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### **Fidelity Makes its ETF Move**

At the end of May, Fidelity filed with the Securities and Exchange Commission (SEC) its intention to open another actively managed exchange-traded fund (ETF): Fidelity Mortgage Securities ETF. This follows the registration statement for Fidelity Corporate Bond ETF filed at the beginning of February. The filings mark a turning point for Fidelity, which to date has only ever opened one ETF (the Fidelity Nasdaq Composite Tracking Stock, ticker: ONEQ), as the firm seeks to gain a toehold in the booming exchange-traded fund industry.

We covered how Fidelity has approached the ETF market this second time around in our March 1 *Adviser Fund Update* (which you can read by [clicking here](#)). At that time, we contended that it was a question of when, not if, Fidelity would work towards bringing more ETFs to market, which seems to be gradually playing out.

Fidelity has not revealed many details about Mortgage Securities ETF yet, but according to the filing with the SEC, it will hold medium- to high-quality investment-grade and U.S. government mortgage-related securities, with similar interest-rate risk to the Barclays U.S. MBS Index. A version of that index is already tracked by a Vanguard ETF, Mortgage-Backed Securities ETF (VMBS), which had about \$862 million in assets through April, and the much larger iShares Barclays MBS Bond Fund (MBB), which has \$6.7 billion in assets. Of course, the key difference is that Fidelity's ETF will be actively managed, so we'd expect the portfolio to be more selective in its holdings than the own-everything index strategies at iShares and Vanguard, both of which hold over 500 bonds.

These are still the early days for Fidelity's revitalizing ETF business—we'll be watching with a keen eye to see what their active ETFs look like once they open to investors and for any new funds in the works.

### **Vanguard International Bond Funds Go Live**

As of May 31, both of Vanguard's international bond funds, Emerging Markets Government Bond Index and Total International Bond Index, began trading. As active ETFs signal a new era for Fidelity, international bond funds do the same for

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Vanguard, which delayed its entry into the asset class several times and is behind many mutual fund competitors.

We've covered both funds a number of times recently. For more on Total International Bond Index, [click here](#). To read up on the Emerging Markets Government Bond Index fund, [click here](#).

Now that they are open and operating, it will be interesting to see how quickly the funds gather assets, and how they perform. On the asset front, the preliminary data confirm our prediction that the ETF shares of Emerging Markets Government Bond Index would be far more popular than the open-end mutual fund shares, which charge a 0.75% front-end load. Overall, the fund has pulled in \$95 million in assets since the start of the subscription period in mid-May, with \$72 million of it going into the ETF.

Total International Bond Index starts its life with \$14 billion in assets, although a majority of that came from transactions within Vanguard as it shifted money from Total Bond Market Index to the new fund, which will now be included in the firm's funds-of-funds. Investors in any of Vanguard's Managed Payout, STAR *LifeStrategy* or Target Retirement series should note that Total International Bond Index will represent about 20% of the overall bond allocation in those portfolios going forward.

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