



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



June 19, 2015

Vanguard Ducks Institutional Money Market Rules

On June 16, Vanguard announced a series of moves for its money market fund lineup in response to rules adopted by the Securities and Exchange Commission (SEC) in 2014. In essence, the changes allow Vanguard to continue running its money funds as it has been and avoid the use of "floating" net asset values (NAV).

As you may know, money market funds have traditionally maintained a stable \$1 NAV—the price of shares doesn't change with time or the markets. Investors put a dollar in and expect to get a dollar out when they sell, with only the amount of income or yield changing over time. The safety of these funds and their ability to protect investors' cash have been their major selling point.

One element of the SEC's new rules, set to take effect in October 2016, requires money market funds intended for institutional investors to switch to a floating NAV, meaning the price will change day to day (although likely not by much), adding some risk and return potential as well as tax implications for shareholders, but also giving money fund managers more breathing room in times of financial stress ("breaking the buck" or falling below a \$1 share price will not be as risky a business proposition for fund providers as it was formerly). Those funds marketed for "retail" or individual investors will be allowed to continue using a stable \$1 NAV, and it's this part of the ruling that Vanguard is using to its (and its institutional shareholders') advantage. (For more on the SEC's new rules and money market funds in general, please see our [September 12, 2014 Adviser Fund Update](#).)

To start, Vanguard has designated seven funds as "retail," including Prime Money Market, California Tax-Exempt Money Market, New Jersey Tax-Exempt Money Market, New York Tax-Exempt Money Market, Ohio Tax-Exempt Money Market and Pennsylvania Tax-Exempt Money Market. Note that this designation will not prevent institutional clients from investing in the funds.

In addition, Prime Money Market's Institutional Shares will

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be switched to Admiral Shares in December 2015. Unlike a majority of Vanguard's other Admiral funds, however, Prime Money Market's Admiral shares will not be adopting a \$10,000 or \$50,000 minimum—there will still be a \$5 million price of entry, putting it far out of reach of most retail investors (one exception would be 401(k) and other retirement plans where these shares are an option). The only real change here is that the name won't say "institutional," and hence the fund won't be subject to rules requiring a floating NAV.

Vanguard Federal Money Market Reopens

Vanguard's Federal Money Market fund reopened to new investors on June 16 (it had been closed since June 2009), and the firm also announced plans to change the name of Admiral Treasury Money Market to Treasury Money Market in December 2015 to reduce investor confusion, since it is only available in Investor shares. Treasury Money Market will remain closed to new investors.

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