



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



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Vanguard Lets Money Market Investors Off the Hook

A holiday gift arrived early for Vanguard money market fund shareholders. The mutual fund giant has now explicitly confirmed that its money market fund shareholders will not have to pay back the more than \$112 million in fees that Vanguard has waived over the past five-plus years.

While the Federal Reserve has kept interest rates near zero, asset managers like Vanguard, Charles Schwab and Federated Investors waived more than \$30 billion in money-fund fees from 2009 to 2014 attempting to prevent expenses from wiping out yields and investors' principal. With interest rates hovering near zero, charging typical fees would drop share prices below the stable \$1 per share money market fund managers strive to preserve.

Once the Fed eventually does raise rates—whether later this year or sometime in 2016—we think the pace of increases will be sluggish, which will mean corresponding yield increases on money market and fixed-income funds will also be slow. For example, if we oversimplify and assume a fed funds rate increase of 0.25% will equate to a 0.25% increase in yield for a given money market fund, it will produce only \$25 per \$10,000 of assets in additional income over the next year. It's investors in funds with the lowest fees, like Vanguard's, that could see the largest initial gains from a rate increase, since more of that increased yield can go to investors instead of paying the fund provider.

Vanguard becomes the first mutual fund complex to make clear that it won't try to claw back millions in fees, which may force the hands of its competitors. At the same time, the firm is rapidly pulling back on the fee reductions that have been in place on Federal Money Market and Prime Money Market, though are still waiving more than \$1 million at Admiral Treasury Money Market.

In the just-released annual report for the three taxable money funds—Admiral Treasury Money Market, Federal Money Market and Prime Money Market—Vanguard has added language that states, "...the fund is not obligated to repay this [fee waiver] back to Vanguard."

In This Issue

- Vanguard Lets Money Market Investors Off the Hook
- Vanguard Demoting Admiral Treasury Money Market

Waived fees on Federal Money Market had already begun to wind down, from \$298,000 from September 2014 through February 2015, to just \$75,000 in the second half of its fiscal year, which concluded August 31. For Prime Money Market, the fee reduction fell from \$8.1 million in the first six months of the fiscal year to just \$589,000.

At the same time, the funds' yields have been rising (from 0.01% in June to a current 0.08% SEC yield for Prime Money Market and to 0.06% from 0.01% in August for Federal Money Market), as portfolio manager David Glocke has picked up higher-yielding paper in Australia and Canada.

As for Admiral Treasury Money Market, it still needs those waived fees to keep its yield above zero—at 0.01%—though its waiver amounts are diminishing as well. In the first six months of the most recent full fiscal year, the fund waived \$2.9 million in fees. Over the next six months, that figure was reduced to \$1.6 million.

Vanguard's Money-Market Fee Waivers

Fund	Most Recent 6 Mos. Through	Expenses Waived	Prior 6 Mos.
Admiral Treasury Money Market	8/31/2015	\$1,614,000	\$2,909,000
Federal Money Market	8/31/2015	\$75,000	\$298,000
Prime Money Market	8/31/2015	\$589,000	\$8,126,000
Tax-Exempt Money Market	4/30/2015	\$8,617,000	\$7,103,000
CA Money Market	5/31/2015	\$1,861,000	\$1,840,000
NJ Money Market	5/31/2015	\$635,000	\$649,000
NY Money Market	5/31/2015	\$1,206,000	\$1,163,000
OH Money Market	5/31/2015	\$246,000	\$240,000
PA Money Market	5/31/2015	\$1,188,000	\$1,226,000
Money Market Annuity	6/30/2015	\$557,000	\$619,000

Meanwhile, waivers at tax-exempt money market funds have, for the most part, held steady as yields remain locked in at 0.01%.

The question remains how the rest of the \$2.7 trillion money-market-fund industry will react to Vanguard's gift to its fund shareholders. If you take Charles Schwab's \$39.5-billion Schwab Cash Reserves money fund, for example, which waived \$99.3 million in just the first half of 2015 ("to maintain a positive net yield," as its semiannual reports says in the fine print), Vanguard's waivers look like drops in the bucket.

Will fund complexes like Schwab follow Vanguard's lead given their much larger fee waivers? Or will Schwab-sized funds require money-fund investors to pay back waived fees and risk clients fleeing to Vanguard? Time will tell.

Vanguard Demoting Admiral Treasury Money Market

At the end of 2015, Vanguard plans to remove the "Admiral" from Admiral Treasury Money Market's name. This move seems solely intended to clarify the fund's place in Vanguard's lineup—it wasn't truly an Admiral share so the usage of the term in the fund's name was misleading.

The new moniker, Treasury Money Market, may be familiar to Vanguard investors, as the firm once offered a fund of that name, which was merged into Admiral Treasury Money Market in 2009. We don't anticipate any changes in the fund's objective or its composition under its new name, which remains closed to new investors.

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