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Schwab Undercuts Vanguard With Launch of Muni ETF Offering 0.03% Fee.

- **Schwab Asset Management announces launch of new muni ETF**
- **Fund's expense ratio is just 0.03%, lower than large rivals**

Charles Schwab Corp.'s asset management arm is launching a new municipal-bond exchange-traded fund with an ultra-low fee that will compete with giants in the space.

The new fund, the Schwab Municipal Bond ETF, will be the cheapest in the municipal-bond market with an expense ratio of just 0.03%, according to a statement by Schwab Asset Management on Wednesday. That's lower than even The Vanguard Group's $17 billion muni ETF, which charges 0.05%.

Muni ETFs, which offer a cheap way for investors to access the market, have been able to lure investor cash this year despite a steep selloff. The funds have seen more than $13 billion in inflows year-to-date, while mutual funds have recorded steep outflows, according to Bloomberg Intelligence data.

"Schwab woke up this morning and chose expense ratio violence as they undercut the current market leader, Vanguard," said Eric Kazatsky, muni strategist for Bloomberg Intelligence. "With cheap beta leading all asset growth in the passive municipal ETF space, the aggressive move is sure to garner a response by other firms."

Schwab's statement notes that the ETF will be cheaper than comparable funds. The median fee charged by muni ETFs is 0.25%, according to data compiled by Bloomberg.

"Schwab Asset Management's pricing objective in broad market ETFs has been and continues to be among the lowest cost providers," said John Sturiale, head of product management and innovation at Schwab Asset Management, in an emailed response. "Our scale as the fifth largest ETF provider enables us to price our new municipal bond ETF at 3 bps and take a leadership position in bringing down costs for investors."

Schwab's announcement also points to the rise in yields this year. The yield on the 30-year muni benchmark is inching closer to 4%, a level last breached in 2014, according to Bloomberg BVAL.

"As bond yields have risen, fixed income investing is more attractive than it has been in years, making this an opportune moment to introduce a new choice for investors seeking a low-cost, straightforward approach to income, diversification and risk management in their portfolios," Sturiale said in the announcement.

The fund, which is expected to begin trading Oct. 12, will invest only in investment-grade rated securities, the statement reads.

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