Vanguard closes Wellington Fund and a bond fund to some customers

By Editor Test *Tue, Mar 5, 2013*

Over the years, Vanguard has often restricted cash inflows to maintain fund assets at levels that don't compel fund managers to buy suboptimal investments.

Vanguard's oldest fund—Wellington Fund—and its Intermediate-Term Tax-Exempt Fund have stopped accepting new accounts from financial advisor or institutional clients, but will remain open to additional purchases from those clients, the direct no-load fund company announced this week.

Retail clients may continue to establish new accounts and make additional purchases without limitation, however, a Vanguard release said, adding that the funds may open if the situation changes.

The action was taken to "ensure that [the funds'] investment advisors can continue to effectively manage the portfolios," said Vanguard CEO Bill McNabb. "Our commitment is to protect the interests of the funds' current shareholders."

Over the years, Vanguard has often restricted cash inflows to maintain fund assets at levels that don't compel fund managers to buy suboptimal investments. Currently, seven Vanguard funds are closed to most new accounts:

- Admiral Treasury Money Market Fund
- Federal Money Market Fund
- High Yield Corporate Fund
- Convertible Securities Fund
- Capital Opportunity Fund
- PRIMECAP Core Fund
- PRIMECAP Fund

Wellington Fund, Vanguard's oldest mutual fund and the fund industry's largest balanced fund, with $68 billion in assets, invests approximately 65% of its assets in stocks and the remaining 35% in investment-grade corporate bonds, with some holdings in U.S. Treasury, government agency, and mortgage-backed securities.

As substitutes, Vanguard offers its Balanced Index Fund and Vanguard STAR Fund. Both invest about 60% of their assets in equities. STAR Fund is a fund of 11 actively managed Vanguard stock and bond funds.

The $39 billion Vanguard Intermediate-Term Tax-Exempt Fund is Vanguard's largest municipal bond fund and the largest tax-exempt fund in its category, according to Lipper Inc. The fund invests in high-quality muni-bonds and has an average duration of five years.

As substitutes, the company suggested its Limited-Term Tax-Exempt Fund, which has an average duration of 2.4 years, or its Long-Term Tax-Exempt Fund, which has an average duration of 6.1 years.

Vanguard also said it will add to its low-cost bond offerings with a Vanguard Emerging Markets Government Bond Index Fund and ETF Shares by the end of the second quarter of 2013.

The expense ratios for the ETF, Investor, Admiral, and Institutional Shares will range from 0.30% to 0.50% (as shown in the table below). The average emerging markets bond fund features an expense ratio of 1.21% (source: Lipper, as of December 31, 2012).

The fund will assess a purchase fee of 0.75% on all non-ETF Shares to help offset the higher transaction costs associated with buying emerging markets bonds.

<table>
<tr><th colspan="10">Four Share Classes of Vanguard Emerging Markets Government Bond Index Fund</th></tr>
<tr><td></td><td></td><td></td><td>Minimum Initial Investment</td><td></td><td></td><td>Estimated Expense Ratios</td><td></td><td></td><td>Purchase Fee</td></tr>
<tr><td>Investor Shares</td><td></td><td></td><td>$3,000</td><td></td><td></td><td>0.50%</td><td></td><td></td><td rowspan="3">0.75%</td></tr>
<tr><td>Admiral Shares</td><td></td><td></td><td>$10,000</td><td></td><td></td><td>0.35%</td><td></td><td></td></tr>
<tr><td>Institutional Shares</td><td></td><td></td><td>$5,000,000</td><td></td><td></td><td>0.30%</td><td></td><td></td></tr>
<tr><td>ETF Shares</td><td></td><td></td><td>—</td><td></td><td></td><td>0.35%</td><td></td><td></td><td>—</td></tr>
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“Emerging markets bonds have presented low correlations with domestic and developed market bonds, and have the potential to add value for certain risk-tolerant investors holding an otherwise broadly diversified portfolio,” said Vanguard CEO Bill McNabb in a release.

Vanguard Emerging Markets Government Bond Index Fund offers “low-cost exposure to a sizable and growing portion of the international fixed income universe” while incurring higher risk than to the average international bond fund.

In early February, Vanguard announced plans for a Total International Bond Index Fund, which along with the new fund, represent the company’s first international fixed income offerings for U.S. investors.

The fund will use a new target benchmark—the Barclays USD Emerging Markets Government RIC Capped Index. It features approximately 540 government, agency and local authority bonds from 155 issuers. As of January 31, 2013, the top three country holdings were Russia (13.8%), Brazil (10.6%), and Mexico (8.5%). The fund will invest solely in U.S. dollar denominated emerging market bonds.