

Bond Case Briefs

Municipal Finance Law Since 1971

Vanguard to Introduce its First Municipal Bond Index Fund and ETF.

Vanguard today filed a registration statement with the U.S. Securities and Exchange Commission to offer a national municipal bond index fund with an exchange-traded fund (ETF) share class.

Vanguard Tax-Exempt Bond Index Fund will be the firm's first tax-exempt index fund and ETF.

Vanguard is one of the largest managers of municipal bond funds in the industry—with about \$140 billion in tax-exempt bond and money market funds—and one of the largest ETF providers, with \$422.6 billion in assets.

Vanguard Tax-Exempt Bond Index Fund's target benchmark is the S&P® National AMT-Free Municipal Bond Index. The fund will offer investors exposure to investment-grade municipal bonds across the entire yield curve. The fund is intended to provide a sustainable level of current income that is exempt from federal personal income taxes.

"For investors in high tax brackets, a high-quality, broadly diversified municipal bond fund or ETF can provide tax advantages as well as diversification from the risks of the equity market," said Vanguard CEO Bill McNabb. "Vanguard is pleased to bring a low-cost index option to the municipal category as a complement to our lineup of low-cost actively managed tax-exempt bond funds."

The fund, which is expected to be available in the second quarter of 2015, will offer three share classes: Investor Shares, Admiral Shares, and ETF Shares (with estimated expenses ratio of 0.20%, 0.12%, and 0.12%, respectively). The municipal bond funds in Lipper's General and Insured Municipal Debt Funds category have an average expense ratio of 0.97%; comparable ETFs in the category have an average expense ratio of 0.49% (source: Lipper, a Thomson Reuters Company, December 31, 2013).

Investor Shares will require a minimum initial investment of \$3,000 and Admiral Shares will require a minimum initial investment of \$10,000. These share classes will also include a 0.50% purchase fee to defray portfolio transaction costs and enable the fund to more closely track its benchmark.

A municipal bond funds pioneer

Vanguard Fixed Income Group is one of the world's largest fixed income managers, overseeing more than \$800 billion, of which \$140 billion is invested in tax-exempt bond and money market funds.

Vanguard offers 12 actively managed municipal bond funds (five national, seven state-specific) and six tax-exempt money market funds (one national, five state-specific).

Vanguard offered its first three tax-exempt bond funds (short-, intermediate-, and long-term) in 1977. It was the first mutual fund company to offer shareholders a choice among municipal bond funds of differing durations.

Adam Ferguson, a portfolio manager in Vanguard Fixed Income Group, will manage the new fund. Mr. Ferguson joined Vanguard in 2004 and currently manages multiple municipal bond funds.

Vanguard has an experienced municipal team of approximately 40 professionals, including portfolio managers, senior credit research analysts, research associates, and traders. The team's approach, whether managing money market funds, bond index funds, or actively managed bond funds, is to invest shareholders' money in a disciplined, risk-controlled manner.

A leader in ETFs

Vanguard offers 67 low-cost ETFs in the U.S., including 15 bond ETFs. Cash flow continues to be strong, with investors entrusting \$63.5 billion to our ETFs year-to-date through November 2014 (and \$55 billion in calendar year 2013).

About Vanguard

Headquartered in Valley Forge, Pennsylvania, Vanguard is one of the world's largest investment management companies. It manages more than \$2.85 trillion in U.S. mutual fund assets, including more than \$422.6 billion in ETF assets. The firm offers more than 160 funds to U.S. investors and more than 120 additional funds in non-U.S. markets. For more information, visit vanguard.com.

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