Vanguard ETFs complete transition to FTSE and CRSP indices

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Vanguard has announced that its giant emerging markets equity ETF, which goes by the ticker 'VWO', has completed its transition to the **FTSE Emerging Index**.

Tim Buckley, Vanguard chief investment officer.

The completion of this transition concludes the series of index changes announced by Vanguard in October 2012 concerning 22 of its stock and balanced index funds.

In January 2013, these funds began moving from **MSCI** indices to indices provided by **FTSE** and **CRSP**, the University of Chicago's Centre for Research in Security Prices.

The highest-profile fund in this transition was VWO and its associated mutual fund share classes. Owing to the size of this particular transition, the fund temporarily tracked the now-retired **FTSE Emerging Transition Index**, a custom-built index designed to help the portfolio management team implement the transition cost-effectively with minimal market impact and negligible tracking error, as well as to enable shareholders to see the fund's position.

Mark Makepeace, Chief Executive of FTSE Group, said: "We are delighted that Vanguard's transition to our FTSE Emerging Index has been successfully completed. The transition is a great example of how FTSE continually works with partners worldwide to manage benchmark change and deliver comprehensive index solutions."

The transition, which across all 22 funds (ETF and mutual fund share classes) accounted for $537 billion in assets under management, came as a major blow for MSCI. Indeed, in the aftermath of Vanguard's October announcement, MSCI's stock fell some 27% on the NYSE, wiping over $1 billion off the company's market value.

However, Tim Buckley, Vanguard's chief investment officer, explained the decision, saying that it was all about cost, cost certainty, construction, and coverage.

On cost, he said: "Our agreements with FTSE and CRSP are very favourable from a cost perspective, and they will help us to further reduce the expenses of our index funds and ETFs. Equally important, the agreements are long term, which gives us cost certainty over a very long period of time."

From a construction standpoint, Buckley said the indices from FTSE and CRSP met Vanguard's best-practice standards for market benchmarks: "These indexes incorporate full-float adjustment to reflect only those shares that are available and freely traded on the open market, providing a more accurate reflection of market movements. They buffer stock movement between market-capitalisation segments, helping to reduce index turnover. They also incorporate multiple criteria to identify growth versus value. And they engage in gradual, orderly rebalancing to reflect market changes."

On market coverage, he said that the FTSE and CRSP indices were comprehensive and extensive: "FTSE indexes comprise more than 7,400 securities in 47 different countries and capture 98% of the world's investable market capitalisation. CRSP indexes include nearly 4,000 constituents across mega-, large-, mid-, small-, and micro-capitalisations, representing 100% of the US investable equity market."

Vanguard has hailed the transition a success, noting that more than $48 billion has flowed into the 22 funds involved since the October 2012 announcement (as of 31 May 2013).

Given the apparent seamlessness of the transition and investors' tolerance of the index changes, rival ETF providers will now no doubt be looking at their costs and expense ratios to see if such a move could work for them, too. However, the Vanguard switch involved highly regarded institutions (FTSE Group and the University of Chicago/Booth School of Business); investors, both institutional and private, will probably be less amenable to index changes involving in-house units or less well-known outfits, meaning major transitions like this are unlikely to become commonplace.

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