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Vanguard's Index Migration Nears End

This week, Vanguard announced that 18 of the 22 index funds slated to swap their Morgan Stanley Capital International (MSCI) benchmarks for new ones from the Financial Times and Stock Exchange (FTSE) and the Center for Research in Security Prices (CRSP) have done so after nine more completed the change this month. When the plan was first revealed, we stated that most investors should not see a significant change in the affected funds—by all signs it has been a smooth transition.

The four funds that have yet to migrate to their new benchmarks are Vanguard Emerging Markets Index, Total Stock Market Index, Total International Index and Admiral Tax-Managed International (for a full list of funds switching to new indexes and more information on the moves, please see the [October 12, 2012, issue of the Adviser Fund Update](#)).

Emerging Markets Index is something of a special case, as its transition has been managed in stages to gradually reduce exposure to South Korean companies, which are not part of the new FTSE benchmark but once accounted for about 15% of the MSCI index, and thus the portfolio. Through April 23, South Korea had been trimmed down to a 5.5% allocation, and Vanguard says that Emerging Markets Index is currently in week 15 of a 25-week transition and on track to closely match its new index by the end of June. As Korean stocks are being whittled out of Emerging Markets Index, they have been added to Vanguard Developed Markets Index and Pacific Index. While we'll have to wait a few weeks to see the allocation appear in Developed Markets Index's portfolio, the underlying FTSE index had a 4.5% position through March. Pacific Index completed its FTSE transition earlier this year, and South Korea accounted for 11.1% of assets at the end of March, now the third-largest country allocation in the fund behind Japan and Australia.

Vanguard initiated the change mainly because it was able to negotiate lower index licensing fees with CRSP and FTSE than it was paying MSCI, saying at the time of the original announcement that those lower costs should eventually be passed on to shareholders. This week Vanguard followed through on that promise for a couple of funds; SmallCap Value Index and MidCap Value Index both had expenses lowered across the board on their

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Investor, Admiral and ETF share classes. Investors in SmallCap Value Index saw the expense ratio slashed by 10 basis points, or 0.10%, on each share class (a 50% reduction in expenses on the Admiral and ETF shares), while MidCap Value Index's investors saw them reduced by 2 basis points.

While the mechanics of the changes may not be exciting for the average investor, saving more money with no additional effort should be. Cutting costs without reducing the quality or character of an investment is a great benefit for shareholders, and we hope to see Vanguard keep it up.

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