ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Merges International Funds

Earlier this month, Vanguard completed the scheduled merger of its Tax-Managed International and Developed Markets Index funds, part of a series of changes announced last fall to simplify the company's fund lineup. While some of those moves weren't as transparent as Vanguard may have made them out to be, in the case of these two international funds tracking the same benchmark, the reasoning was sound and investors in the funds are unlikely to notice much of a difference in what they own.

The process was a bit more complicated than it seemed on the surface. Because Tax-Managed International was the bigger fund, with $23.5 billion in assets, Vanguard merged the smaller, $17.7 billion Developed Markets Index into it, but first had to add Investor shares for Tax-Managed International so that investors in the smaller fund's various share classes could receive like-for-like shares when the funds combined. After all of this maneuvering, the fund left standing was renamed Developed Markets Index.

Because of how Vanguard managed the merger, while the name is the same, the symbols on the Investor and Admiral Share Classes are not, which you can see in the table below.

Same Name, New Address

	Old Symbol	New Symbol	Expense Ratio	Minimum
Developed Markets Index				
Investor Shares	VDMIX	VDVIX	0.20%	$3,000
Admiral Shares	VDMAX	VTMGX	0.09%	$10,000
ETF Shares	VEA	VEA	0.09%	none

Source: The Vanguard Group

Up above, we mentioned that the reasoning for this move was sound, but you may have been left wondering, "What about the tax-managed aspect?" It's a good question.

Under the old Tax-Managed International's mandate, the goal was to provide tax-efficient returns. While tax-efficiency was not and is not part of Developed Markets Index's objective, the fund has proven to be nearly equal to the tax-managed fund in preserving after-tax returns. For example, over the three years through March, Tax-Managed International had a tax efficiency of 88.7%, while Developed Markets Index provided 87.8% efficiency, and the funds had identical annualized three-year after-tax returns of 6.4%. As long as Vanguard continues managing the fund the way it has, we think investors in the old Tax-Managed International won't see much of a difference in the fund's portfolio or tax efficiency characteristics over time.

To read more about Vanguard's nearly completed fund cleanup, please take a look at our October 25, 2013 issue of the *Adviser Fund Update*. The only item left on Vanguard's announced agenda is the merger of Tax-Managed Growth & Income with 500 Index, which is scheduled to take place mid May this year.

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