

# **“A Critique of the Mutual Fund Industry”**

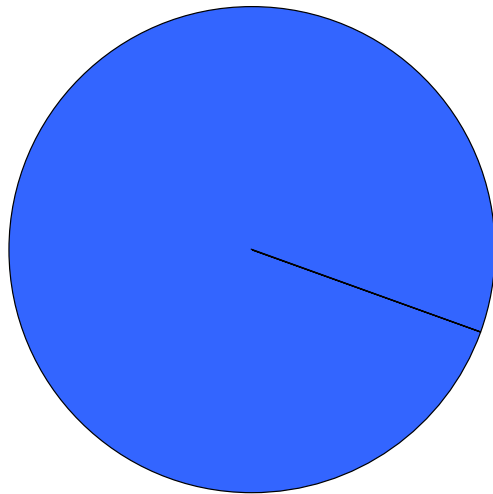
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Washington, DC  
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# Conglomerates Take Over

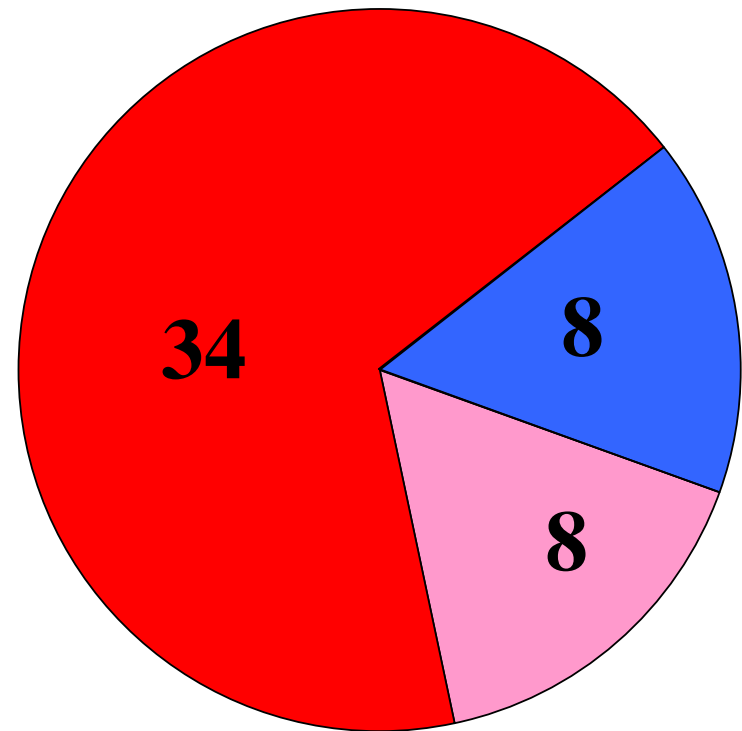
## Ownership of Top 50 Fund Organizations

1.

1950



2005



 Private

 Conglomerates

 Public, Independent

# Private or Conglomerate?

## Relative Returns vs. Organizational Structure

2.

Firm	Equal-wtd % outperf.	Firm	Equal-wtd % outperf.	Firm	Equal-wtd % outperf.
Dodge & Cox	98	Waddell & Reed	61	Goldman Sachs	49
First Eagle	97	USAA	61	Morgan Stan Adv	49
Calamos	91	Oppenheimer	60	Eaton Vance	49
So.Eastern/Longleaf	90	Prudential	59	The Hartford	48
Royce	79	MFS	59	John Hancock	47
American Funds	79	New York Life	58	Putnam	47
Harris Associates	77	US Bancorp	57	Dreyfus	45
PIMCO	76	Columbia Mgmt	56	Strong	44
Vanguard	76	AllianceBernstein	55	Delaware	44
T Rowe Price	71	Banc One	54	Thrivent Fin'l	44
Franklin Templeton	71	Neuberger Berman	54	Trusco Cap	43
Janus	70	Lord Abbett	53	Merrill Lynch	40
ING	69	Van Kampen	52	Aim	39
Nuveen	65	Scudder	52	Nations Funds	38
American Century	64	Federated	52	American Exp	37
WM Advisors	64	Evergreen	51	BlackRock	36
Davis	62	Wells Fargo	50	Pioneer	33
Fidelity	62	Citigroup	50	JP Morgan	32

### Summary

#### Fincl Conglomerate

Perf.*	Firms	Avg. Funds	Assets (Tr.)
45%	34	47	\$1.6

#### Publicly Held

Perf.*	Firms	Avg. Funds	Assets (Tr.)
60%	7	55	\$0.6

#### Private

Perf.*	Firms	Avg. Funds	Assets (Tr.)
71%	13	34	\$1.3

\*Outperformance data are adjusted because Fidelity study ignored initial sales charges and B-class shares.

# Average Fund versus 500 Index Fund, 1980 - 2005

3a.

	500 Index Fund		Avg. Fund		Fund % of Index Profit
	Rate	Profit on \$1,000	Rate	Profit on \$1,000	
<b>Gross Return</b>	<b>12.5%</b>	<b>\$17,920</b>	<b>12.5%</b>	<b>\$17,920</b>	<b>100%</b>
<b>Fund Lag</b>	<b>-0.2</b>		<b>-2.5</b>		
<b>Pre-tax Return</b>	<b>12.3%</b>	<b>\$17,080</b>	<b>10.0%*</b>	<b>\$9,820</b>	<b>57%</b>

# Average Fund versus 500 Index Fund, 1980 - 2005

3b.

	500 Index Fund		Avg. Fund		Fund % of Index Profit
	Rate	Profit on \$1,000	Rate	Profit on \$1,000	
<b>Gross Return</b>	<b>12.5%</b>	<b>\$17,920</b>	<b>12.5%</b>	<b>\$17,920</b>	<b>100%</b>
<b>Fund Lag</b>	<b>-0.2</b>		<b>-2.5</b>		
<b>Pre-tax Return</b>	<b>12.3%</b>	<b>\$17,080</b>	<b>10.0%*</b>	<b>\$9,820</b>	<b>57%</b>
<b>Time/Sel. Penalties</b>			<b>-2.7</b>		
<b>Investor Return</b>	<b>12.3%</b>	<b>\$17,080</b>	<b>7.3%</b>	<b>\$4,820</b>	<b>28%</b>

# Average Fund versus 500 Index Fund, 1980 - 2005

3c.

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<b>Inflation</b>	<b>-3.3</b>		<b>-3.3</b>		
<b>Real Return</b>	<b>9.0%</b>	<b>\$7,620</b>	<b>4.0%</b>	<b>\$1,670</b>	<b>22%</b>

\*Lipper reported return reduced by 0.6% for estimated survivor bias and 0.3% for sales charges.

# Equity Fund Expenses, 1980 - 2004

<b>Year</b>	<b>Equity Fund Assets (mil)</b>	<b>Expenses (mil)</b>	<b>Unwtd. Exp. Ratio</b>	<b>Asset-wtd. Exp. Ratio</b>
<b>1980</b>	<b>\$44,957</b>	<b>\$288</b>	<b>0.94%</b>	<b>0.64%</b>
<b>2004</b>	<b>\$4,034,500</b>	<b>\$37,117</b>	<b>1.56%</b>	<b>0.92%</b>
<b>Increase from 1980</b>	<b>89 X</b>	<b>129 X</b>	<b>+66%</b>	<b>+44%</b>

# Expense Ratios of 1950's Largest Equity Funds

	Expense Ratio			Change	
	1950	1960	2003	1950-1960	1960-2003
<b>MIT</b>	<b>0.33%</b>	<b>0.19%</b>	<b>1.22%</b>	<b>-42%</b>	<b>+540%</b>
<b>Inv. Mutual</b>	<b>0.58</b>	<b>0.53</b>	<b>1.05</b>	<b>-9</b>	<b>+99</b>
<b>Wellington</b>	<b>0.60</b>	<b>0.41</b>	<b>0.32</b>	<b>-32</b>	<b>-22</b>
<b>Affiliated Fund</b>	<b>0.72</b>	<b>0.43</b>	<b>0.93</b>	<b>-40</b>	<b>+116</b>
<b>Inc. Investors</b>	<b>0.55</b>	<b>0.60</b>	<b>1.20</b>	<b>+9</b>	<b>+101</b>
<b>Div. Shares</b>	<b>0.74</b>	<b>0.53</b>	<b>1.53</b>	<b>-28</b>	<b>+189</b>
<b>State Street</b>	<b>0.62</b>	<b>0.56</b>	<b>1.19</b>	<b>-10</b>	<b>+113</b>
<b>Fund. Investors</b>	<b>0.69</b>	<b>0.62</b>	<b>0.71</b>	<b>-10</b>	<b>+15</b>
<b>Average</b>	<b>0.60%</b>	<b>0.48%</b>	<b>1.02%</b>	<b>-20%</b>	<b>+112%</b>

# Well-Aligned Interests?

	Money Managed for:		
	Fund Shareholders	Calpers	Fund/Calpers Ratio
<b>Amount Managed</b>	<b>\$36,000 mil</b>	<b>\$2,100 mil</b>	<b>17 X</b>
<b>Fees Charged</b>	<b>\$167 mil</b>	<b>\$1.7 mil</b>	<b>98 X</b>
<b>Expense Ratio</b>	<b>0.61%</b>	<b>0.08%</b>	<b>7.6 X</b>

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Totals are for three mutual fund managers. A mutual fund with an objective comparable to each manager's Calpers assets was chosen for this comparison.

# Equity Mutual Funds: Returns vs. Costs <sup>7.</sup>

(10 Years Ended February 2005)

Cost Quartile	Gross Return	Costs	Net Return	Risk	Risk-adj Return	Growth of \$1
One (lowest)	12.6%	0.9%	11.7%	16.0%	11.9%	<b>\$2.07</b>
Two	12.5	1.5	11.0	17.0	10.9	1.81
Three	12.8	2.0	10.8	18.5	10.1	1.63
Four (highest)	12.0	3.0	9.0	21.4	8.1	<b>1.18</b>
<b>Low Cost Enhancement</b>	<b>+5%</b>	<b>-70%</b>	<b>+30%</b>	<b>-34%</b>	<b>+47%</b>	<b>+75%</b>

Gross return was calculated by adding costs back into each group's net return.

## Market Share

	Firm	1981	2006
1	Vanguard	1.7%	10.9%
2	American Funds	2.0%	9.5%
3	Fidelity	8.1%	11.5%
4	Columbia Mgmt Adv	1.5%	2.4%
5	OppenheimerFunds	1.2%	1.8%
6	T Rowe Price	1.8%	2.1%
7	Goldman Sachs	1.4%	1.4%
8	Evergreen Investmt	1.2%	1.2%
9	AIM Investments	1.4%	1.2%
10	MFS	1.4%	0.9%
11	John Hancock	1.1%	0.5%
12	BlackRock	1.8%	1.2%
13	Phoenix Investment	1.0%	0.1%
14	RiverSource	2.1%	0.7%
15	Prudential Finl	2.2%	0.4%
16	UBS Glbl Asset Mgt	2.4%	0.5%
17	Van Kampen	2.9%	1.0%
18	Putnam	3.5%	1.2%
19	Franklin Templeton	5.4%	3.1%
20	Citigroup	3.9%	1.3%
21	Dreyfus	4.8%	1.7%
22	Morgan Stanley	4.3%	0.8%
23	Federated	6.0%	2.0%
24	DWS Scudder	5.2%	1.2%
25	Merrill Lynch	10.0%	2.0%

## Change

