fund Industry

"I have a dream." Or rather, five dreams for redesigning the mutual fund industry in the years to come. I'll discuss first, mutual fund pricing, and second, the burgeoning of our retirement plan business, in both cases using the predictions I've made in my various talks to NICSA as a springboard. Then I'll discuss, third, a new design for investment policy, fourth, a new design for "product development," and fifth, a new design for governance structure, three of my other perennial favorites. Here, then, is the design of my dreams.

1. The Dream of a Fair Shake for Shareholders

The first dream is to design a new industry in which we give our investors a fair shake in terms of costs. In my 1977 speech, I boldly predicted that investors would come to focus far more heavily on fund costs, evaluating "total price—or total cost-effectiveness over time, including any initial sales charges and fund operating and advisory expenses." Alas, by my 1987 talk, I could only grade myself with an "F" on that prediction. Over the decade then ended, the expense ratio of the average equity fund had risen from an average of 0.96 percent to an estimated 1.38 percent, a 44 percent increase in *unit* terms. This increase came despite the fact that total industry assets had grown from $37 billion to $588 billion, and the *dollar* amount of annual fund costs had risen 4000 percent, from $232 million to $4.2 billion.

Of course, I stubbornly held my ground, predicting in my 1987 talk that our pricing structure *must* change. I challenged the industry "to regain our bearings, and return to the principles that got us to our present eminence in the first place." Alas, when I next spoke to NICSA in 1998, equity fund expense ratios had continued to rise, if far more slowly, to 1.43 percent. However, with industry assets rising to $3.5 *trillion*, the *dollar* costs borne by fund shareholders had soared from $4.2 billion to $27 *billion*.[4] I awarded myself another "F"! Yet I didn't give up: "Despite my 20 years of unfulfilled expectations, I'm confident that the excessive costs paid by fund investors will at last begin to decline."

Today, a near-decade after that speech, the outcome is unequivocal: "yes," and "no." No, because while equity fund expense ratios on average seem to have leveled off, they remain 50 percent higher than 30 years ago, despite the staggering increase in assets under management. With industry assets now at $10 trillion, compared to $37 billion in 1977, fund costs now run at some $75 *billion* a year, (including sales charges but excluding portfolio transaction costs), more than 30 *times* the costs of $232 *million* in 1977. It seems obvious that the staggering economies of scale that come with the management of other people's money, rather than being shared with shareholders, have been arrogated by managers to their own benefit.

Nonetheless, there has recently been a hint of "yes" in the air. If industry *participants* refuse to compete on price, there is an abundance of evidence that industry *clients*—i.e., our shareholders—are increasingly investing where they are offered a fair shake on cost and value. Just consider the five firms that dominated our industry's cash flow last year. Together, American Funds, Vanguard, Barclays, Dodge and Cox, and DFA drew net investor capital of nearly $200 billion, fully two-thirds of the $300 billion flow into all long-term mutual funds. Three of these firms are giant complexes known both for their ultra-low costs and their index funds, and the other two have costs that are, if not rock-bottom, significantly below industry norms. Progress at last!

As investors increasingly choose lower-cost firms, I'm confident that higher-cost firms will be driven by investors to conform, no matter how powerful the negative impact on their huge profit margins

[4] The dollar costs are based on *asset-weighted* expense ratios of all mutual funds, including bond and money market funds: 1977, 0.62 percent; 1987, 0.72 percent; 1997, 0.78 percent; 2006, 0.69 percent.

(which I calculate as from 40 to 50 percent). So in my first grand design for the future, I'll stick with my dream that the march toward a fair shake for fund investors is inexorable, and that investor costs must—and will—come down in the years ahead.

2. The Dream of Serving Investors for a Lifetime

My second dream is that we design an industry that will serve investors for a lifetime. Retirement planning, of course, is central to this dream, and I've talked about it in each of my earlier NICSA addresses. In 1977, this was a business that ran money for investors who already *had* money. But I confidently predicted we would become the preferred vehicle for their retirement planning. Then, retirement plans held only about 7 percent of fund shares, but I was confident that they "would become *extremely important* to our industry's future growth."

But when 1987 rolled around, alas, I looked kind of stupid (again!). Ownership of fund shares by retirement plans had actually *fallen* to 4 percent of assets! So I graded my earlier prediction with a "D." (It probably deserved an "F.") But I held my ground, noting that "the recent trend from traditional defined benefit pension plans toward defined contribution plans such as 401(k) savings plans will open vast new markets for mutual funds."

By the time I addressed you in 1998, once again, "the jury was in." I described my 1987 forecast as "a home run," for, led by 401(k) plans, retirement plan investments in mutual funds had grown some 30 times over—from $30 billion to $900 billion. I predicted (again, perhaps, it was obvious), that "the institutional uptrend should persist." And so it did. Today, defined-contribution thrift plans hold more than $1.1 trillion of fund shares, and defined benefit pension plans hold some $500 billion. Adding individual retirement accounts (IRAs) of $1.4 trillion brings our retirement plan assets to more than $3 trillion, more than 40 percent of all long-term mutual fund assets. We've come a long, long way since that 4 percent asset share that so embarrassed me 20 years ago.

As I hope everyone here today recognizes, our industry's ability—*your* ability—to handle the complex record-keeping for the nearly 50 million participants in our multi-faceted defined contribution plus plans has been something of a triumph. But the vast menus of funds we provide and the wide array of investment strategies we offer have come nowhere near that high standard. We have too many investors who are too aggressive—401(k) plan participants working for Fortune 100 companies allocate an average of 36 percent to company stock, not only concentrating their investment risk but aligning it with their career risk. We also have too many investors who are too conservative—investors who have "stable value" and money market funds as an investment option allocate nearly 24 percent to these funds. Too much!

What is more, 401(k) investors are notorious for performance-chasing, and we seem not to care. Traditionally, the most popular funds in our retirement plans have been those with extraordinary past performance—but, alas, returns that are destined to revert to the market mean at best, and more likely below it. Magellan Fund, for example, was by far the most popular choice of retirement plan investors during the 1990s, but has since 1993 failed by a wide margin to achieve the average returns turned in by the unmanaged S&P 500 Index—now a thirteen-year failure, trailing the Index over that period by a cumulative total of 91 percentage points. (Amazing! Yet, Magellan remains the third most popular option.)

Today's favorites, of course, also have provided excellent past performance. (What else is new?) But it is not clear to me that these leaders—American Growth, American Washington Mutual, Fidelity Contrafund, and Fidelity Low-Priced Stock, each now with assets from $40 billion to more than $100

billion—can replicate the records they achieved when their assets totaled small fractions of these levels. We shall see. However, we can be confident that Vanguard 500 Index, ranking among the top 4 choices, will continue to deliver roughly the stock market's future return—no more, no less—just what it is guaranteed to do.

We also offer too many choices, sowing confusion among participants. We allow too much borrowing, and we now know that, in today's world of high-employee-turnover, fully 45 percent of those who leave their jobs simply take their money and run. We often also offer participants a self-managed brokerage account, even though it makes it all too easy for employees to invest in a manner that is directly contrary to their own long term interests. Yes, automatic enrollment is a good enhancement, and target retirement funds (properly used) are a wonderful and relatively new option. But we have no monopoly on the affections of retirement plan investors. So it's in our interest to provide far more investment discipline and far better value in the choices we offer, and to make crystal-clear their importance to plan sponsors and employees.

Most important of all, we need to recognize that mutual funds are now a central element in the nation's overall retirement system, including corporate plans; federal, state, and local government plans; and social security. Rather, not merely looking after our own parochial interests, we ought to be leading the way to rationalizing the entire retirement services system. So my dream of providing lifetime services to investors includes a vision that our industry leaders at last step forward with proposals and designs to help accomplish "cradle to grave" retirement security for our nation's citizens. We owe ourselves, to say nothing of our society, no less.

3. A Dream of Long-Term Investment Horizons

My third dream is that our money managers turn back the clock, reverting to our traditional focus on long-term investment strategies. My, how times have changed! During my first 15 years in this business, the typical equity mutual fund turned its portfolio over at about 16 percent per year. Result: The average fund held its average stock for an average of about six years. Let's define that strategy as long-term investing.

Today, by way of contrast, we turn our portfolios over with a fury—in fact, six *times* as rapidly. The average fund portfolio turns over at an annual rate of 100 percent—a holding period of just *one year* for the average stock. Yes, our larger funds turn over at a somewhat slower rate (perhaps a factor of necessity, given their size), and our index funds portfolios barely turn over at all. Whatever the case, last year our actively managed equity funds, with assets of $4.6 trillion, bought $3.2 trillion of stocks and sold another $3.3 trillion, an amazing total of $6.5 trillion in transactions. We calculate that turnover rate at about 70 percent, since the accepted turnover formula is to divide the asset base into the *lesser* of portfolio purchases or sales. Even using this lower turnover rate, however, suggests that our average stock is now held for only *17 months*. Surely such a strategy represents, not long-term investing, but short-term speculation.

All of this frantic turnover, of course, cannot possibly help our fund shareholders as a group. After all, most fund trading takes place with other funds, and therefore cannot advance the interests of our owners in the aggregate. Indeed, to state the obvious (again), such trading *must*—and *does*—dilute the returns of our owners. For the inevitable *zero-sum* game when stocks are traded from one investor to another becomes a *loser's* game after the trading costs assessed by our Wall Street croupiers are deducted. It must be obvious, then, that short-term speculators *must* lose to long-term investors. So the fund industry's conversion from yesteryear's focus on the long-term to today's focus on the short-term has been, by definition, detrimental to the interests of our shareholders.

There's another great benefit in again becoming an "own-a-stock" industry. We would be forced to recognize that the interest of our shareholders demands that we act as responsible corporate citizens, carefully examining company financial statements, making our views known on matters such as stock options, executive compensation, and corporate governance, and assuring that the corporations whose shares we hold are operated in the interests of their shareholders rather than their managers. In today's "rent-a-stock" industry, where stocks are treated as mere pieces of paper to trade back and forth rather than as the talisman of ownership, those governance issues are too often ignored. So my dream is that we return to our roots as *investors*. Not only because it will be to the economic benefit of our clients, but because we can play the determining role in returning corporate America to its own roots of democratic capitalism.

4. A Dream that We Serve Long-Term Investors

My fourth dream is that we again serve long-term investors. That is not how it works today. For even as the investment horizons of our fund managers diminished, so, too, have the horizons of mutual fund investors. Small wonder, since we have shaped our business to meet the demands of short-term investors! When I came into this business all those years ago, the rate of mutual fund redemptions to mutual fund assets was about 6 percent annually, suggesting an average holding period of 16 years for our average shareholder.

By the late 1990s, this shareholder turnover rate had soared to nearly 50 percent, suggesting an average holding period of only two years. Think of it! One reason for this huge leap was that funds were widely used as vehicles for illicit market timing and time-zone trading, in which certain fund managers conspired with certain favored short-term speculators (there were 300 hedge funds using this strategy!) to trade against the interests of the funds' long-term investors. But even with the elimination of much of that abuse, the redemption rate remains at a remarkably high level of 24 percent, suggesting a holding period of a bit more than four years, a far cry from the 16-year holding period of our early tradition.

The underlying reason for this excessive rate of investor turnover, I believe, lies in our mad rush to offer investors funds that are designed to be traded rather than funds designed to be held for a lifetime. The contrast of yesteryear's fund industry—largely market-like portfolios holding blue chip stocks—to today's could hardly be more stark. We think in terms of *sizes* and *styles*, terms more suggestive, when you think about it, of the field of high fashion than of the field of investing. Morningstar has popularized nine style-boxes—one axis focused on large- or medium-, or small-cap U.S. stocks; on the other axis, funds focused on growth stocks, or value stocks, or a blend of the two. In addition, we offer hundreds of funds focused on industry segments—technology, precious metals, telecommunications, etc.—as well as international stocks, including the total non-U.S. market (which is fine; it represents about half of the world's market capitalization), but also scores of funds whose investments are concentrated in individual regions and countries.

It is no secret that this radical change in our focus reflects the rise of gathering assets as our highest priority. Once an industry that sold what we made, we became an industry that made what would sell, giving the public what it wants. And the public seems to like the exciting and the new rather than the tried and the true. Most recent result: in the "new economy" speculative market blow-off of the late 1990s, we created some 240 new technology-based funds. These preferences have jeopardized the financial goals of our fund shareholders.

That failure can now be measured statistically. Financial services firms are at last beginning to differentiate the rate of return that *funds* report (the "time-weighted" return) from the rate of return that fund *investors* actually achieve, (the "dollar-weighted" return), providing clear evidence that investors have chosen unwisely among the funds we have unwisely created. For example, of the 200 funds with the

largest inflows of investor capital during 1997-2000, the average annual return earned by investors was 6.4 percentage points per year below the return reported by the funds, a cumulative loss of 107 percentage points over ten years. (Only two of the 200 funds defied this pattern.) Perhaps unsurprisingly, the more specialized the funds, the larger the shortfall.

Yet in recent years, we've taken our focus on a bewildering array of highly specialized fund choices to new heights. The stampede into exchange traded funds (ETFs) has been dominated overwhelmingly by highly specialized funds that, in the words of an ETF advertisement, "can be traded in real time, all day long." Among 690(!) ETFs today, 678 are narrowly focused, some on individual foreign countries (Korea, Germany, whatever you wish) or industry sectors (technology, small-caps, even most recently, HealthShares Emerging Cancer). Only 12 of the 690 ETFs are highly diversified index funds holding the entire U.S. stock market or the entire non-U.S. stock market, close cousins to our diversified blue-chip funds of yore. Of course such ETFs, held for the long term, are perfectly fine investments. But actively pursuing these narrow strategies, too often chasing past performance, will surely be hazardous to the wealth of our investors and in the long-run, that can't be good for our industry. So my fourth dream is that we return to our roots in providing broadly diversified *mutual funds*—not narrowly-defined *products*—that can be bought and held "forever."

5. The Dream of Putting Fund Investors in the Driver's Seat

My fifth dream is putting the investors in the driver's seat of fund governance. Only in this way can we honor the demand of the Investment Company Act of 1940, the statute that governs our industry, demands that mutual funds be "organized, operated, and managed in the best interests of their shareholders *rather than* in the interest of their advisers and underwriters."[5] Yet for all of the Act's noble intentions, that's simply *not* the principle under which our industry operates today. Once focused on management and investment, we are now focused on marketing and asset-gathering.

Of course our managers are eager to earn a fair return on the capital entrusted to them by their fund shareholder/clients. But they also are in business to earn the highest possible return on *their own capital*. That's what we call a "conflict of interest." For so long as the gross returns earned by fund investors as a group are reduced by the costs of fund investing—management fees, operating costs, marketing costs, portfolio turnover costs (to say nothing of the excessive taxes imposed on shareholders by those short-term investment policies)—their net returns will be far less. It is but a truism to state of this industry in the aggregate: *"The more fund managers take, the less fund investors make."*

I am convinced that the coming of public ownership of fund management companies in the late 1950s bears an important share of the responsibility for many of the problems I've described in my remarks today: rising costs for investors, and the failure to deliver our huge economies of scale to shareholders; the failure to make the most of our opportunity in retirement planning; the move away from long-term investment in favor of short-term speculation; the asset-gathering mentality and the focus on fads like size and style, all of which have meant staggering profits for fund managers and substantial cumulative shortfalls to returns in the financial markets for fund shareholders. Just check the record.

So what's to be done? Shareholder education is glacially slow, yet time is money. The conglomerates that dominate the industry today—owning 40 of the 50 largest fund complexes—will not soon accept eroded returns on their capital, nor will they willingly return their profits to their clients. So I see no recourse but to put fund shareholders in the driver's seat of fund governance, thereby at last honoring both the letter and the spirit of the 1940 Act.

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[5] SEC Decision "In the Matter of the Vanguard Group" February 28, 1981, page 6.

What is necessary is that the governance of mutual funds comports with just what the Act calls for: a board of directors that is beholden first and foremost to the shareholders who elected them. We must eliminate the blatant conflict of interest that exists when the chairman of the fund board is the same person as the chairman of the management company board. (As Warren Buffett says, "negotiating with one's self seldom produces a barroom brawl.") For the same reason, we need a board wholly independent of the manager. (The requirement that 75 percent of the directors must be independent is a good beginning, but at Vanguard our outside advisers have *zero* board representation, obviously without adverse consequences for our shareholders.) Regulations already require an independent legal counsel and a chief compliance officer for the funds themselves, and I strongly favor, at least for the larger fund complexes, a *fund* staff, responsible to the board, that provides the board with objective and unbiased information on fund costs, performance, marketing, etc.

So my dream of fund independence means not only that today's pending board reforms will be preserved by the SEC, but that groundwork will be laid for an industry that at last acts under the spirit of our federal statute that demands that fund shareholders, through their elected representatives, are placed in the driver's seat of fund governance.

Conclusion

What I'm looking for is an industry that is focused on stewardship—the prudent handling of other people's money solely in the interests of our investors—an industry that is *of the shareholder, by the shareholder, and for the shareholder*. Or, if I may refer to the overarching theme of this 25th Annual NICSA Conference, an industry with both *vision* and *values*: a vision of fiduciary duty and shareholder service, and values rooted in the proven principles of long-term investing and of trusteeship that demands integrity in serving our clients.

Part of my dream, as you might imagine, is that we'll ultimately find the first follower of Vanguard's fund-shareholder-oriented, mutualized, "at cost" model, and then our second follower and then our third, and then more, as we move away from today's management-company-oriented and increasingly financial-conglomerate-dominated structure. Not necessarily because we as an industry want to change, but because the demands of intelligent investors who "vote with their feet" will drag us kicking and screaming into the Brave New World that I foresee. But even if that sea change to a structure that has clearly worked so effectively for both our investors and for our firm doesn't happen, I expect that this industry will finally move, at least philosophically, in the direction of the Vanguard model.

How close will we get to these lofty—some might say idealistic—goals in the coming decade? Well, you already know that one of the dreams that I expressed at NICSA in the past remains unrealized (I'm still waiting for lower costs), and that a second took decades to come to fruition (our primacy in retirement planning). It also may take decades for the other three dreams I've dreamt with you today to come to pass—long-term portfolio strategies, shareholders who invest with us for the long-term, and our client/owners sitting firmly in the driver's seat of fund governance. But I fervently hope that change will come much sooner. Only time will tell. But if you'll invite me back ten years hence, I'll report to you on our progress. Ever the optimist, I've marked my calendar for February 2017. Please do the same. See you then . . .

. . . God willing.