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Vanguard's First New ETF in Two Years Targets Short-Term Munis.

- **VTES tracks short-maturity munis and charges a fee of 0.07%**
- **First new Vanguard fund since Ultra Short Bond ETF in 2021**

Vanguard Group Inc.'s first new exchange-traded fund in two years is setting sail at a turbulent time for municipal debt.

The Vanguard Short-Term Tax-Exempt Bond ETF (ticker VTES), which tracks an index of municipal bonds due in seven years or less, begins trading Thursday, according to a press release. The asset-management giant's last new ETF was the Vanguard Ultra Short Bond ETF (VUSB), which debuted in April 2021 and now has $3.3 billion of assets.

After a strong start to 2023, US state and city debt suffered its worst February since 2008 as sticky inflation and the Federal Reserve's resolve to tame it shredded fixed-income returns. But even with the recent swings, ETFs are becoming a force in the muni market: In February, assets in exchange-traded products surpassed the total held in closed-end funds, Barclays Plc data show.

"We're seeing heightened demand for fixed-income ETFs, muni ETFs in particular, and in fact, muni ETFs are the fastest-growing category," said Sara Devereux, Vanguard's global head of fixed-income. "We're hearing from investors who want to minimize their tax liability through an ETF at the short-end of the yield curve, and VTES fits that need."

Short-term munis are luring investors with the highest yields in years after the Fed's aggressive campaign to hike rates. What's more, amid all the questions about the central bank's policy path, shorter maturities also offer the benefit of being less sensitive to swings in interest rates than their longer counterparts.

The new entry brings Vanguard's relatively lean lineup to 82 funds with nearly $2 trillion in assets, ranking the firm as the world's second-largest ETF issuer. The move comes less than four months after Vanguard's first-ever closure of a US fund.

VTES is Vanguard's second muni-focused ETF after the $25 billion Vanguard Tax-Exempt Bond Index ETF (VTEB), which it introduced in 2015. VTES charges a fee of seven basis points and is managed by Steve McFee, who also oversees VTEB.

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