

# AFP<sup>®</sup> Annual Conference



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ORIGINAL  
ESSENTIAL  
UNBIASED  
INFORMATION



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## Top Down, Bottom Up Risk Best Practices to Elevate Your Treasury Team

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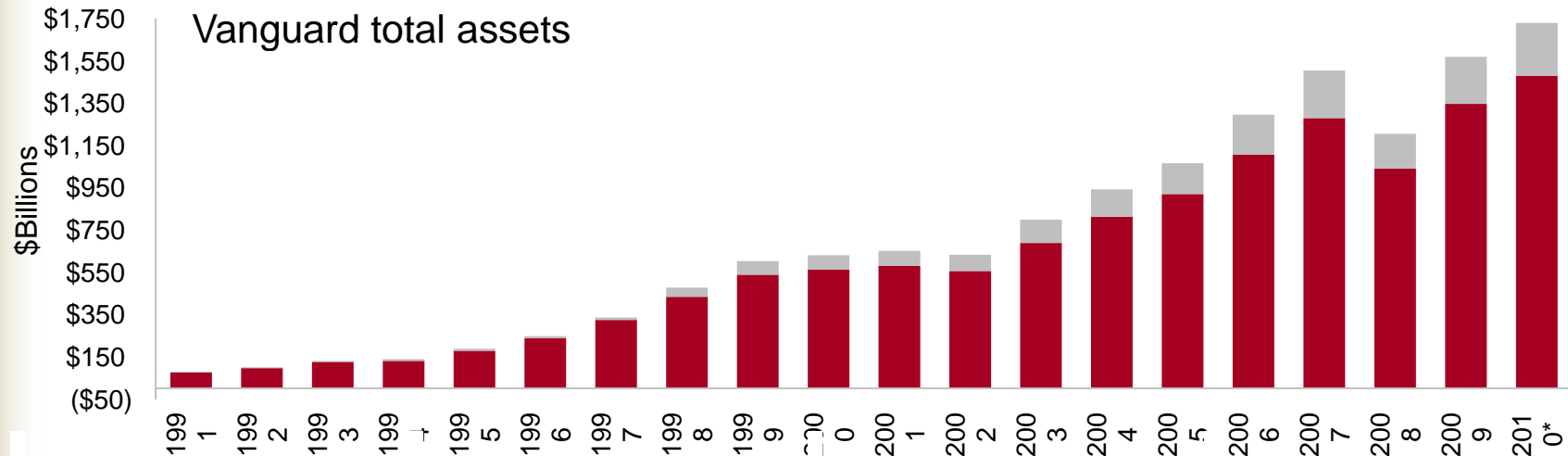
# Agenda

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- Vanguard at a glance
- Fund Financial Services (FFS) Fund Treasury
- FFS Fund Treasury risk and control program
  - Top down, bottom up approach
  - Risk model
  - Six sigma and risk/control integration
- Leadership growth and development
- Crew engagement
- Risk and control program performance results

# Vanguard at a glance

\$1.73 trillion



## Vanguard profile

- No outside owners: we serve only client interests
- An enduring commitment to lowering costs because low costs often provide a distinct advantage for investors
- 35 years of investment

## Market leadership

- Nearly \$1.5 trillion in assets under management (U.S.-based mutual funds)
- Broad lineup of 164 mutual funds, ETFs, and other products

## Investment management

- Active equity: leading institutional subadvisors
- Index equity: internal management provides state-of-the-art execution
- Fixed income: offering deep expertise and risk management

## Depth of experience

- More than 12,000 crew based in Pennsylvania, Arizona and North Carolina
- Growing international operations including:
  - Asia, Australia, Canada
  - Continental Europe
  - Mexico, South America
  - United Kingdom

■ U.S.-based mutual funds ■ Other

# Fund Treasury purpose and control objectives

## Fund Treasury

- Capture payment inputs
- Process/report payment instructions
- Calculate investable cash
- Project cash investment
- Capture and report intraday trade activity
- Reconciliation activities

### Mission Statement

To provide accurate and compliant Treasury services for the Vanguard mutual funds incorporating Vanguard Unmatchable Excellence, risk and control effectiveness and a goal of developing best in industry Treasury professionals

Best  
Place to  
Invest

Best  
Place to  
Work

### Our values/culture, how we pursue our purpose

Discipline,  
Long-term  
Planning

Crew Growth,  
Empowerment

VUE, Risk  
Control  
Culture

Technology  
for  
Effectiveness

Client  
Relationships

# Fund Treasury risk management timeline

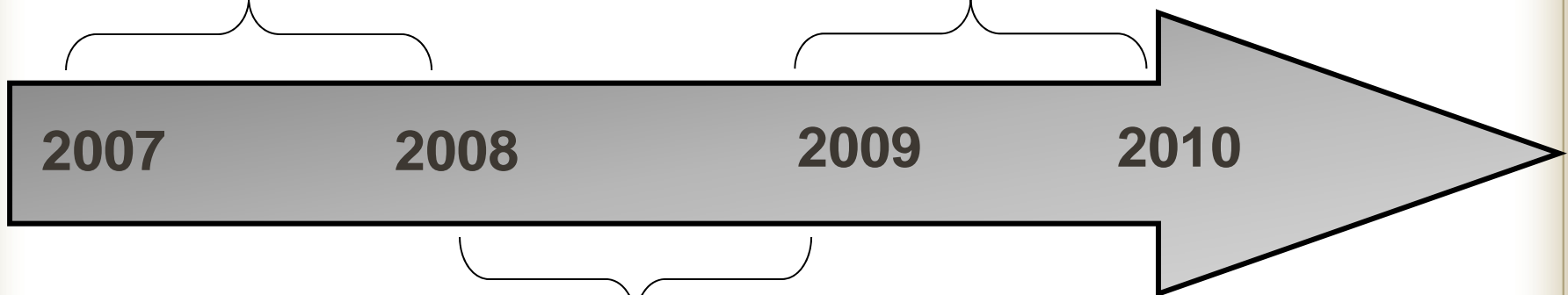
## Risk Awareness &

### Assessments

- Risk leads
- Treasury leadership
- Entire teams

### Risk & Control Governance

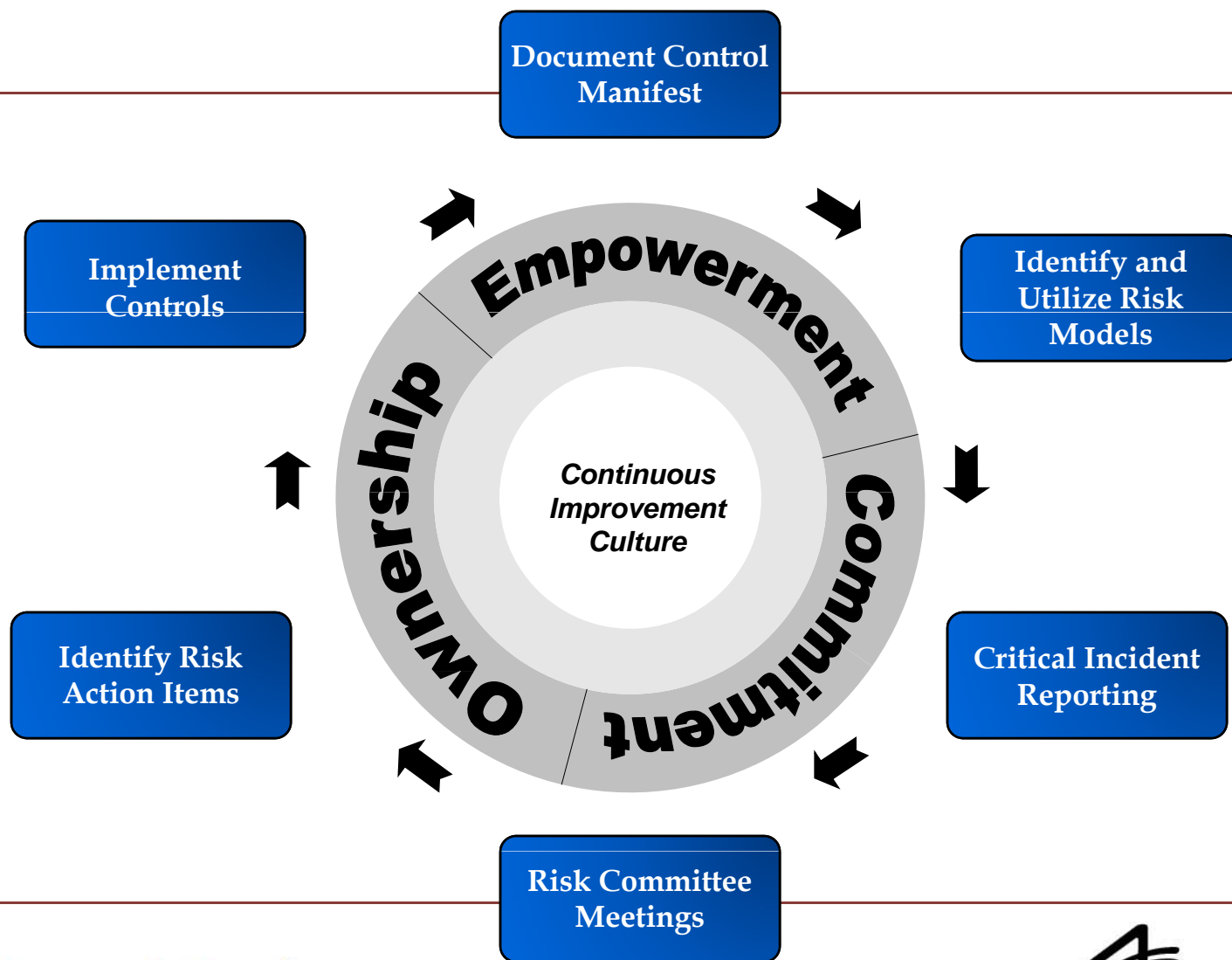
- Treasury leadership
- Internal risk champion
- Risk leads and crew



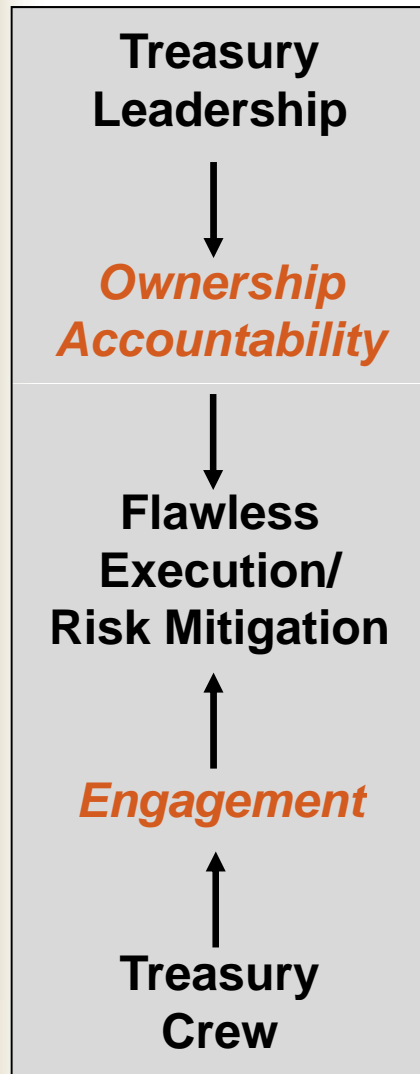
### Control Manifests, 100+ control activities

- Risk leads
- Treasury leadership
- Team SMEs

# Fund Treasury Enterprise Risk and Control COSO-like framework



# Top Down, Bottom Up Approach!



## Treasury Leaders

**Goal:** Lead Treasury's risk/control efforts to mitigate the possibility that a risk occurrence will impact the achievement of Treasury's mission and core business objectives

**Driven by:** Treasury Management Team

**How:** Governance, risk models, incident tracking, leverage Control Manifests, Risk/Control driven planning and technology projects

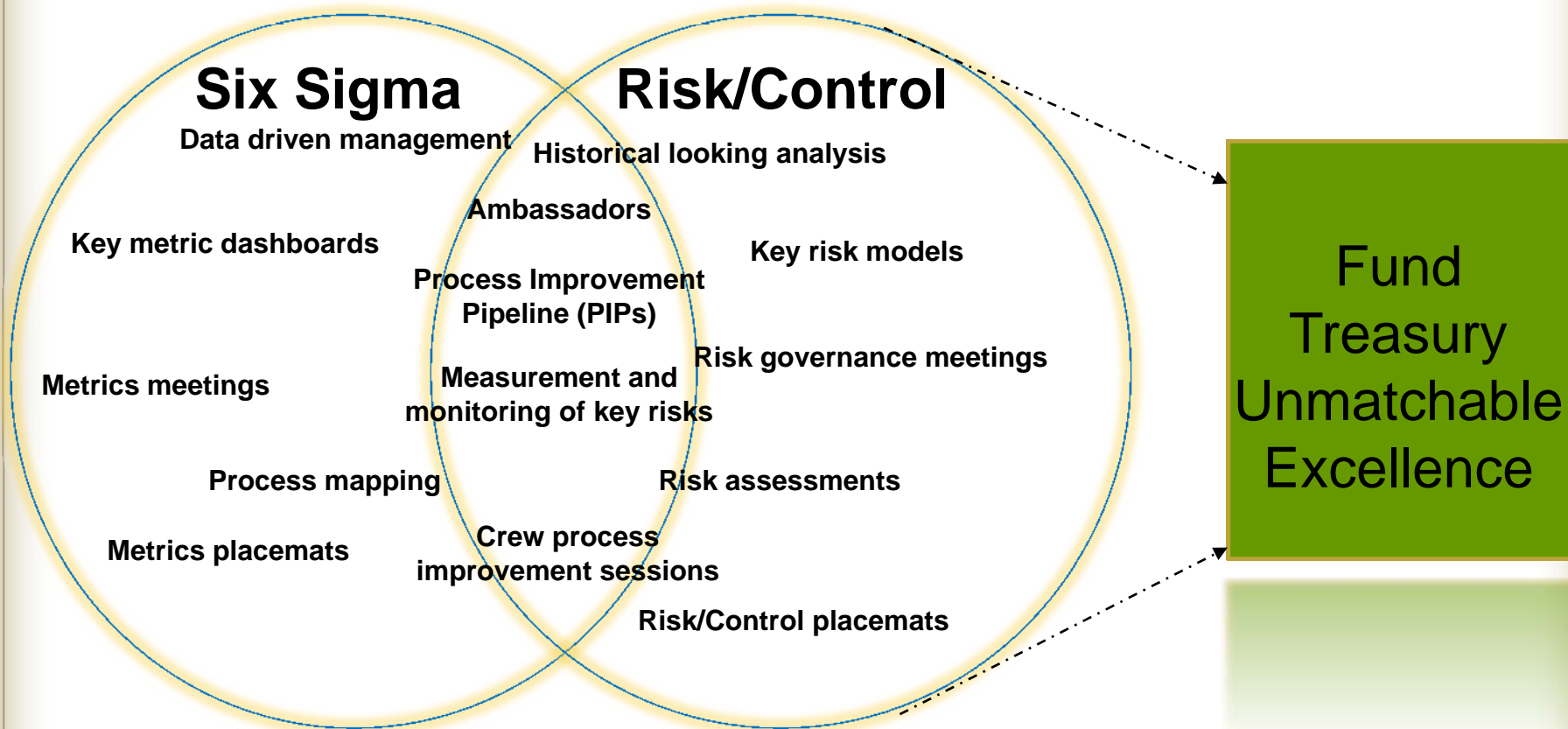
## Treasury Crew

**Goal:** Engage in team's process risk related activities to achieve team business objectives

**Driven by:** Treasury Crew of all Levels

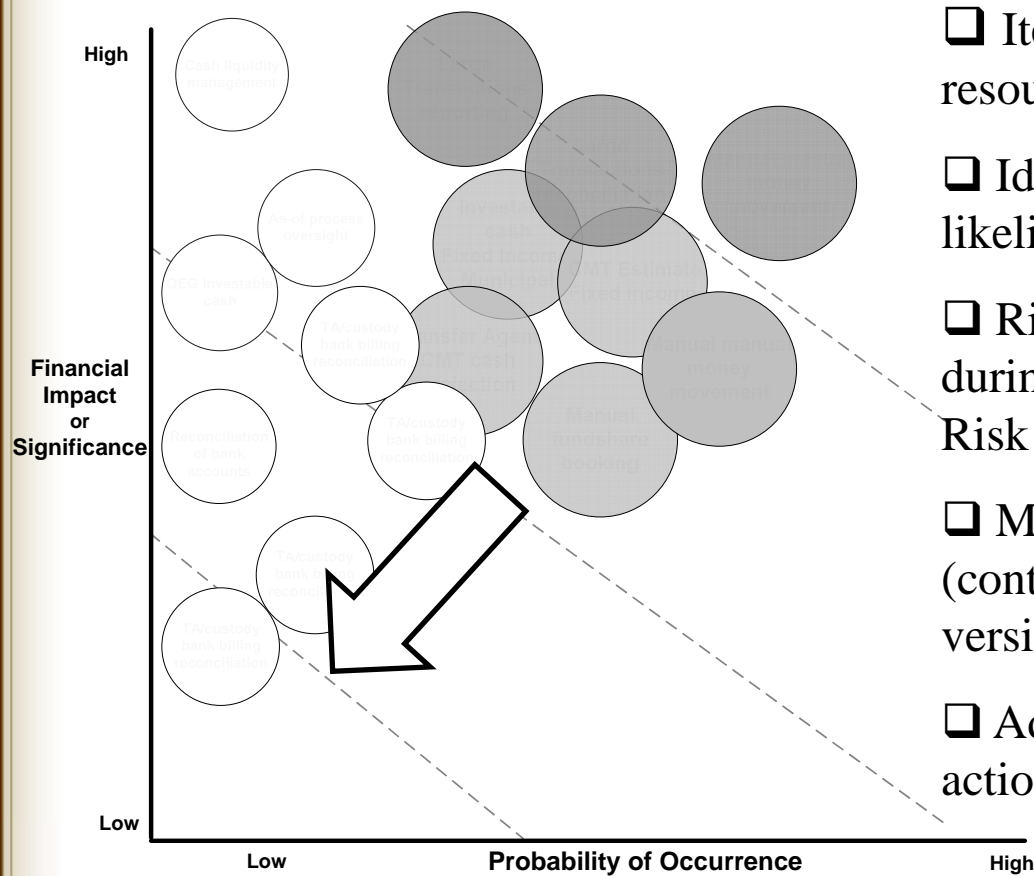
**Outputs:** Process Improvement Ideas (PIPs), daily involvement in improvement efforts, logging risk incidents, partnership with leaders

# Fund Treasury Six Sigma and risk integration





# Fund Treasury risk models



- ❑ Iterative process, leveraged industry resources and best practices
- ❑ Identifies greatest areas of risk, rated by likelihood and significance
- ❑ Risk occurrences reviewed monthly during risk governance meetings, led by Risk Champion
- ❑ Model evolved into internal (controllable) and external (uncontrollable) versions
- ❑ Adequacy of control activities evaluated, actions taken

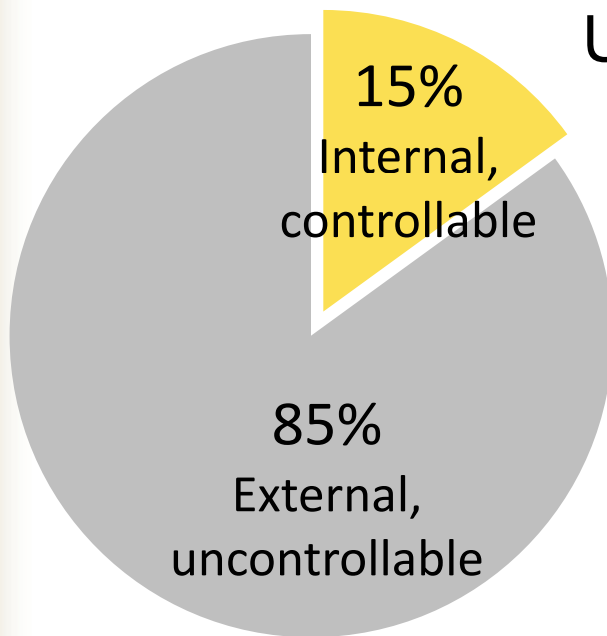
# Fund Treasury leadership growth and development

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- Evolved from Risk Awareness to:
  - assessments and hands-on application of tools
  - risk models
  - control activity adequacy measurements
  - risk/controls drives business planning strategy decision making!
- Full accountability and ownership of control activities
- Leadership lens
  - Endogenous – inward looking at what we control
  - Exogenous – outward, we don't control
    - Preparedness, readiness, react, communicate

# Endogenous (inward) vs. Exogenous (outward) Leadership takeaways

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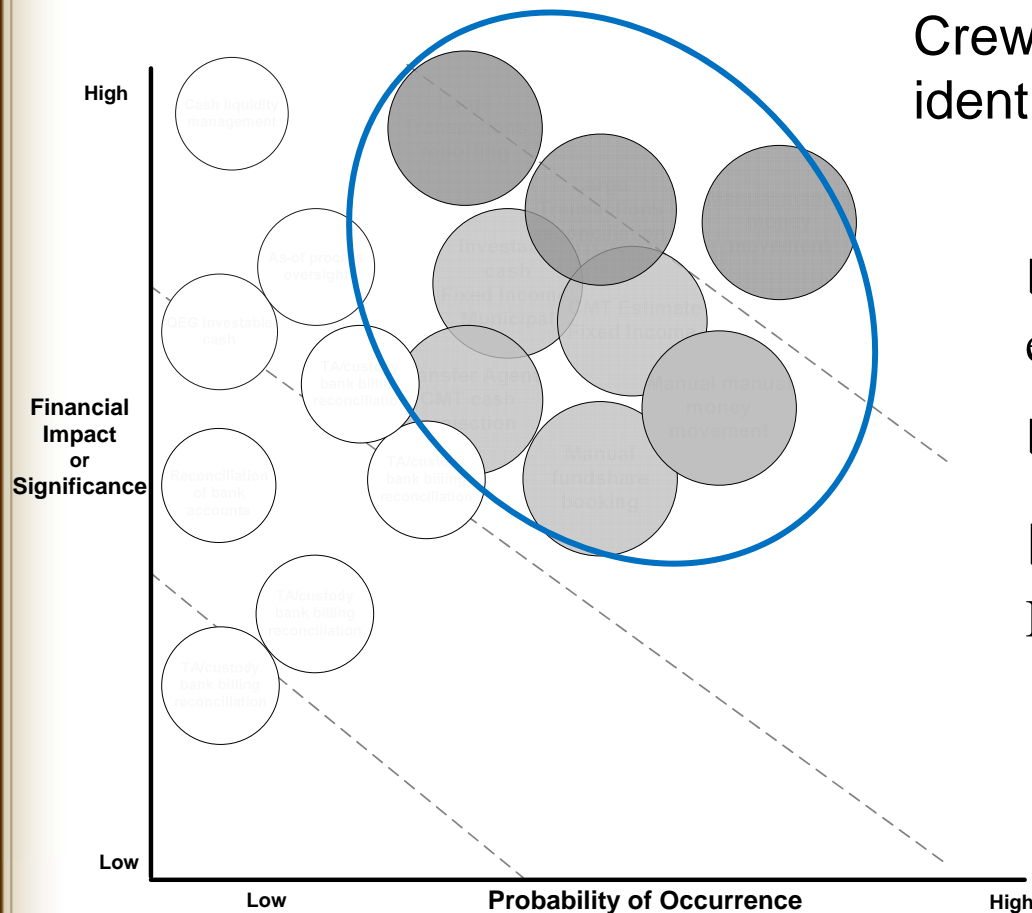


Uncontrollable events are more common:

- React effectively
- Understand downstream impacts
- Build communication plans
- Establish end-to-end process relationships
- Enhance contingency plans
- Crew engaged via table top sessions
- Prepare for black swans catastrophic-like risk events

# Fund Treasury annual improvement goals

## Leaders/crew focus on greatest risks for improvement



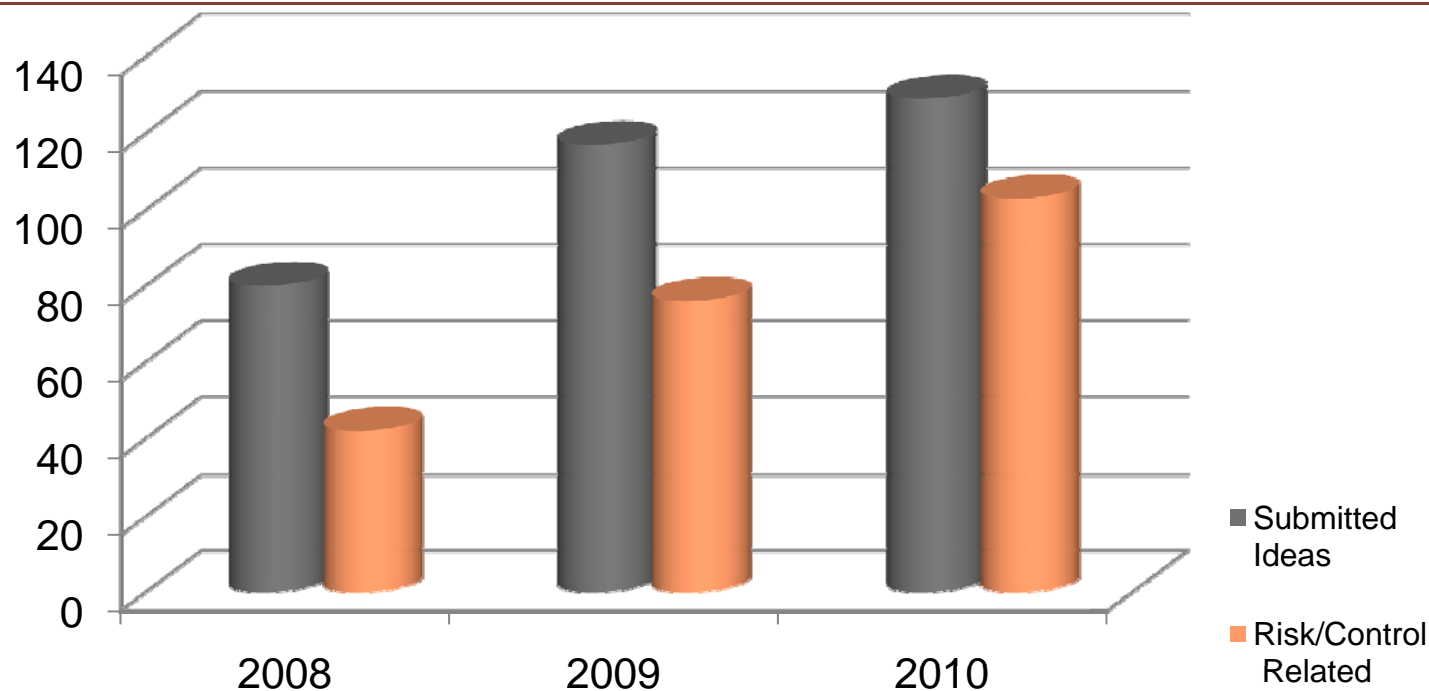
Crew and leaders work together to identify and achieve goals

### 2010 Goals

- Money movement risk and efficiency initiatives
- Investable cash projections
- Intraday cash transactions risk  
Business Design Methodology
- 400 Treasury PIPs over past four years! 75% risk related

# Fund Treasury crew engagement

## Increasing risk improvement ideas

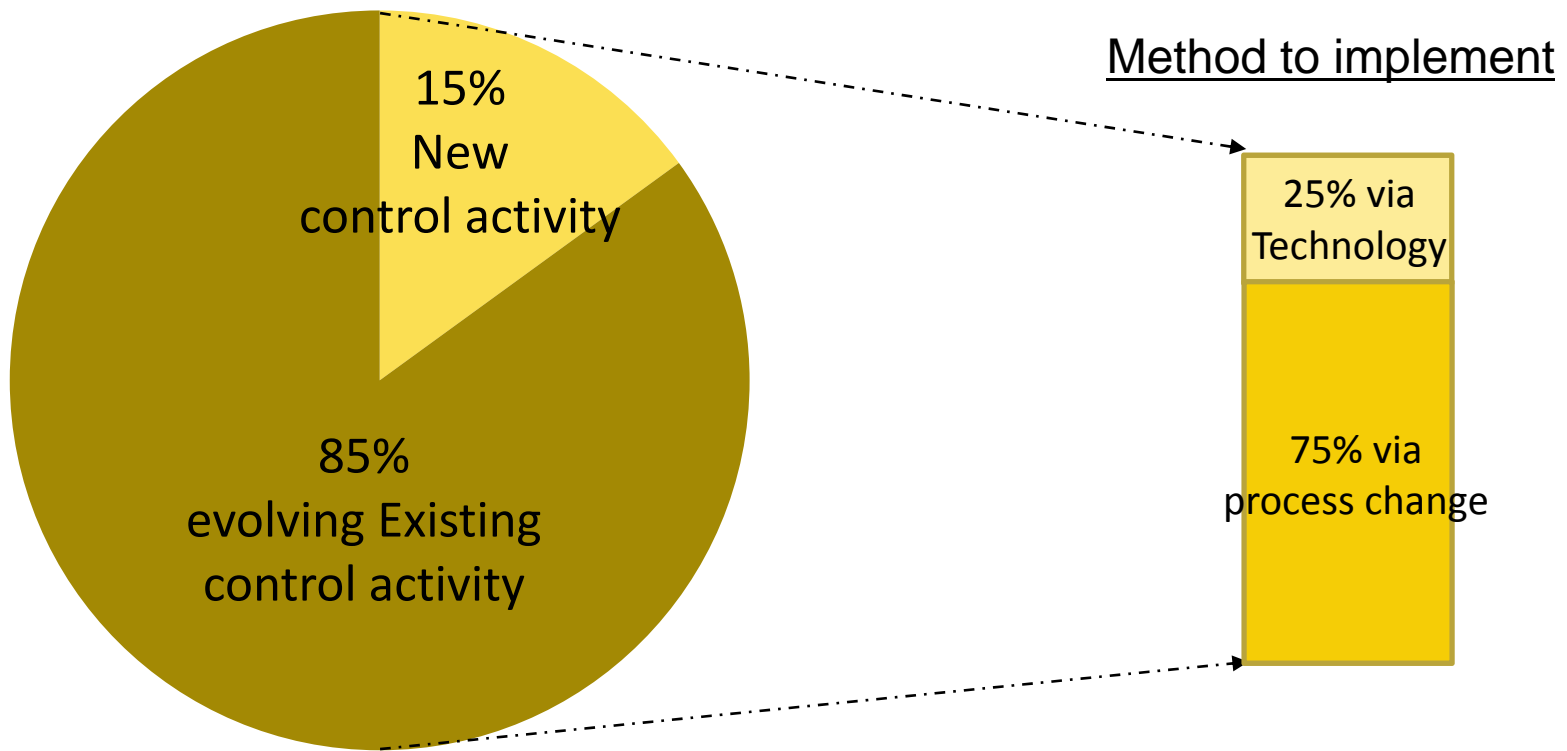


*"The PIP program provides an avenue where I can increase efficiency and reduce risk resulting in better service for our clients."* **Treasury crew member**

*"The PIP process has truly empowered the crew. They take pride in improving their team processes and continually challenge each other to come up with unique solutions to VUE or Risk concerns."* **Treasury manager**

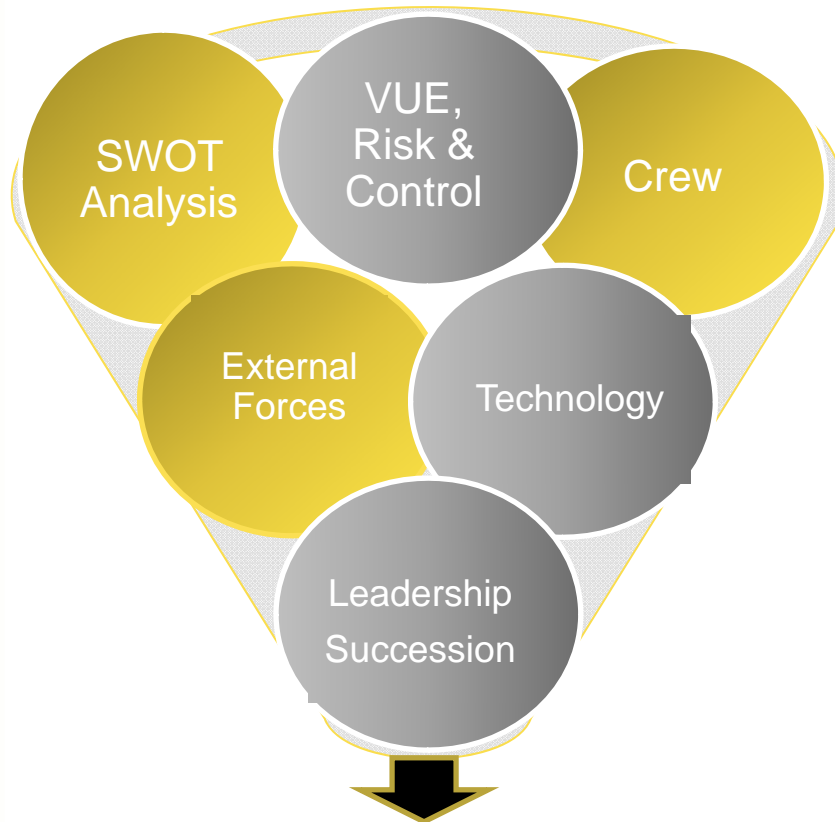
# Fund Treasury risk management Crew engagement – idea types

Crew risk related ideas (PIPs)



# Fund Treasury business plan

## Risk as a key component



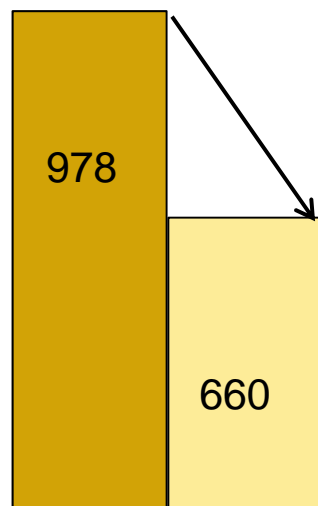
2011-2013 Business Plan

- Treasury leaders actively involved in business planning
- Leverage risk and control body of work
- Risk and control key driver for business planning technology plan

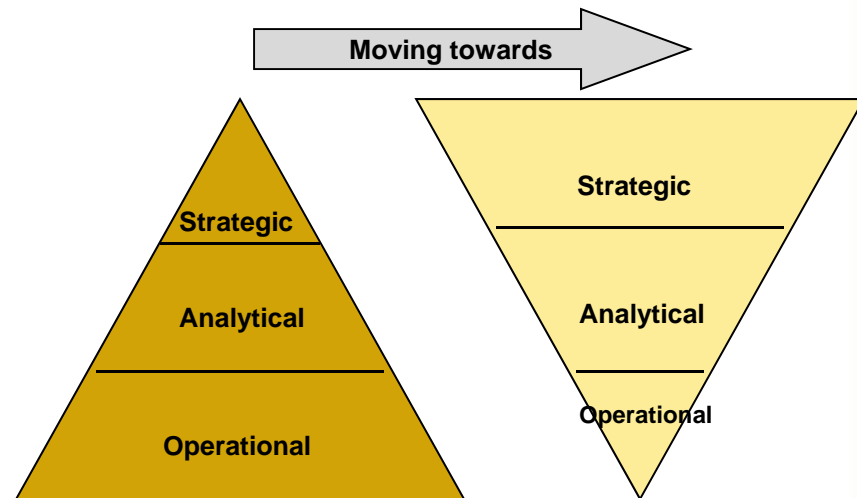
# Fund Treasury results

## Money Movement/Payments

- Moved to SWIFT platform in 2007 for all TA/custody payments
  - Risk assessment was a key driver for SWIFT automation
- 97.8% STP with 2.6 million instructions annually
- 5+ improvement/risk related ideas per crew, annually
- Improved sigma from **5.56 to 5.78**
- 2010 netting payment project elevated in October 2010 mitigated large wire risk, built efficiencies and reduced overall wire costs



Daily payments instructions post netting



Team time distribution



# Fund Treasury results

## Cash Management

- 175 process improvement ideas submitted by crew members
- Risk assessments primary driver to modernize three core cash systems
- Measureable improvements for cash and billing processes
- Consecutive year winner for Corporate Six sigma initiative of the year
  - Both projects were Risk/Control efforts
- Risk based business design methodology rolled out, efforts aligned for 2011

