22 Vanguard funds switch to FTSE and CRSP benchmarks

By Editor Test *Wed, Oct 3, 2012*

Index licensing fees have represented a growing portion of the expenses that investors pay to own index funds and ETFs, said Vanguard chief investment officer Gus Sauter.

To reduce fund expenses, Vanguard said it will stop using MSCI benchmarks and adopt FTSE benchmarks for six of its international stock index funds. The company will also adopt CRSP (the University of Chicago's Center for Research in Security Prices) benchmarks for 16 of its U.S. stock and balanced index funds, according to a release.

Vanguard chief investment officer Gus Sauter said, "We negotiated licensing agreements for these benchmarks that we expect will enable us to deliver significant value to our index fund and ETF shareholders and lower expense ratios over time."

Index licensing fees have represented a growing portion of the expenses that investors pay to own index funds and ETFs, Sauter said, adding that Vanguard's new long-term agreements with FTSE and CRSP will provide cost certainty.

Six Vanguard international index funds with aggregate assets of $170 billion will transition to benchmarks in the FTSE Global Equity Index Series, including the $67 billion Vanguard Emerging Markets Stock Index Fund. This fund and its ETF Shares (ticker: VWO), the world's largest emerging markets ETF (source: Strategic Insight, as of 7/31/12), will move from the MSCI Emerging Markets Index to the FTSE Emerging Index. While the two indexes are generally comparable, the FTSE Emerging Index classifies South Korea as a developed market.

Sixteen Vanguard stock and balanced index funds, with aggregate assets of $367 billion, will track CRSP benchmarks, including Vanguard's largest index fund, the $197 billion Vanguard Total Stock Market Index Fund. The fund and its ETF Shares (ticker: VTI) will transition from the MSCI U.S. Broad Market Index to the CRSP US Total Market Index.

CRSP's capitalization-weighted methodology uses "packeting," which cushions the movement of stocks between adjacent indexes and allows holdings to be shared between two indexes of the same family. This approach maximizes style purity while minimizing index turnover.