

Fixed Income Analysts Society Awards Dinner

Fixed Income Hall of Fame Award

April 19, 2012

Thank you to Pedro for your remarks—just shows you what you can get in return to inviting someone for a good dinner and drinks.

Thank you to the Board of Directors of the Fixed Income Analysts Society for this award. I view it to be quite an honor to be even considered in the same company as the current esteemed members of the Hall of Fame, who have been either business leaders or academics who have advanced the level of knowledge in the industry.

I joined the business in 1978, getting in just before Paul Volcker started to raise interest rates to stratospheric levels. I would never have guessed that I would be dealing with him over 30 years later, but more on that later. I started as a money market fund portfolio manager; it was really fun buying CDs from good banks with yields above 20%. Now the money fund managers at Vanguard buy CDs with the same numbers in the yield—unfortunately, the decimal point has moved two places to the left.

In 1981 I was fortunate enough to be looking at making a career move at the same time that Jack Bogle, the founder of Vanguard, was looking to internalize the management of the money market and bond funds. I bugged the guy he hired to set up the Fixed Income Group—Ian MacKinnon—enough that he hired me. He and I had a long and fruitful relationship for 22 years before he retired in 2003.

It has been a great ride at Vanguard. When I joined back in '81, Vanguard had \$4 billion in assets. It now has nearly \$2 trillion. The Fixed Income Group back then ran a little over \$1 billion. We now manage \$650 billion. This success is a testimony to Vanguard's philosophy and values, but also to its people. I have had the opportunity over the years to work with a great group of people at Vanguard, several of who are in this room tonight. We work very hard, challenge each other to do

better, and most days even have fun while dealing with the volatile markets that seem to be the norm since 2008.

I want to make one comment on the business in general. One unfortunate side effect of the Great Recession is that the bond business is viewed by many as being a major contributor to the problems that occurred in the dark days of 2008. What has compounded the problem is the lack of knowledge of the bond market by legislators, regulators, and the press. A prime example of this is the Volcker Rule. It arguably is well intentioned in that its purpose is to avoid putting taxpayer money at risk to bailout depositors of a bank that fails due to proprietary trading. However, its sweeping reach has the potential to destroy the normal market-making that we all rely on in this room. That is why I have spent so much of my time in the last year talking to regulators and Capitol Hill on these issues. I think that we have only one opportunity to get it right. Regulators are under extreme pressure; they need to get over 400 new rules written. Once they finalize a rule, I think that their response will be that they are too fatigued to consider changes—call me in 10 years. That is why it is imperative that all of us, but particularly the buy side, weigh in and make our voices heard. Otherwise, we may be stuck with some bad regulations for a very long time.

I want to close with saying thank you to the friends of Vanguard who came out this evening to support me. I have had the pleasure to interact with many of you for decades, and hopefully it has not been too difficult to deal with me. Have a good evening.

Good evening,

It is a great pleasure to be with you tonight to introduce Robert Auwaerter, "Bob", on his induction into the Fixed Income Analysts Society Hall of Fame. This honor recognizes his well known accomplishments in fixed income portfolio management and analysis, and, I suspect, much of what he has done that may not be as widely known. Not only am I pleased for his sake; your recognition of his accomplishments and impact on the financial services industry also tells me that I have chosen my friends well.

Bob and I have known each other for over 30 years, which probably classifies us as old cronies, rather than just close friends. I should add, with a nod to full disclosure, that I had the the pleasure, some might say the challenge, of working for Bob as part of Vanguard's Fixed Income Group the last couple years of my working life.

Bob is a native Philadelphian. After graduating with a Bachelor of Science degree in finance from the Wharton School of the University of Pennsylvania in 1977, he was off to the Kellogg Graduate School of Management of Northwestern University where he earned both his Master of Business Administration degree in 1978 and the heart of his wife, Nancy.

Bob's first job in the business was as a bond trader with Continental Illinois, working primarily on pension fund accounts. In 1979, he assumed management of the

money market fund that Continental managed for Bache Halsey Stuart known as Money Mart Assets.

I first met Bob in late 1981. A customer and friend called to say that her husband, Ian Mackinnon, had just joined Vanguard to lead Vanguard's new in-house fixed income effort established to internalize the management of its municipal bond and money market funds. Back then, I was primarily a taxable, money market salesperson. She suggested that I give Vanguard a call. Who could turn down a new account? And, who knew! A couple billion in fixed income assets then, 650 billion in fixed income assets today. Anyway, soon after, Bob joined Vanguard to manage the taxable money market funds. Later on, Bob also became manager of Vanguard's Short-Term Corporate Fund, with more funds and responsibilities to follow. When Ian Mackinnon retired in 2003 after 22 successful years, Bob was the obvious choice to succeed Ian as Vanguard's head of fixed income.

But, I digress. Okay, it's time to call Bob to introduce myself. I am in my sixth year with Salomon Brothers, perhaps also known as the Brothers Grimm in later years. I figure that the first call is "chat 'em up" time, and, after all, I am calling from a firm with which he is already familiar. Nope! Bob was all about business. How long had I been in the business? What could I do for the funds? It took about 30 seconds to realize that he was among the most dedicated, direct, and thorough portfolio managers I had ever encountered.

Clearly, Bob was committed to the goals and success of the portfolios he was managing. It wasn't just his money, it was someone else's money, and behind that money were people to whom he owed an almost sacred duty. Like the "Blues Brothers", he was on a mission, a mission that continues to this day.

And for Bob, fulfilling that mission has never been limited to waiting for investment opportunities to be presented to him and simply following the investment guidelines. Throughout the time I have known him, he has aggressively explored new investment media, worked to improve the risk profile of portfolios, and diligently pursued ways to enhance portfolio structure.

Overall, I think it has been a combination of Bob's sense of mission, competitiveness, intellectual curiosity, and remarkable capacity to absorb, retain and analyze information that made him a top notch, holistic portfolio manager and highly respected manager of many people engaged in many sectors of the fixed income securities markets.

I also should point out that, from the start, Bob garnered the respect of the street. It may surprise you that salespeople talk about accounts on occasion, so we hear things. Among the salespeople I have known who also know Bob, to a person, all have made note of his knowledge and expertise along with his unquestioned integrity and fair mindedness. The result has been the development of relationships built on mutual respect and

trust. And, relationships of such quality benefit both the buy and sell side of the marketplace.

As I reflect on my time in the financial/securities industry, I think that we may tend to define a person's success and contributions to our industry in terms of outward, easily identifiable signs or results. These can take the form of portfolio performance, academic or analytical achievements, awards, attention in the press, sales production, trading profits, and public and political influence. Bob, along with his colleagues at Vanguard, has certainly experienced such recognition by way of successful portfolio performance over many years, awards, regular appearances in the press and on TV, testimony before Congress, meetings with members of Congress on both sides of the aisle, meetings with the Fed, Treasury, and other regulators, and talks to various investment groups and societies.

However, some of the most important contributions a person can make to the success and strength of one's own organization, and the financial industry as a whole, may go largely unrecognized. It seems to me that those who are natural leaders, who serve as role models, mentors, educators, and fairminded competitors are among the best we have to offer. Bob is one of those people.