



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



July 17, 2015

Vanguard Names New Fixed Income Manager

Earlier this month, Christopher E. Wrazen replaced Paul Malloy as the co-manager of Vanguard Short-Term Corporate Bond Index, Intermediate-Term Corporate Bond Index and Long-Term Corporate Index funds. He'll also assume responsibility for the bond portion of Balanced Index.

Wrazen will share management duties with Joshua Barrickman on the three fixed-income funds.

The change comes as a result of the departure of Paul Malloy, the funds' previous co-manager, who moved to London to head Vanguard's European fixed-income team.

Wrazen has worked for Vanguard since 2004, and in an investment management role since 2008, though this is his first portfolio management position. He graduated from West Chester University and received an MBA from Drexel University's LeBow College of Business.

The Corporate Bond Index funds invest in investment-grade, fixed-rate bonds issued by industrial, utility and financial companies. They have an expense ratio of 0.12%, each more than 80% lower than peers.

We don't think this change should be any concern for investors, nor do we expect to see significant shifts in the character or performance of the funds as a result.

Vanguard Muni Index Fund Delayed Again

All year, we've been waiting to see when Vanguard's new municipal bond index fund and ETF would actually launch. In January, the company [announced plans](#) to open Tax-Exempt Bond Index on April 19, then pushed it back to May 15. That deadline [came and went](#) when Vanguard abruptly filed with the Securities and Exchange Commission to postpone the fund's debut until June 12. As the June open approached, Vanguard filed to delay a fourth time, pushing Tax-Exempt Bond Index's arrival off until July 10.

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Now, for the fifth time, another delay. The fund has been rescheduled to open on August 7.

Creating a muni ETF is a bit more of a challenge due to the municipal bond market's relatively light trading activity, so perhaps Vanguard is still working out the kinks before making Tax-Exempt Bond Index available to the public. Since munis don't change hands very often, they present difficulty in accurately determining the underlying value of holdings in an ETF during the course of the trading day, when ETFs are traded like stocks.

The roughly \$15 billion muni ETF industry (just a tiny sliver of the overall \$2 trillion ETF market) has thus far dealt with the valuation issue by creating algorithms based on the prices at which bonds have traded in the past in addition to other historical data.

Vanguard's eventual entry will challenge the current market leader, iShares National AMT-Free Muni Bond ETF, which has more than \$5 billion in assets. The iShares fund costs 0.25% in fees, more than double the 0.12% expense ratio that Vanguard plans to charge for its fund.

Vanguard has been tightlipped about what's causing the setbacks. Time will tell if the delays become a monthly ritual or if the firm can break the trend and have the fund ready by August 7.

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