



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



July 2, 2015

Vanguard Adds International Small-Cap and Chinese Exposure

At the beginning of June, Vanguard announced that over the next 18 months or so, four of its international equity index funds and ETFs will add small-cap exposure to their portfolios as they transition to more broadly defined all-cap FTSE benchmarks sometime in the third or fourth quarter of 2015.

Vanguard Chairman and CEO Bill McNabb said the move is intended to further diversify stock holdings and better achieve comprehensive and complete market coverage.

Small-cap stocks will become a part of Vanguard's Emerging Markets Stock Index, Developed Markets Index, European Stock Index and Pacific Index funds, putting them nearer to actual global market-cap weightings. Developed Markets Index will also be adding exposure to Canadian companies, while Emerging Markets Stock Index will include China A-shares (which we'll discuss below). Small-caps account for between 9% and 11% of each fund's new benchmark. Expense ratios aren't expected to change.

In an effort to save on costs and streamline the change, Emerging Markets Index and Developed Markets Index will benchmark to transition indexes that will be updated monthly for approximately 12 months and six months, respectively.

In This Issue

- Vanguard Adds International Small-Cap and Chinese Exposure
- Emerging Markets Stock Index Adds China Exposure

Fund/ETF	Current Benchmark	Transition Benchmark	New Benchmark
Emerging Markets Stock Index	FTSE Emerging Index	FTSE Emerging Markets All Cap China A Inclusion Transition Index	FTSE Emerging Markets All Cap China A Inclusion Index
Developed Markets Index	FTSE Developed ex North America Index	FTSE Developed All Cap ex US Transition Index	FTSE Developed All Cap ex US Index

European Stock Index	FTSE Developed Europe Index	—	FTSE Developed Europe All Cap Index
Pacific Stock Index	FTSE Developed Asia Pacific Index	—	FTSE Developed Asia Pacific All Cap Index

Source: Vanguard.

Emerging Markets Stock Index Adds China Exposure

The announcement garnered headlines mainly because Vanguard Emerging Markets Stock Index will become the first major emerging markets fund to add exposure to Chinese A-shares stocks listed on the Shanghai and Shenzhen exchanges.

Investors have been waiting for the inclusion of A-shares in emerging markets indexes for some time, but a review of Vanguard's benchmark changes on the impact of portfolios and performances don't seem to match the hype. For most investors, who only dabble in emerging markets, the impact will be negligible at best.

Given the marginal effect on portfolios, why all the excitement? Historically, foreign investors have been unable to hold A-shares, though the Chinese government has recently allowed certain foreign investors to buy a limited, proscribed amount.

Beginning later this year, the Vanguard fund will start its shift to the new index. Once completed, small-caps will account for about 10% of Emerging Markets Stock Index, with Chinese A-shares amounting to 5.6% of the benchmark index tracked by the fund.

Emerging Markets Stock Index currently has a 29% allocation to Chinese equities via the Hong Kong stock market. By the end of 2016, the fund's portfolio will be about 26% Hong Kong-listed stocks—add on the new A-shares exposure and you get a total of around 32% allocated to China, just a 3% increase overall. The Hong Kong-based Chinese equities will get a smaller weight in the benchmark, but the fund's complexion isn't going through a massive change.

Think of it this way: If you had 10% of your portfolio in Vanguard's Emerging Markets Stock Index (which is more than most people do), 5.6% of a 10% position is only 0.56% of the total portfolio. The net addition of a 3% position to Chinese stocks would be a mere 0.3% change in your portfolio. If a portion that small doubles or disappears overnight you'd hardly notice. But it does make for eye-catching headlines.

We think most investors in the four funds affected by the changes won't notice much of a difference in portfolio composition or performance, especially since the changes will be gradual.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,600 clients and over \$3 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is \$350,000. In 2014, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the second time in 2015. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list for 2014 and 2015.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

Disclaimer: This material is distributed for informational purposes only. The investment ideas and expressions of opinion may contain certain forward-looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities. Data and statistics contained in this report are obtained from what we believe to be reliable sources; however, their accuracy, completeness or reliability cannot be guaranteed.

Our statements and opinions are subject to change without notice and should be considered only as part of a diversified portfolio. You may request a free copy of the firm's Form ADV Part 2, which describes, among other items, risk factors, strategies, affiliations, services offered and fees charged.

Past performance is not an indication of future returns. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. We do not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

The *Barron's* rankings reflect the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.

You are receiving emails from Adviser Investments because you have agreed to receive updates and information about Adviser Investments via email.

Please [click here](#) to manage your email subscriptions or unsubscribe from further email-based communications. For more information you can also see our [Privacy Policy](#).