



## ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



January 2, 2015

### **Vanguard Returns Fire in Fee War**

In October 2013, Fidelity launched 10 sector exchange-traded funds (ETFs) that track similar or identical MSCI indexes as Vanguard's older sector ETFs, but undercut them on expenses—a direct foray into a space where Vanguard had been long established as a market leader. It marked yet another blow in the "fee wars" between the two firms that have been ongoing for a decade.

It took Vanguard more than a year to muster a response, but it finally did as 2014 was coming to a close, reducing its sector ETFs' (and corresponding Admiral shares') expense ratios from 0.14% to 0.12%, the same Fidelity is charging for its corresponding funds. At the same time, Vanguard cut fees on a few other funds; see below for a full list.

As a refresher, an expense ratio tells shareholders how much they are paying to support the firm's annual cost of operating a particular fund or ETF. The expense ratio is calculated by dividing annual operating expenses by the average dollar value of the fund's or ETF's assets under management.

The competition to see which firm could provide the lowest fees on index fund began in 2004, when Fidelity slashed fees on key index funds to less than Vanguard was charging for similar offerings. The two fund giants' efforts at outmaneuvering their competitor has persisted with numerous feints and jabs since. In May 2010, Vanguard made investing in its ETFs commission-free for all brokerage clients, and later that year sent shockwaves through the ETF industry when it launched 19 ETFs tied to institutional index funds.

In October 2013, Fidelity shot back by launching the aforementioned 10 sector ETF funds, featuring commission-free trades on its brokerage platform and industry-low expense ratios.

We are always encouraged when fund companies cut costs for investors. While Fidelity and Vanguard will likely continue to battle for investment dollars, the real winners of the fee wars are investors who can keep more money in their accounts compounding over the long term.

### **Expense Ratio Changes Effective 12/23/14**

### **In This Issue**

- Vanguard Returns
- Fire in Fee War
- Fidelity Small Cap
- Manager Taking the Lead

Fund	Share Class	Ticker Symbol	Former Expense Ratio	Current Expense Ratio
Consumer Discretionary	ETF	VCR	0.14%	0.12%
Consumer Discretionary Index	Admiral	VCDAX	0.14%	0.12%
Consumer Staples	ETF	VDC	0.14%	0.12%
Consumer Staples Index	Admiral	VCSAX	0.14%	0.12%
Energy	ETF	VDE	0.14%	0.12%
Energy Index	Admiral	VENAX	0.14%	0.12%
Federal Money Market	Investor	VMFXX	0.14%	0.11%
Financials	ETF	VFH	0.14%	0.12%
Financials Index	Admiral	VFAIX	0.19%	0.12%
FTSE Social Index	Investor	VFTSX	0.28%	0.27%
Health Care	ETF	VHT	0.14%	0.12%
Health Care Index	Admiral	VHCIX	0.14%	0.12%
Industrials	ETF	VIS	0.14%	0.12%
Industrials Index	Admiral	VINAX	0.14%	0.12%
Information Technology	ETF	VGT	0.14%	0.12%
Information Technology Index	Admiral	VITAX	0.14%	0.12%
International Growth	Admiral	VWILX	0.35%	0.34%
International Growth	Investor	VWIGX	0.48%	0.47%
Materials	ETF	VAW	0.14%	0.12%
Materials Index	Admiral	VMIAX	0.14%	0.12%
Prime Money Market	Investor	VMMXX	0.17%	0.16%
Russell 1000 Growth	ETF	VONG	0.14%	0.12%
Russell 1000 Value	ETF	VONV	0.14%	0.12%
Telecommunication Services	ETF	VOX	0.14%	0.12%
Telecommunication Services Index	Admiral	VTCAX	0.14%	0.12%
U.S. Growth	Admiral	VWUAX	0.31%	0.30%
U.S. Growth	Investor	VWUSX	0.45%	0.44%
Utilities	ETF	VPU	0.14%	0.12%
Utilities Index	Admiral	VUIAX	0.14%	0.12%

Source: Vanguard.

### Fidelity Small Cap Manager Taking the Lead

On January 1, Derek Janssen began to transition into the lead portfolio manager role at Fidelity Small Cap Value and Fidelity Advisor Small Cap Value. Janssen has co-managed the funds with Chuck Myers since January 2013, with full management shifting to Janssen as Myers completes his departure from the two offerings by January 1, 2016.

Janssen has been co-manager at Small Cap Value since 2012. Prior to that, he covered small cap stocks in Fidelity's Boston office, and analyzed non-U.S. small cap stocks from its Tokyo office from 2008 to 2010.

Myers, who has managed Fidelity's Small Cap Discovery fund since 2006, will remain at the helm there.

Fidelity is clearly being very deliberate with the transition from Myers to Janssen, and we'd expect that the funds will be run in a similar fashion under Janssen's sole oversight as they are today.

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