# ETF Observer

## August 2014

MORNINGSTAR®

# Contents

ETF Insight

# Stumbling Across the Finish Line

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The S&P 500 notched a new all-time high in July before taking a nose dive during the last few trading days of the month and finishing 1.38% lower than where it began the third quarter. Some of the hardest hit segments of the market such as small caps and utility stocks were also amongst the most richly priced at the month's onset. The ETF asset flows picture was mixed. U.S. equity and emerging-markets ETFs saw sizable inflows, amassing a respective $9.8 billion and $3.4 billion in new investor capital. Meanwhile, high-yield ETFs experienced record redemptions of approximately $3.1 billion.

The single most significant bit of ETF industry news from the month of July was Capital Group's filing for non-transparent actively managed ETFs. I share my thoughts on the matter in "Capital Group Bets on a Different Kind of Tech". In sum, I see this as a wager on new distribution technology by a firm that has been bleeding assets because its existing distribution model is suffering.

This month's installment of ETF Observer also features three additional articles and two fund spotlights from our Passive Strategies Research team. In "Hidden Risks in Emerging Markets Debt?" Patty Oey examines the effect that fickle foreign fund flows (say that five times fast) might have on portfolios of local currency-denominated emerging-markets bonds. Next, Mike Rawson takes a closer look at bid-ask spreads for ETFs and how they affect the math around the total cost of ETF ownership. Bob Goldsborough adds in a detailed examination of the menu of financial services ETFs, which have lost some momentum after two consecutive years of outperforming the S&P 500. This month we put the spotlight on First Trust Large Cap Core AlphaDex (FEX). Mike Rawson argues that, "…the fund provides no discernible edge beyond what is obtained through traditional size and value tilts. Those exposures are available more cheaply and transparently through other funds." Lastly, Bob Goldsborough takes a look at the Vanguard Utilities ETF (VPU), a low-cost way to access what our equity analysts believe is currently a pricey sector.

Finally, I'd like to once again plug our fifth annual Morningstar ETF Conference. This year's conference will be held from September 17-19 at the Chicago Sheraton. You can find additional details and the full conference agenda here. This year's conference is shaping up to be our best yet—owing to a fantastic lineup of speakers and panelists. This year's keynote and general session speakers include Nobel Laureate Eugene Fama, BlackRock's Russ Koesterich, JP Morgan's Dr. David Kelly, PIMCO's Jerome Schneider, AQR's Ronen Israel, and Wesley Gray of Drexel University. We hope to see you in Chicago in September for three days packed with valuable insights and investment ideas.

Best,

# U.S. Market Barometer

## 1 Month

| | | Value | Core | Growth |
|---|---|---|---|---|
| | US Market -1.85% | -1.60% | -2.28% | -1.68% |
| Large Cap | -1.21% | -0.83% | -1.93% | -0.88% |
| Mid Cap | -3.00% | -3.40% | -2.50% | -3.13% |
| Small Cap | -5.35% | -4.64% | -5.26% | -6.17% |

## YTD

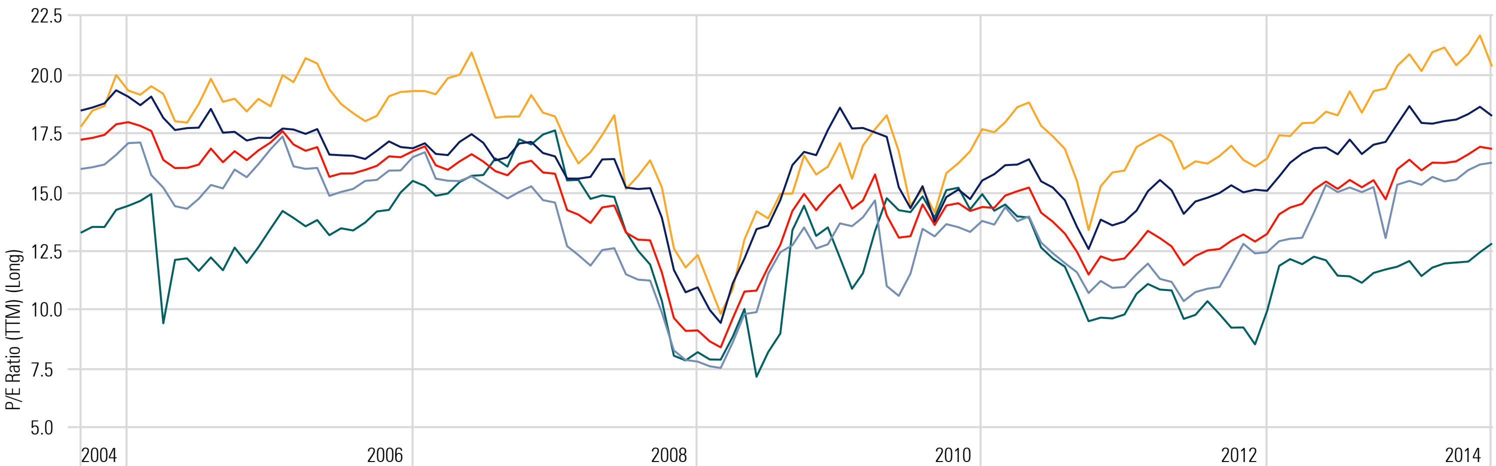
| | | Value | Core | Growth |
|---|---|---|---|---|
| | US Market 5.12% | 5.64% | 4.99% | 4.82% |
| Large Cap | 5.65% | 5.80% | 4.79% | 6.38% |
| Mid Cap | 5.06% | 6.14% | 7.07% | 2.28% |
| Small Cap | -0.26% | 2.38% | 1.38% | -4.56% |

## 1 Year

| | | Value | Core | Growth |
|---|---|---|---|---|
| | US Market 16.46% | 14.42% | 14.72% | 20.28% |
| Large Cap | 16.86% | 13.54% | 13.85% | 23.25% |
| Mid Cap | 16.67% | 17.98% | 18.71% | 13.70% |
| Small Cap | 11.45% | 12.78% | 12.59% | 8.85% |

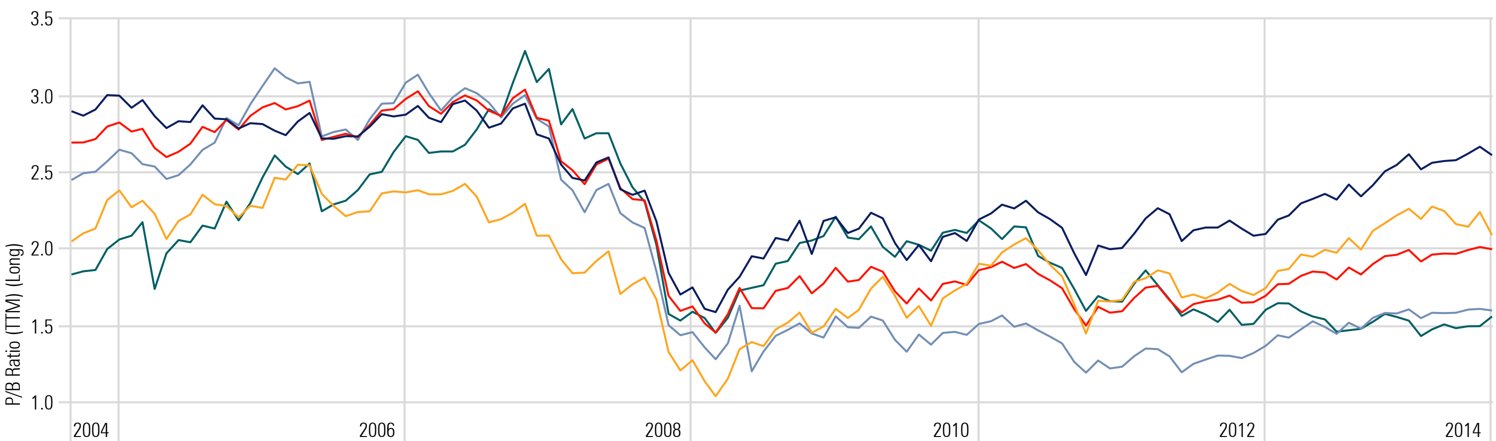
### Price/Earnings

Time Period: 01/08/2004 to 31/07/2014




### Price/Book Value

Time Period: 01/08/2004 to 31/07/2014



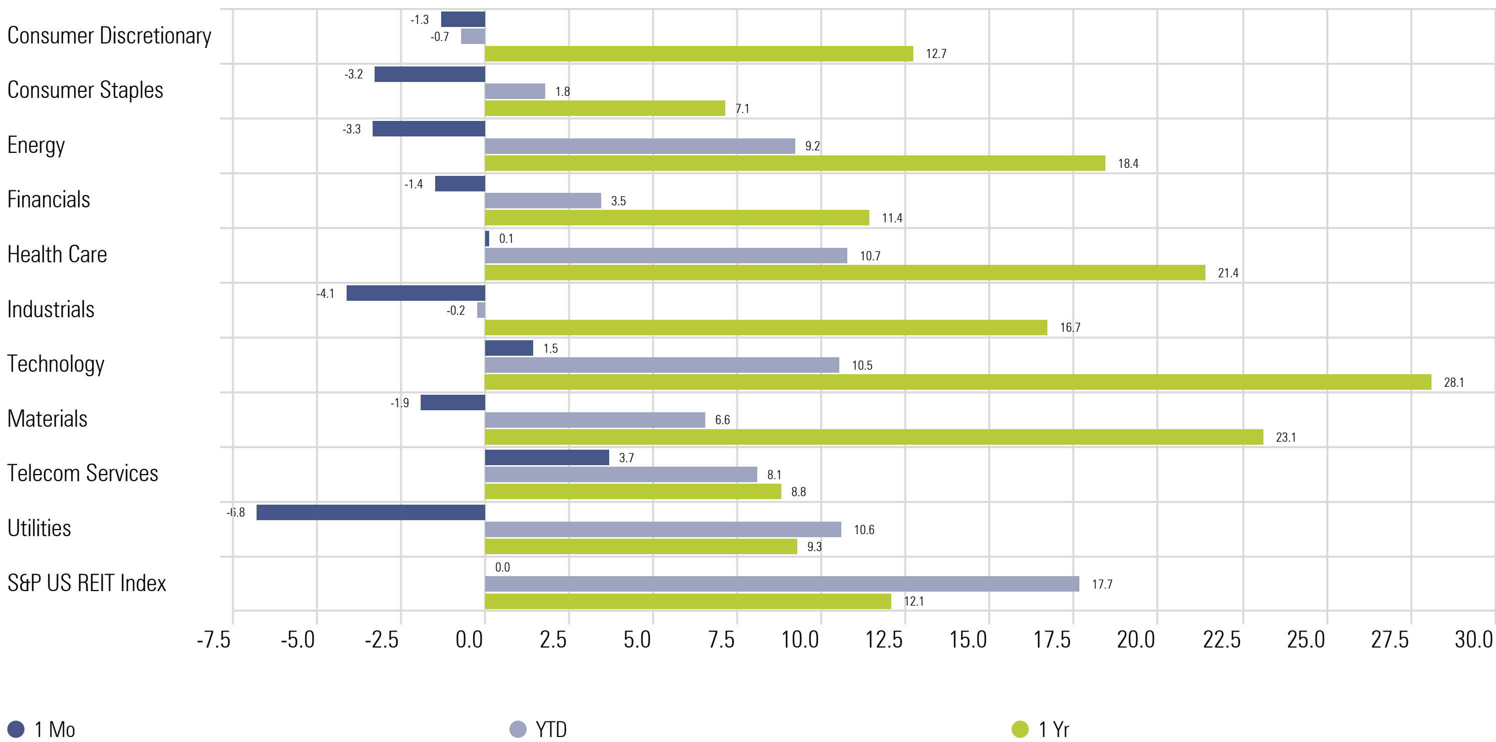

● S&P 500 TR USD
▲ Russell 2000 TR USD
▼ MSCI ACWI NR USD
◄ MSCI EAFE NR USD
► MSCI EM NR USD

# Market Performance

*Trailing Total Returns*

| U.S. Equity Market | 1 Month | YTD | 1 Year | 3 Yr Annlzd | 5 Yr Annlzd | 10 Yr Annlzd | 15 Yr Annlzd |
|---|---|---|---|---|---|---|---|
| S&P 500 TR USD | -1.38 | 5.66 | 16.94 | 16.84 | 16.79 | 8.00 | 4.47 |
| Wilshire 5000 Total Mkt TR USD | -1.85 | 5.02 | 16.28 | 16.42 | 16.95 | 8.49 | 5.18 |
| DJ Industrial Average TR USD | -1.44 | 1.20 | 9.39 | 13.81 | 15.54 | 7.77 | 5.43 |
| NASDAQ 100 TR USD | 1.17 | 9.13 | 27.69 | 19.66 | 20.61 | 11.64 | 4.24 |
| Russell 2000 TR USD | -6.05 | -3.06 | 8.56 | 13.59 | 16.56 | 8.78 | 7.76 |
| **Global Equity Market** | | | | | | | |
| MSCI ACWI NR USD | -1.21 | 4.89 | 15.91 | 10.41 | 12.10 | 7.68 | 4.32 |
| MSCI EAFE NR USD | -1.97 | 2.72 | 15.07 | 7.96 | 9.40 | 7.07 | 4.25 |
| MSCI EM NR USD | 1.93 | 8.19 | 15.32 | 0.40 | 7.34 | 12.37 | 9.23 |

## S&P 500 Sectors




*Trailing Total Returns*

| U.S. Fixed Income Market | 1 Month | YTD | 1 Year | 3 Yr Annlzd | 5 Yr Annlzd | 10 Yr Annlzd | 15 Yr Annlzd |
|---|---|---|---|---|---|---|---|
| Barclays US Agg Bond TR USD | 1.95 | 6.22 | 10.10 | 7.67 | 4.61 | 2.73 | 3.38 |
| Markit iBoxx Liquid IG TR USD | 2.00 | 8.85 | 14.29 | 10.90 | 7.86 | 4.14 | 4.19 |
| BofAML US HY Master II TR USD | 0.85 | 6.81 | 14.67 | 13.22 | 12.44 | 6.47 | 5.14 |
| Morningstar Short-Term US Govt TR | 2.06 | 2.90 | 6.56 | 5.14 | 1.59 | 0.89 | 1.61 |
| Morningstar Short-Term Corp TR | 2.06 | 3.88 | 8.61 | 7.35 | 3.99 | 1.76 | 2.58 |
| Morningstar Intermediate US Govt TR | 1.71 | 4.48 | 7.45 | 6.37 | 3.93 | 2.64 | 3.40 |
| Morningstar Intermediate Corp TR | 1.95 | 6.25 | 11.69 | 9.57 | 7.03 | 3.83 | 4.45 |
| Morningstar Long-Term US Govt TR | 2.42 | 12.22 | 12.76 | 10.42 | 6.57 | 4.40 | 4.86 |
| Morningstar Long-Term Corp TR | 2.14 | 12.11 | 16.92 | 12.23 | 9.30 | 5.23 | 5.51 |
| S&P Preferred Stock TR USD | 1.82 | 13.34 | 15.90 | 12.71 | 10.51 | 3.06 | — |

## Top 10 ETF Providers

| Name | # of ETFs | Est. Net Flow ($Mil) 1-Mo | YTD | 1-Yr | Market Share: Total Net Assets ($Bil) Present 07-14 | Mkt Sh% | Rank | One Year Ago 07-13 | Mkt Sh% | Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| iShares | 312 | 3,464.24 | 30,238.79 | 49,851.96 | 709.75 | 38.42 | 1 | 603.09 | 39.33 | 1 |
| State Street | 140 | 1,332.04 | (8,466.69) | (1,399.46) | 399.86 | 21.65 | 2 | 364.36 | 23.76 | 2 |
| Vanguard | 67 | 5,998.59 | 37,057.88 | 58,322.12 | 383.86 | 20.78 | 3 | 294.17 | 19.18 | 3 |
| PowerShares | 163 | 1,377.57 | 276.87 | 4,636.81 | 102.47 | 5.55 | 4 | 85.44 | 5.57 | 4 |
| WisdomTree | 68 | (256.85) | (366.11) | 2,168.34 | 35.09 | 1.90 | 5 | 30.25 | 1.97 | 5 |
| ProShares | 145 | 613.61 | 2,873.17 | 4,836.57 | 27.52 | 1.49 | 6 | 24.63 | 1.61 | 6 |
| First Trust | 87 | 479.72 | 6,891.52 | 11,485.29 | 27.50 | 1.49 | 7 | 13.56 | 0.88 | 9 |
| Guggenheim | 68 | 254.91 | 4,802.65 | 9,156.46 | 27.09 | 1.47 | 8 | 16.00 | 1.04 | 8 |
| Van Eck | 63 | (418.15) | (638.64) | (4.42) | 23.71 | 1.28 | 9 | 22.91 | 1.49 | 7 |
| Schwab | 21 | 662.83 | 4,102.59 | 6,635.59 | 21.78 | 1.18 | 10 | 13.33 | 0.87 | 10 |

## Top 15 ETF Inflows in July

| Name | Ticker | Est. Net Flow ($Mil) 1-Mo | YTD | 1-Yr | Market Share: Total Net Assets ($Bil) Present 07-14 | Mkt Sh% | Rank | One Year Ago 07-13 | Mkt Sh% | Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| SPDR S&P 500 | SPY | 5,162.57 | (10,618.13) | (2,554.46) | 172.78 | 9.35 | 1 | 154.10 | 10.05 | 1 |
| iShares MSCI Emerging Markets | EEM | 1,892.58 | 383.88 | 3,023.57 | 42.47 | 2.30 | 7 | 35.63 | 2.32 | 7 |
| Vanguard Emerging Markets Stock Idx ETF | VWO | 1,238.58 | (1,119.28) | (6,481.63) | 48.36 | 2.62 | 4 | 50.03 | 3.26 | 2 |
| Vanguard Total Bond Market ETF | BND | 794.93 | 3,142.89 | 4,070.93 | 21.00 | 1.14 | 15 | 16.93 | 1.10 | 16 |
| PowerShares QQQ ETF | QQQ | 749.20 | (3,574.08) | (1,195.18) | 45.03 | 2.44 | 5 | 37.00 | 2.41 | 6 |
| Vanguard S&P 500 ETF | VOO | 739.97 | 4,002.12 | 7,192.71 | 19.74 | 1.07 | 16 | 10.65 | 0.69 | 34 |
| iShares Core S&P 500 | IVV | 726.11 | 1,711.81 | 6,290.87 | 57.68 | 3.12 | 2 | 44.70 | 2.92 | 3 |
| Vanguard Global ex-US Real Estate ETF | VNQI | 635.68 | 792.98 | 1,254.66 | 2.16 | 0.12 | 151 | 0.82 | 0.05 | 228 |
| Technology Select Sector SPDR® ETF | XLK | 624.27 | (774.46) | (389.41) | 13.41 | 0.73 | 28 | 11.28 | 0.74 | 30 |
| Consumer Discret Select Sector SPDR® ETF | XLY | 586.80 | (1,748.67) | (1,966.67) | 5.81 | 0.31 | 65 | 7.02 | 0.46 | 46 |
| iShares US Utilities | IDU | 582.51 | 1,116.49 | 619.36 | 1.73 | 0.09 | 170 | 1.15 | 0.07 | 193 |
| iShares MSCI Japan | EWJ | 565.96 | 1,102.96 | 2,699.83 | 15.14 | 0.82 | 23 | 11.55 | 0.75 | 28 |
| iShares MSCI EAFE | EFA | 533.57 | 2,229.08 | 8,208.39 | 55.10 | 2.98 | 3 | 42.06 | 2.74 | 4 |
| PowerShares S&P 500 Low Volatility ETF | SPLV | 524.88 | 526.32 | (394.77) | 4.50 | 0.24 | 86 | 4.74 | 0.31 | 71 |
| Vanguard FTSE Developed Markets ETF | VEA | 443.90 | 4,416.55 | 7,268.04 | 23.43 | 1.27 | 10 | 14.47 | 0.94 | 21 |

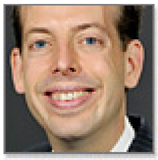
## Top 15 ETF Outflows in July

| Name | Ticker | Est. Net Flow ($Mil) 1-Mo | YTD | 1-Yr | Market Share: Total Net Assets ($Bil) Present 07-14 | Mkt Sh% | Rank | One Year Ago 07-13 | Mkt Sh% | Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| iShares iBoxx $ High Yield Corporate Bd | HYG | (1,313.95) | (3,015.34) | (3,338.41) | 12.14 | 0.66 | 33 | 15.35 | 1.00 | 19 |
| Industrial Select Sector SPDR® ETF | XLI | (1,288.20) | (898.95) | 2,015.00 | 8.79 | 0.48 | 47 | 5.68 | 0.37 | 61 |
| Consumer Staples Select Sector SPDR® ETF | XLP | (1,129.80) | (1,060.22) | (1,258.77) | 5.75 | 0.31 | 66 | 6.76 | 0.44 | 49 |
| iShares Russell 2000 | IWM | (1,035.57) | (2,736.51) | (3,414.75) | 23.38 | 1.27 | 12 | 25.45 | 1.66 | 9 |
| PIMCO 0-5 Year High Yield Corp Bd ETF | HYS | (881.55) | 600.72 | 1,281.75 | 4.31 | 0.23 | 90 | 2.83 | 0.18 | 104 |
| Financial Select Sector SPDR® ETF | XLF | (745.82) | (58.36) | (574.75) | 17.75 | 0.96 | 19 | 16.73 | 1.09 | 17 |
| Energy Select Sector SPDR® ETF | XLE | (736.23) | 2,432.76 | 1,846.27 | 11.53 | 0.62 | 35 | 8.20 | 0.53 | 40 |
| iShares MSCI EMU Index | EZU | (667.88) | 2,064.97 | 6,879.69 | 10.08 | 0.55 | 40 | 2.66 | 0.17 | 106 |
| Health Care Select Sector SPDR® ETF | XLV | (665.44) | 33.47 | 541.89 | 9.62 | 0.52 | 42 | 7.38 | 0.48 | 44 |
| WisdomTree Japan Hedged Equity | DXJ | (657.42) | (2,342.42) | (1,516.75) | 10.12 | 0.55 | 38 | 10.67 | 0.70 | 32 |
| iShares MSCI Germany | EWG | (635.74) | (1,300.32) | (526.21) | 4.58 | 0.25 | 85 | 4.51 | 0.29 | 76 |
| Utilities Select Sector SPDR® ETF | XLU | (584.99) | 1,353.14 | 148.83 | 6.31 | 0.34 | 60 | 5.90 | 0.38 | 57 |
| SPDR Barclays High Yield Bond | JNK | (564.79) | (1,059.03) | (781.03) | 9.02 | 0.49 | 45 | 9.65 | 0.63 | 36 |
| iShares 20+ Year Treasury Bond | TLT | (488.52) | 770.49 | (98.64) | 3.31 | 0.18 | 115 | 3.20 | 0.21 | 98 |
| Market Vectors® Agribusiness ETF | MOO | (478.62) | (2,668.34) | (3,072.88) | 1.95 | 0.11 | 162 | 4.66 | 0.30 | 74 |

ETF News

# Eaton Vance Drafts First 8 'ETMFs'

Mutual fund manager lays out mandates for the first eight new actively managed funds in its proposed new structure, which still awaits approval from regulators.



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On July 30, Eaton Vance EV placed into registration with the SEC its first eight proposed exchange-traded managed funds, or ETMFs.

Back in early 2013, Eaton Vance submitted an application to the SEC seeking permission to create a new structure for actively managed, nontransparent ETFs. Dubbed ETMFs, the proposed funds would mirror existing Eaton Vance mutual funds and use Navigate Fund Solutions' technology, which Eaton Vance acquired from ETF product-development expert and consultant Gary Gastineau.

The premise behind the ETMF structure is to employ NAV-based trading in order to allow a fund issuer to mask its portfolio holdings. Eaton Vance views ETMFs as actively managed open-end funds that provide the cost, tax efficiencies, and shareholder protections of ETFs but with the portfolio confidentiality of open-end mutual funds. Under NAV-based trading, funds' prices vary from NAV by a market-determined premium or discount, which could be zero. And even in the absence of full portfolio holdings disclosure, Eaton Vance believes that market makers would have the opportunity to earn reliable arbitrage profits on ETMFs, so the funds would trade at consistently tight spreads to their net asset value.

The SEC hasn't yet ruled on ETMFs. However, that didn't dissuade Eaton Vance from moving forward with dropping six specific proposed ETMFs into registration with the SEC. The six proposed funds would be named Eaton Vance Bond ETMF, Eaton Vance Floating-Rate & High Income ETMF, Eaton Vance Global Macro Absolute Return ETMF, Eaton Vance Government Obligations ETF, Eaton Vance High Income Opportunities ETMF, Eaton Vance 5 to 15 Year Laddered Municipal Income ETMF, Eaton Vance High Yield Municipal Income ETMF, and Eaton Vance National Municipal Income ETMF.

### Calamos Rolls Out Actively Managed Growth ETF

On July 14, Calamos launched its first ETF, bringing to market an actively managed fund holding U.S. growth stocks.

Calamos Focus Growth ETF CFGE holds firms with market caps exceeding $1 billion. The fund's managers take a top-down macroeconomic view and combine it with a bottom-up stock-picking approach that focuses on individual securities' growth potential, financial strength, and stability.

The fund's managers are John P. Calamos Sr., Gary Black, Nick Niziolek, Jon Vacko, John Hillenbrand, Steve Klouda, and Dennis Cogan. CFGE charges 0.90% and does not mimic the precise style of any specific Calamos open-end mutual fund.

### Barclays Debuts 'Women in Leadership' ETN

On July 10, Barclays rolled out an exchange-traded note that tracks an index consisting of U.S. companies with gender-diverse executive leadership and governance.

Barclays Women in Leadership ETN WIL is the first exchange-traded product offering exposure to companies with gender-diverse management, and it's one of a scant few that employ environmental, social, and governance (ESG) screens. The ETN tracks a Barclays index, which takes data compiled by Institutional Shareholder Services and which requires companies to have either a female CEO or 25% of its board seats occupied by women. WIL charges 0.45%.

### American Funds/Capital Group Seeks to Enter ETF Space

On July 25, the parent company of traditional open-end fund manager American Funds filed paperwork with the SEC seeking permission to issue actively managed, non-transparent ETFs. Capital Group is seeking to use the same blind trust structure that has been designed by Precidian and that is being proposed by all other applicants also seeking regulatory approval for actively managed non-transparent ETFs. The blind trust structure, which ETF juggernauts BlackRock, State Street, and PowerShares also hope to use, allows the blind trust to effectively behave as an authorized participant, exchanging fund shares and portfolio securities with the proposed ETFs and allowing those funds' shareholders to enjoy the same in-kind tax benefits as other ETF investors. Although the proposed ETFs would display their holdings just once every three months, they also would release their intraday indicative value to the market every 15 seconds with the aim of keeping spreads tight.

Details in the filing were sparse. Capital Group provided little information about what its first fund would be if it wins approval to market ETFs using the nontransparent structure, other than that it would be a U.S.-oriented equity fund. That's not surprising, given that that's where the vast majority of American Funds' assets under management reside. Morningstar gives American Funds a positive Parent rating, and attributes the firm's long tenure of investing success to several sources, including the firm's trademark multimanager system, a stable and long-tenured team of professionals, and an incentive system that allows professionals to take a long-term view. In addition, with peer-beating fees, American Funds is ideally suited for the ETF structure. As of this writing, however, there is little visibility on when the SEC will rule on any fund company's applications for permission to market actively managed, non-transparent ETFs.

### ALPS Launches Sprott Gold Miners ETF

On July 15, ALPS debuted a passively managed ETF that holds U.S.-listed gold and silver mining companies. Sprott Gold Miners ETF SGDM tracks the modified market-cap-weighted Sprott Zacks Gold Miners Index, which contains gold miners with a minimum market cap of $1 billion, although those whose market caps are between $400 million and $1 billion are eligible if they have a daily price volume of $800,000. The index is managed by Zacks Index Services, which licenses the Sprott name. (Toronto-based Sprott is an alternative investment manager known for its expertise in precious metals and natural resource investing.) And the index is factor-based, seeking to pick the 25 gold stocks with the highest historical beta to the spot price of gold. In addition, the benchmark weights constituents based on year-over-year revenue growth and debt-to-equity levels. SGDM charges 0.57%.

### IShares Rolls Out Global REIT ETF

IShares on July 10 brought to market a passively managed ETF holding REITs in both developed and emerging markets. IShares Global REIT ETF REET tracks a FTSE index and uses a sampling strategy, holding a representative sample of the securities from the benchmark that have the same collective investment profile as the entire index. REET charges 0.14%.

### First Trust Launches International 'Focus 5' ETF

On July 23, First Trust debuted another passively managed, fund of funds ETF in its suite of "Focus 5" ETFs that use a momentum strategy to select ETFs. First Trust Dorsey Wright International Focus 5 ETF IFV tracks an equal-weight index managed by Dorsey, Wright & Associates that scrutinizes First Trust's sector and industry ETFs and ranks them using a relative strength methodology based on each fund's market performance and potential for upside, looking for momentum signals by securities. The benchmark then chooses the five top-ranking First Trust ETFs according to the proprietary relative strength methodology. The index is evaluated weekly, and the five positions remain in the index as long as those positions continue to suggest that they will outperform the majority of the other potential First Trust ETFs on a relative basis. Index components are only removed if they fall to the bottom half of the universe of First Trust ETFs. IFV charges a whopping 1.10%.

In March 2014, First Trust launched a sector-based Focus 5 ETF, First Trust Dorsey Wright Focus 5 ETF FV.

# U.S. ETF Industry Data Dashboard

Morningstar data as of August 1, 2014

| Industry Vitals | |
|---|---|
| Total # of ETPs Currently Listed | 1632 |
| ETFs | 1423 |
| Total Assets | $1,812,968,705,667 |
| ETNs | 209 |
| Total Assets | $27,272,274,473 |
| Total ETP Assets | $1,840,240,980,140 |

| Active ETFs | |
|---|---|
| Actively managed ETFs | 93 |
| Total Assets | $16,331,163,041 |
| % of total ETP assets | 0.89% |
| New Active ETFs Launched in July | 3 |

| Coming and Going | July | YTD |
|---|---|---|
| New Launches | 16 | 118 |
| Delistings/Closures | 0 | 33 |
| Net Change | 16 | 85 |
| Pending closures | 4 | |

**Notable ETF Filings in July**

- Van Eck filed for the Market Vectors China Bond ETF
- IndexIQ filed for the IQ Private Equity Tracker ETF, IQ Hedge Long/Short Tracker ETF and IQ Hedge Event-Driven Tracker ETF
- First Trust filed for the First Trust Emerging Markets Local Currency Bond ETF
- ProShares filed for ProShares Short FTSE 25 ETF, ProShares UltraShort FTSE 25 ETF, and ProShares Ultra FTSE China 25 ETF
- Vident filed for the Vident Core U.S. Bond Fund VBND
- ETF Series Solutions files for actively managed Validea Market Legends ETF
- Deutsche Bank files for Deutsche X-trackers Harvest China Bond ETF
- JPMorgan files for JPMorgan Diversified Return US Equity ETF and JPMorgan Diversified Return Emerging Markets Equity ETF
- First Trust files for First Trust International IPO ETF
- iShares files for iShares MSCI Emerging Markets Horizon ETF

Perspective

# Capital Group Bets on a Different Kind of Tech

Firm's recent filing to launch nontransparent actively managed ETFs is a wager on new distribution technology.

August 6, 2014

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Capital Research and Management Company, the firm behind the storied American Funds franchise, has been on the ropes for years. The firm's cold streak began in 2008, and in the intervening six-plus years, the company has seen approximately one quarter of one trillion dollars of investors' money leave its lineup. That said, even after accounting for these outflows, American Funds remains the third-largest fund family in the U.S.

The reasons underlying American Funds' woes are many and were expertly documented by my colleague John Rekenthaler in a pair of articles: "Unlikely Cousins" and "The Wrong Side of History." He argues that investment performance has done little to take the shine off of this fund family:

"American Funds is struggling because of distribution and marketing decisions, not because of performance. This is relevant because American Funds is often held up as an example of the failure of active fund management. But that is not so, and to interpret American Funds' business difficulties as a comment on the issue of active versus passive management is to misread the data."

I mostly agree. The family dodged a bullet as it sat out the tech bubble, and subsequently attracted large net new inflows. However, its relative performance during the 2008 market downdraft was less impressive, and when considered in the context of the points Rekenthaler makes, this rounds out the list of reasons explaining its recent struggles. However, recent efforts from Capital Group indicate that it is now moving to make up for lost time.

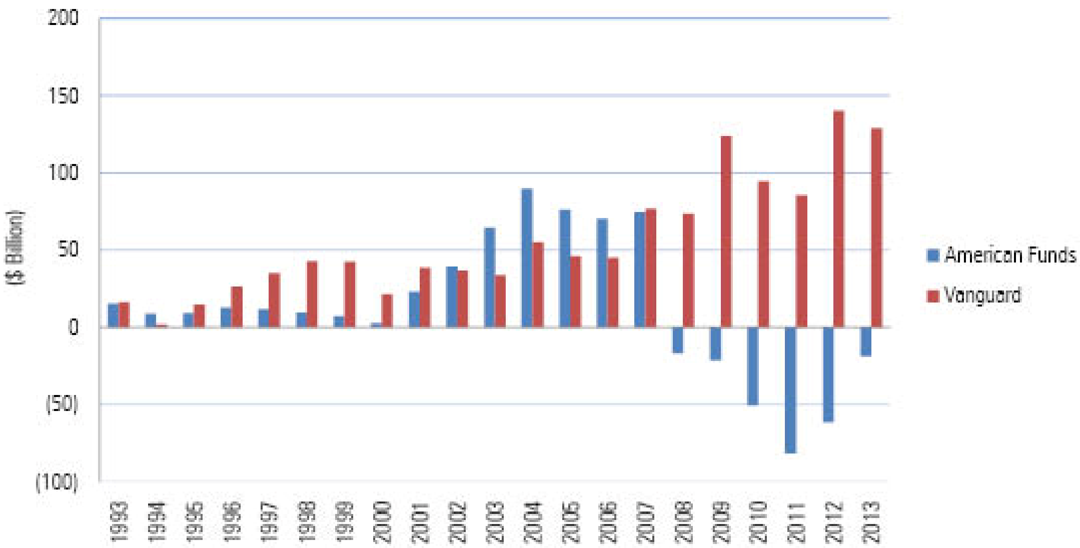
**Don't Call It a Comeback**
The firm's first counterpunch took the form of a national PR blitz launched last year to tout "the active advantage." Rekenthaler summarized the case Capital Group makes for active management in "The Empire Strikes Back." Based on Morningstar's Asset Flows data for the 12-month period ended June 30, 2014, it's apparent that this punch never landed, as the firm saw a collective $10.5 billion in net outflows.

But Capital Group is still swinging. On July 25, it submitted a filing with the SEC for the "Capital Group ETF Trust." The filing details Capital Group's plans to launch nontransparent actively managed exchange-traded funds that leverage a structure developed by Precidian Investments. This is, in effect, equivalent to the purchase of a long-dated call option on ETF "technology."

What does this mean from Capital Group's point of view? First, it's a clear indication that the firm has finally acknowledged that investment-wrapper "technology" has advanced considerably since the ink dried on the 1940 Act, and that ETFs reflect the latest evolution in the way investment strategies are delivered to investors. Asset managers delivering their strategies in ETF form are akin to authors moving from fighting (and paying) for shelf space at local booksellers to being self-published so that anyone with an Internet connection can download their work instantaneously.

This way around traditional distribution channels has been most notably exploited by Vanguard, whose ETF share class was an inroad to wire houses and other channels where their mutual funds never made it to the shelves. In many ways, Vanguard's ETF "straw" has allowed it to take quite a gulp out of American Funds' "milk shake" (see exhibit below), giving it an in with previously impenetrable channels such as the national wire houses.

**Fund Family Net Flows**




It's also notable that Capital Group has filed for nontransparent actively managed ETFs. The SEC currently requires actively managed ETFs to disclose their full portfolio holdings on a daily basis. This has made actively managed ETFs a nonstarter for many active managers who don't relish the idea of playing a game of poker with their cards facing out toward their table mates. Precidian's blind trust structure (which has yet to receive SEC approval) would allow portfolio managers to disclose their holdings with the same frequency as their traditional mutual fund counterparts--on a quarterly basis, with a lag. Clearly, an option that would allow Capital Group to keep its "secret sauce" under wraps is, from their perspective, far more palatable.

A new wrapper that simplifies distribution while preserving Capital Group's managers' best ideas may be the one-two punch the company needs to finally get off the ropes.

But what might this mean for investors? As I see it, there are three main prospective benefits for the average investor when it comes to buying a proven strategy in an ETF wrapper: 1) lower costs, 2) improved tax efficiency, and 3) greater accessibility. The potential for the ETF wrapper to reduce the cost of investing in Capital Group's funds is perhaps the most promising prospective benefit. To the extent that the operational costs of an ETF tend to be lower than those of running a traditional mutual fund, and assuming that all or some of these potential cost savings are shared with end investors in the form of lower fees, this could be a very positive development. As Jack Bogle has said, "In investing, you get what you don't pay for."

The structure also has the potential to improve tax efficiency through the use of in-kind redemptions--meaning that the fund can dispose of low-cost-basis securities in-kind, handing them over to an authorized participant as opposed to selling them and realizing distributable capital gains. This selling point is particularly compelling in the current market environment, as fund managers have drawn down the deferred losses they realized in and around 2008 and have begun distributing sizable capital gains.

Lastly, the flip side of broader distribution is greater accessibility. ETF shares can be traded in an amount as small as a single share and can be bought or sold by anyone with an online brokerage account. This type of direct distribution disintermediates any number of middle men occupying the space between asset managers and their end investors and can serve to further reduce the cost of investing. It would also mark a major change in American Fund's traditional distribution strategy, which has been centered around a loyal advisors.

**A Win-Win?**

Are a broader, lower-cost distribution mechanism for asset managers and a lower-cost, more tax-efficient, more accessible instrument for investors too good to be true? Well, it's still somewhat of a fiction. While there are a handful of very successful fully transparent actively managed ETFs (most notably PIMCO Total Return (BOND) and PIMCO Enhanced Short Maturity (MINT)) that would seem to be evidence that everyone can walk away happy, there are plenty of others that are helmed by unproven managers, fail to pass the low-cost litmus test, or both. More importantly, the SEC has yet to give the green light to any of the nontransparent active ETF structures that are currently in its inbox.

What's the holdup? The various filings for nontransparent active ETFs currently sit with the SEC's Division of Trading and Markets, which "establishes and maintains standards for fair, orderly, and efficient markets." This is a relatively tall task in the case of nontransparent active ETFs. Market makers are the linchpin of the ETF ecosystem. Their hard work keeps ETFs' market prices in line with their net asset values. In exchange for matching buyers and sellers, market makers pocket a spread, the difference between the highest price a buyer is willing to pay for an ETF (the bid price) and the lowest price at which a seller is willing to part with their shares (the ask price). Market makers hedge the risks that they take in the course of matching buyers and sellers, and to do so they need some idea of what exposures an ETF is assuming. In the case of nontransparent active ETFs, market makers would be faced with a lack of transparency and a smaller tool kit with which to hedge risk. Facing a greater level of risk, it is likely that market makers will require greater reward for making markets in nontransparent active ETFs. Large and potentially volatile trading spreads and discounts and premiums to net asset value are likely at the top of the SEC's list of concerns surrounding nontransparent active ETFs. In practice, there is the potential for large and volatile trading costs to dent the prospective cost savings outlined above that would otherwise accrue to investors.

It's not clear if or when the SEC will give nontransparent ETFs the all-clear. What is clear is that Capital Group and others are wagering on a potential secular change in investment wrapper technology--one that could potentially reduce costs for a broad swath of investors.

Perspective

# Hidden Risks in Emerging-Markets Debt?

Fickle foreign portfolio flows add another dimension of volatility.

July 23, 2014

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Emerging-markets bonds, along with other higher-yielding fixed-income assets such as junk bonds and bank loans, have seen a surge in flows in recent years. Investor interest has been driven in large part by persistently low yields across the developed world. Growing demand for emerging-markets bonds also reflects a confluence of other fundamental factors. Emerging sovereigns' fundamentals have been improving, global financial markets are becoming increasingly integrated, and local-currency debt markets in many emerging nations are deepening and maturing. According to Morningstar Asset Flows data, the U.S. emerging-markets bond category had average annual inflows of slightly less than $1 billion from 2000 to 2008. This figure spiked to $28 billion in 2012. Emerging-markets debt is also increasingly finding its way into nonspecialist bond-fund managers' portfolios, as represented by its growth as a percentage of assets in fixed-income fund categories such as world-bond funds and nontraditional bond funds.

**Overcrowding?**

Are emerging-debt markets able to accommodate these crowds? The International Monetary Fund's semiannual Global Financial Stability Report highlighted a number of trends on the topic. While the growing presence of foreign investors has contributed to the development and expansion of emerging-debt markets, this has also resulted in the asset class' greater sensitivity to changes in global risk appetite. In particular, retail investors, as well as non-emerging-markets specialists, are more susceptible to herding behavior, which can further amplify volatility during periods of sudden market shocks. Another key issue is the increasingly restrictive regulatory environment across the world, which has served to reduce liquidity and dealer inventory in global bond markets. Global banks are less active in making markets in bonds, and hedge funds are trading less. This decline in market liquidity in emerging-markets bonds might serve to exacerbate volatility during periods of stress. While the conclusions of this IMF paper focused primarily on policy recommendations, the takeaway for investors is that global portfolio fund flows are likely to add a unique dynamic and risk (in addition to credit, duration, inflation, and currency risk) to emerging-markets debt.

The Fed's announcement regarding the tapering of its asset purchase program in May 2013 and the resulting market volatility likely prompted the IMF's research into this topic. From early May through the end of June 2013, hard currency and local currency emerging-markets debt fell 9% and 10%, respectively, as measured by the J.P. Morgan EMBI and JP Morgan GBI EM Indexes. These sharp declines reflected the markets' concern that a tightening of global liquidity could stem the flows into emerging markets, which in turn might further weigh on a weakening growth environment in the developing world. This shock helped expose the pockets of fragility within the emerging-markets universe--namely Indonesia, India, South Africa, Turkey, and Brazil. These countries all exhibit some combination of high inflation, weakening growth, and rising current-account deficits. They experienced sharp foreign portfolio outflows and rapidly declining currencies through the summer of 2013. But over the past nine months, the equity markets of India and Indonesia have rallied strongly, not on improving fundamentals, but on the promise of reforms by newly elected leadership in both countries. Brazil has staged a much smaller recovery, in part due to the carry trade, as real interest rates in Brazil are currently significantly higher than those in the developed world. Extremely low rates in the developed world continue to support foreign investors' risk appetite, which has in turn helped support these recent trends.

This complacent attitude may be masking growing risks. It is true that defaults and devastating financial crisis are much less likely than they were just 20 years ago. Thanks to low market volatility, risk appetite is high and investors continue to reach for yield. Even if the U.S. begins to raise interest rates in the coming years, it is likely that Europe and Japan will keep rates low for a longer period of time, which may help sustain the relative appeal of emerging-markets bonds. If excessive risk-taking continues to drive inflows in the coming years, investors may want to heed some of the concerns highlighted by the IMF. A major shock, such as a sudden spike in oil prices or a financial crisis in China, could prompt very large outflows that could be more damaging to the asset class than the "taper tantrum" of 2013.

**Investment Options**

At present, there are five Morningstar medalists among mutual funds in the Morningstar Category of emerging-markets bonds. Additionally, our passive strategies analysts currently cover five exchange-traded funds in this category.

Hard-currency sovereign emerging-markets bonds are simply credit products with no direct foreign currency risk, as the bonds are priced in U.S. dollars (or euros). Hard-currency debt is currently yielding around 5% (as measured by the J.P. Morgan EMBI Index), reflecting about a 260 basis points spread over U.S. Treasuries. Like the rest of the credit universe, spreads are low relative to history and have narrowed as a result of investors' demand for higher-yielding instruments. It is also important to note that hard-currency emerging-markets bond funds may be more sensitive to rising rates as they have average durations of around seven years, which is longer than the average high-yield or intermediate-bond fund's five years.

Spreads on local-currency sovereign debt are a bit more difficult to evaluate because yields are primarily driven by local monetary policies and yield curves. Over the past year or two, local-currency sovereign debt yields have trended higher as governments sought to address higher inflation and other imbalances in their respective economies by raising rates. While local-currency-denominated funds tend to have shorter durations of around four years and slightly higher yields relative to their hard-currency peers, investors need to consider if they are being fairly compensated for taking on foreign currency risk.

**Emerging-Markets Bond Funds and ETFs Covered by Morningstar Analysts**

| | 12 Mo Yield (%) | Effective Duration (Yrs) | Analyst Rating | Tot Ret Annld 3-Yr ended June 14 (%) |
|---|---|---|---|---|
| **Hard Currency** | | | | |
| PIMCO Emerging Markets Bond PEBIX | 4.4 | 6.2 | Gold | 6.3 |
| Fidelity New Markets Income FNMIX | 4.8 | 7.8 | Silver | 8.6 |
| TCW Emerging Markets Income TGEIX | 4.6 | 5.7 | Bronze | 6.0 |
| T. Rowe Price Emerging Markets Bond PREMX | 5.3 | 6.2 | Bronze | 6.2 |
| iShares JPMorgan USD Emerging Markets Bond ETF EMB | 4.5 | 7.1 | N/A | 6.6 |
| PowerShares Emerging Markets Sovereign Debt ETF PCY | 4.4 | 8.7 | N/A | 7.5 |
| **Local Currency** | | | | |
| PIMCO Emerging Local Bond PELBX | 5.3 | 4.5 | Gold | 0.4 |
| Market Vectors EM Local Currency Bond ETF EMLC | 5.3 | 4.6 | N/A | 1.0 |
| WisdomTree Emerging Markets Local Debt ETF ELD | 3.3 | 5.1 | N/A | 0.1 |
| iShares Emerging Markets Local Currency Bond ETF LEMB | 2.6 | 4.3 | N/A | N/A |

*- source: Morningstar and Company Reports*

Perspective

# A Closer Look at the Total Cost of ETP Ownership: Bid-Ask Spreads

When looking for the lowest cost exchange-traded product, it's important to take a holistic approach and mind the bid-ask spread.

July 16, 2014

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Finding the lowest-cost exchange-traded product, or ETP, entails more than simply seeking out the one with the lowest expense ratio. The expense ratio is just one component of the total cost of ownership, which can be broken down into trading costs and holding costs. Investors have some degree of control over trading costs, which are made up of things such as the brokerage commission, the bid-ask spread, and the price impact resulting from large trades. On the other hand, the ETP's sponsor and the portfolio manager are largely responsible for the holding costs. In aggregate, holding costs measure an ETP's benchmark-relative performance. The expense ratio tends to be the largest, most explicit, and most stable component of the total cost of holding an ETP. However, there are other factors to consider, including implementation shortfall on the part of the portfolio manager and any potential offset from securities lending. Holding cost is easy to measure, as it entails comparing an ETP's performance to the performance of its benchmark index. In contrast, trading costs can be more difficult to measure.

**Total Cost of Ownership = Trading Costs + Holding Costs**

Trading Costs generally comprise:

1. Commission
2. Bid-Ask Spread
3. Market Impact

Holding Costs comprise:

1. Expense Ratio
2. Sampling Error
3. Trading Costs
4. Securities Lending

Trading costs can become a more important consideration for short-term traders who will pay the entire cost of buying and selling an ETP but shell out just a fraction of the fund's annual expense ratio. Trading costs are also of particular importance to investors moving a large percentage of a fund's average daily trading volume. The more liquidity an investor demands (as measured in terms of frequency or trade size) the more significant trading costs are as a component of the total cost of ownership.

One of the biggest components of trading costs is the bid-ask spread. The bid-ask spread is the difference between the highest price an investor is willing to pay for an ETP's shares (the bid) and the lowest price at which a seller is willing to part with them (the ask). This amount is pocketed by a market maker as compensation for matching buyers and sellers.

In assessing ETPs' liquidity, it is important to assess both the liquidity of the ETP itself (using measures like the bid-offer spread and trading volume) as well as the liquidity of its underlying assets (blue-chip stocks are more liquid than bank loans, for example). Taken together, these factors help to explain the ETP's bid-ask spread.

Morningstar calculates an equal-weighted average of each of the unique best bid-ask spreads quoted throughout the trading day. Analyzing the data, a few clear trends emerge. First, in general, the more assets an ETP has the more liquid it will be. The table below shows the average bid-ask spread as a percentage of an ETP's price for 1,606 U.S.-listed ETPs. Instead of taking the average bid-ask spread for just a single day, I took the average over the 30 trading days through July 10. Over this period, the average bid-ask spread among the 41 ETPs with over $10 billion in assets was just 2 basis points. When estimating the total cost of an ETP, the cost represented by the bid-ask spread could be amortized over the holding period. Therefore, the longer the holding period, the less meaningful a component of the total cost of ownership the bid-ask spread will be.

**Table 1: Average Exchange-Traded Product Bid-Ask Spread by Asset Range**

| Asset Range | Average Bid-Ask Spread to Price | Number of ETPs |
|---|---|---|
| Less than $50 million | 1.72% | 680 |
| Between $50 million and $500 million | 0.48% | 552 |
| Between $500 million and 10 billion | 0.22% | 333 |
| Greater than $10 billion | 0.02% | 41 |

Source: Morningstar.

The second pattern that emerges from the data speaks to the relationship between an ETP's bid-ask spread and the liquidity of its portfolio constituents. The next table shows the median bid-ask spread by category group. Here I chose the median rather than the average as there is a large number of ETPs with low asset levels, which results in an upward skew to the equal-weighted average bid-ask spread. As we would expect, ETPs that track benchmarks composed of very liquid underlying securities, such as U.S. stocks, have tighter spreads than those tracking less-liquid securities (bonds) or those that trade on exchanges whose local market hours have little or no overlap with U.S. trading hours (international stocks).

**Table 2: Average Exchange-Traded Product Bid-Ask Spread by Category Group**

| Category Group | Median Bid-Ask Spread to Price | Count |
|---|---|---|
| Allocation | 0.65% | 42 |
| Alternative | 0.33% | 319 |
| Commodities | 0.52% | 117 |
| International Equity | 0.39% | 339 |
| Municipal Bond | 0.25% | 32 |
| Sector Equity | 0.25% | 294 |
| Taxable Bond | 0.27% | 207 |
| U.S. Equity | 0.19% | 256 |
| | **0.29%** | **1,606** |

Source: Morningstar.

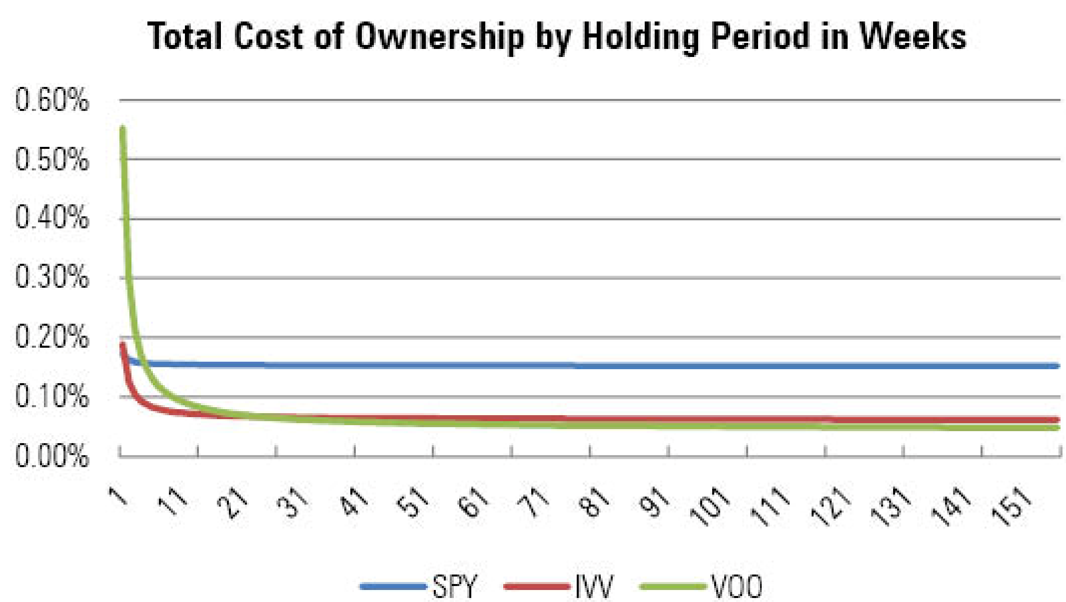
**The Case of the S&P 500 ETFs**

Differences in trading costs can help explain why one ETP is more popular than another, despite having higher holding costs. The best example of this is SPDR S&P 500 (SPY). The fund tracks the S&P 500 index and carries a 0.094% expense ratio. Since the inception of Vanguard S&P 500 ETF (VOO) nearly four years ago, SPY has returned 18.94%, lagging the S&P 500 by 0.15 percentage points. This compares unfavorably to iShares Core S&P 500 (IVV) (0.07% expense ratio) and VOO (0.05%), which returned 18.99% and 19.05%, respectively, over this same period. SPY has higher holding costs in part due to its unit investment trust structure, as discussed in this article.

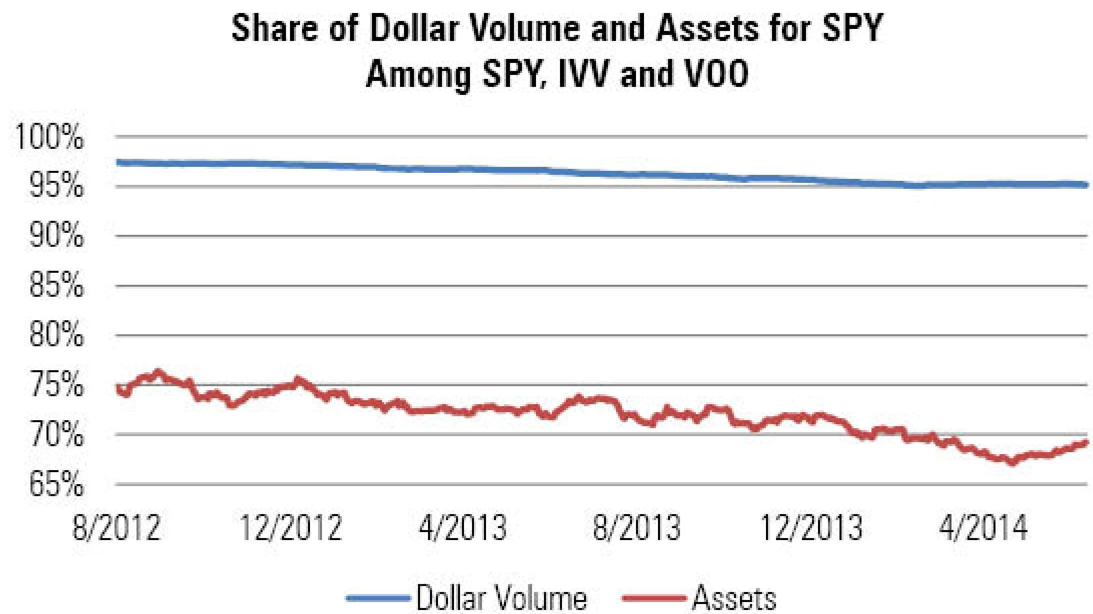
Despite SPY's higher holding costs relative to IVV and VOO, SPY claims 69% of the total assets invested amongst the three funds. Though SPY has been less efficient at tracking its bogy, it trades an astounding $16 billion a day, making it the most heavily traded security on the planet. The tremendous liquidity results in average bid-ask spreads of just one half of 1 basis point. That's tighter than any other ETP and amounts to just $5 for a $100,000 trade. For IVV, the average bid-ask spread over the 30 days through July 10 was 0.8 basis points, and 1.1 basis points for VOO.

For a trader moving a large sum of money over a short period of time, SPY's lower trading costs trump its relatively higher holding costs in tallying the total cost of ownership. However, in recent years, the trading costs of IVV have fallen. While VOO has the highest trading costs among the three funds, it has the lowest holding costs and should be cheaper for long-term investors. The chart below illustrates this pattern. It shows the total cost of ownership based on a $1 million trade. The calculation is an estimate of the total cost of owning these funds and is composed of both trading costs and holding costs. Because trading costs are only incurred when trading, they will be a larger component of total costs for shorter holding periods. Over longer periods, the holding costs will become more important, as the trading costs will be amortized over longer periods. All else equal, the larger the dollar amount of the trade, the larger the trading costs will be. The costs are annualized and expressed as a percentage similar to an expense ratio. So for a one-week holding period, annualizing the cost means that we can assume that the ETF is bought and sold every week over the course of one year. A 26-week holding period would imply buying and selling the ETF twice in a year.

The holding period, measured in weeks, is plotted on the x-axis. We would expect costs to fall over time since the longer the holding period, the more trading costs get amortized. For holding periods shorter than a couple of weeks, SPY is the cheapest option. For holding periods between two and 24 weeks, IVV is the cheapest. Beyond that, VOO is the cheapest. As you can see from the graph, VOO is the most expensive over very short holding periods because it has the highest trading costs.



SPY's lead in liquidity may be slipping. Between the three funds, SPY's 69% share of assets is down from 75% two years ago. SPY's share of dollar volume has also declined, albeit more slowly. Among SPY, IVV, and VOO, SPY now has 95% of the trading volume compared with 97% two years ago. It takes time for a more-efficient ETP to wrest market dominance from a more-liquid ETP, but it can happen. Back in 2010, SPDR S&P MidCap 400 (MDY) controlled 56% of the assets and 89% of the dollar trading volume between itself and competitor iShares Core S&P Mid-Cap (IJH). Today, MDY's assets are down to 40% and its share of dollar volume has dropped to 81%. Investors need to be aware of both trading costs and holding costs when evaluating ETPs. Long-term investors should place more emphasis on holding costs, while traders should focus on trading costs and keep in mind that the most-liquid ETP in a category can change over time, as long-term investors gravitate toward the most-efficient ETP.




- *Source: Morningstar Analysts*

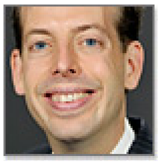
In summary, a fair comparison of the costs of ETP ownership should include an analysis of trading costs such as the bid-ask spread. Both the liquidity of the ETP and that of its underlying holdings influence trading costs. While short-term traders may place a bigger emphasis on trading costs, over longer time horizons, holding costs become a more important factor.

Perspective

# A Rough Road for Financial-Services ETFs

Sector's robust comeback takes a turn so far in 2014.

July 09, 2014



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In the first half of 2014, the market performance of the U.S. financial-services sector trailed the broader U.S. equity market by several hundred basis points.

Thus far this year, there have been some small bumps in the road for a sector that has enjoyed a robust comeback during the past five years, but where volatility remains meaningfully high and uncertainty even higher. While no one doubts that large banks, which dominate the financial sector, are far better capitalized than they were heading into the financial crisis, the final results in March of the Federal Reserve's annual stress test on the United States' 30 largest banks demonstrate both a lack of robustness on the part of some large lending institutions--including Citigroup (C)--as well as the clear presence of a prominent headwind in the form of elevated compliance, regulatory, and legal costs across the industry.

Another headwind is the U.S. economy. While it unquestionably has shown some bright spots during the past several years, concerns about a less-than-strong economy generally has weighed on banks, which feel less inclined to lend in such an environment. Less lending means less growth for banks.

### The Opportunity in U.S. Financial Services

Morningstar's equity analysts view the financial-services sector as largely fairly valued, with pockets of opportunity in individual stocks. A future rally in the sector likely would be driven by several factors, including continued improvement in the U.S. economy (and likely, overseas economies as well), which would in turn prompt central banks to continue pulling back on their "easy money" policies and instead allow for interest rates to rise. That likely would mean greater lending from banks, as well as lower global unemployment. At the same time, global markets would need to continue their march upward (Morningstar's equity analysts hold the view that the financial-services industry's asset managers' performance more or less will follow the market). And, in theory, continued strong markets would bring more deal activity for investment banks. On top of all this, banks likely would continue their ongoing cost-cutting efforts (we view many physical bank branches as endangered species).

### Unpacking Specific Subsectors' Performance

Broadly, the financial-services sector breaks down into a handful of subsectors, which include banks, insurance firms, REITs, and asset managers/capital markets. Banks have underperformed the overall U.S. equity market thus far this year, amid stress-test results and a general sector rotation away from financial services. Insurance firms also have lagged amid strong debt and equity markets, which tend to force down insurers' prices and thus returns on invested capital. Meanwhile, REITs have done very well after a not-so-great 2013, during which investors panicked. Although one might think that the specter of rising rates would hurt REITs, rising rates also usually mean a strong economy, and for REITs, a boom means higher occupancy and steadily increasing rents on tenants.

### A Closer Look at an Array of Financial-Services ETFs

Some of Morningstar's own proprietary data points can help investors make sense of the many exchange-traded funds out there that are devoted to the financial-services sector. First, we will apply some of these data points to a group of broad-based, market-capitalization-weighted financial-services ETFs. Next, we will take a closer look at strategic-beta financial-services ETFs, global and foreign financial-services ETFs, and the narrowly constructed ETFs devoted to several financial subsectors. Finally, we'll examine recent trends in fund flows in the financial-services sector.

**An Overview of Market-Cap-Weighted Financial-Services ETFs**
There are three large and liquid cap-weighted financial-services ETFs: Financial Select Sector SPDR (XLF), Vanguard Financials (VFH), and iShares U.S. Financials (IYF). All seek to replicate broad indexes of the largest U.S. financial stocks, including diversified financial-services companies, banks, REITs, insurers, and capital markets firms. All have relatively similar portfolios, although there are small differences in composition.

The table below provides more details on the three funds:

Large Market-Cap-Weighted U.S. Financial-Services ETFs

| | Holdings | % Assets Banks | % Assets Insurers | % Assets REITs | % Assets Lrg Caps | % Assets Mid-Caps | % Assets Sml Caps | Exp Ratio |
|---|---|---|---|---|---|---|---|---|
| Financial Sel Sctr SPDR | 84 | 37.0 | 18.0 | 13.5 | 90.8 | 9.1 | 0.0 | 0.16% |
| Vanguard Financials | 539 | 33.5 | 12.0 | 15.5 | 74.7 | 19.4 | 5.7 | 0.19% |
| iShares U.S. Financials | 272 | 32.0 | 24.0 | 18.0 | 66.8 | 21.2 | 9.4 | 0.44% |

Source: Morningstar Direct.

Fidelity recently launched a broad-based, cap-weighted financial-services ETF, Fidelity MSCI Financials Index (FNCL), with a rock-bottom expense ratio of 0.12%. Although the fund has had some success gathering assets ($121 million as of this writing), the three larger broad financials ETFs dwarf FNCL in terms of assets and liquidity.

PowerShares S&P SmallCap Financials (PSCF) is another market-cap-weighted ETF devoted to the financial sector. As its name suggests, PSCF tracks an index of small-cap U.S. financial-services companies. It takes its holdings from the S&P SmallCap 600 Index. In the Morningstar Style Box, PSCF falls within the core-value segment, between micro-cap and small cap. Morningstar does not compute a price/fair value ratio or an Economic Moat Rating for PSCF. The ETF has lagged cap-weighted financial ETFs during the past year, although its performance has been in line with those funds over the trailing three-year period. PSCF's expense ratio is 0.50%.

**Data Points**
Valuation-wise, investors could benefit from looking first at price/fair value ratios. One of the most useful data points for ETF investors is Morningstar's fair value estimate, which leverages the bottom-up fundamental analysis produced by our global team of equity research analysts. Our equity analysts evaluate the value of a business using our discounted cash flow model, which calculates the present value of a company's future discretionary cash flows based on its cost of capital, as determined by our analysts. Our per-share fair value estimate represents the aggregate, asset-weighted fair value estimate of the stocks in an ETF's portfolio that are covered by Morningstar equity analysts, divided by the ETF's number of shares outstanding. Our equity analysts may not cover each of the stocks in an ETF's portfolio, so we assume the stocks that aren't under coverage trade at fair value.

Looking at the three market-cap-weighted financial-services ETFs, we see that they all trade at ratios greater than one, which indicates that the portfolio may be overvalued. XLF trades at 101% of fair value, VFH trades at 102% of fair value, and IYF trades at 101% of fair value. So the three big cap-weighted financial-services ETFs do not trade at any kind of discounts to their fair values.

When evaluating ETFs, another useful data point is the economic moat rating, which helps establish the quality of a fund's underlying portfolio. Morningstar's equity analysts evaluate firms' competitive advantages, or the barriers that a company builds around itself, as well as how long we believe the company can sustain that edge over its competitors. Our equity analysts spend a great deal of time evaluating and debating the strength and sustainability of a firm's competitive advantage and examining its returns on invested capital before assigning it to one of three moat sizes: wide, narrow, or none. Wide-moat companies all tend to have at least one strong sustainable competitive advantage (many have several) and earn ROICs well in excess of their cost of capital. Narrow-moat firms, by contrast, are ones that may not be able to continue generating hefty ROICs as competition heats up over the long haul.

In any sector, there's a broad mix with all kinds of moat sizes. However, a portfolio with a large percentage of companies with narrow and wide moats is one that we would categorize as high-quality. The bulk of the assets in large, market-cap-weighted financial-services ETFs are invested in narrow-moat companies. For example, 19% of XLF's assets are devoted to wide-moat companies and 61% are invested in narrow-moat firms. The ratios are similar for VFH, which invests 13% of its assets in wide-moat companies and 50% in narrow-moat firms, and for IYF, where the breakdown is 20% and 49%. Clearly, the large market-cap-weighted financial services ETFs are fairly high-quality portfolios, although anywhere from 10% to 15% of assets are invested in companies with no competitive advantages whatsoever.

**Moat Percentages for Large Cap-Weighted U.S. Financial-Services ETFs**

| | % Holdings Wide Moat | % Holdings Narrow Moat | % Holdings No Moat |
|---|---|---|---|
| Financial Select Sector SPDR | 19.4 | 61.2 | 13.2 |
| Vanguard Financials | 13.2 | 50.3 | 11.4 |
| iShares U.S. Financials | 20.4 | 49.1 | 11.5 |

Note: Percentages do not add up to 100% because Morningstar equity analysts do not cover all companies held in each ETF.
Source: Morningstar Direct.

**Strategic-Beta Financial-Services ETFs**

There are several good-sized ETFs devoted to the financial-services sector that seek to improve their return profile relative to traditional market benchmarks. Morningstar terms this category of funds "strategic beta." Here are three strategic-beta ETFs devoted to the financial-services sector that we believe are worth discussing.

The first, Guggenheim S&P 500 Equal Weight Financial (RYF), tracks an equal-weighted index of 84 stocks. As is the case with other equally weighted funds, RYF offers more of a small- and mid-cap tilt than its market-cap-weighted peers. For example, 35% of RYF's portfolio consists of mid-cap names, compared with just 9% of XLF and 21% of VFH. RYF is only slightly more volatile than its cap-weighted counterparts. RYF has meaningfully outperformed its cap-weighted brethren over the trailing one-, three-, and five-year periods. RYF's position in the style box is almost identical to that of VFH; both funds fall between medium and large and near the boundary of core value and core. RYF also invests in a significant number of high-quality financials firms. In fact, just 18% of RYF is devoted to companies with no economic moat. RYF charges 0.40% and trades at 103% of fair value.

First Trust Financials AlphaDEX (FXO) tracks a fundamental index that uses a proprietary stock-selection methodology to rank financials firms on both growth and value factors. As a result, FXO's portfolio differs meaningfully from many of its sector-ETF peers. The index rebalances quarterly and takes valuation into account when rebalancing. As a result, FXO sits squarely in the center of the core-value band in the style box, while the cap-weighted financials ETFs--and RYF--all sit at or near the border between core value and core. FXO's portfolio also has more of a small- and mid-cap tilt than its competitors, with fully 57.5% of assets invested in mid-cap firms and another 15.0% devoted to small-cap companies. FXO has meaningfully outperformed the cap-weighted U.S. financials ETFs over one-, three-, and five-year periods, and it has done so with slightly less volatility than the cap-weighted funds. FXO charges 0.70%.

Finally, PowerShares KBW High Dividend Yield Financial (KBWD) is a concentrated, higher-risk but higher-yielding financial industry ETF that tracks a dividend-yield-weighted index containing small- and mid-cap financials firms like banks, insurers, and equity and mortgage REITs. In the style box, KBWD is squarely in the deep-value region, between micro-cap and small cap. It has no direct peer. Morningstar's equity analysts don't cover enough of its holdings for us to have an estimate of fair value for the fund or a moat rating. And the fund only has traded for about three and a half years, so it has less performance history than some other financials ETFs. However, KBWD has meaningfully lagged its traditional cap-weighted peers over the trailing one- and three-year periods. The ETF yields about 8% but charges a pricey 1.55%.

**Strategic-Beta ETFs' Recent Performance**

| | YTD | Trailing 1-Year Return | Trailing 3-Year Return | Trailing 5-Year Return |
|---|---|---|---|---|
| Guggenheim S&P 500 Equal Weight Financial | 7.0% | 19.3% | 16.0% | 21.3% |
| First Trust Financials AlphaDEX | 3.3% | 18.2% | 16.1% | 21.6% |
| PowerShares KBW High Dividend Yield Financial | 6.6% | 14.0% | 11.3% | — |

Source: Morningstar data.
Data as of July 3, 2014.

## Global and Foreign Financial-Sector ETFs

Investors looking for exposure to financial-sector firms outside of the U.S. have several options. One is to consider an ETF holding global financial-services names. IShares Global Financials (IXG) is one such option. IXG devotes about 41% of its assets to U.S. companies, with most of the remaining assets invested in companies based in developed foreign markets, such as Banco Santander, Commonwealth Bank of Australia, and Royal Bank of Canada.

IXG has posted meaningfully higher volatility during the past five years (19.9%) relative to its U.S.-only financial-sector ETF peers. At the same time, IXG charges 0.48%. IXG's performance is highly correlated with the three large U.S.-only financial-services ETFs (92% to 93% during the past five years). As a result, cost-conscious investors looking for financial-services sector exposure might prefer XLF or VFH, which carry expense ratios of 0.16% and 0.19%, respectively.

Other ETF options for investors seeking access to financial-services companies from outside the U.S. include iShares MSCI Europe Financials (EUFN), the very small SPDR S&P International Financial Sector (IPF) (0.50%), and even First Trust STOXX European Select Dividend Index Fund (FDD) (0.60%). However, it's important to note that while FDD has a large tilt toward financials companies (40.5% of assets), it also holds European dividend-paying companies from other sectors as well.

## Sub-Sector-Level Financial-Services ETFs

Investors with a strong conviction about an individual subsector within U.S. financial services can consider ETFs devoted to banks, REITs, or insurers. Banking firms have lagged the U.S. financials sector thus far this year in the wake of the mixed results from the stress tests. The largest and most liquid broad-based banking ETF is SPDR S&P Bank (KBE), which charges 0.35%. Investors interested solely in regional banks can consider SPDR S&P Regional Banking (KRE) (0.35%), iShares U.S. Regional Banks (IAT) (0.46%), or PowerShares KBW Regional Banking (KBWR) (0.35%).

REITs have performed very well thus far in 2014, enjoying a recovery after investors panicked in 2013. The market for REITs came back after investors acclimated to the notion of the Fed potentially winding down quantitative easing. And investors' bullishness comes from the signaling effect that would be inherent in in higher interest rates--namely, that rates tend to rise when an economy is strong. REITs are cyclical by nature, and with a boom would come higher occupancies and the ability for REITs to steadily increase building rents. Investors interested in REIT ETFs should consider Vanguard REIT (VNQ) (0.10% expense ratio), Schwab US REIT (SCHH) (0.07%), iShares U.S. Real Estate (IYR) (0.44%), and iShares Cohen & Steers REIT (ICF) (0.35%).

Insurance companies have lagged the broader market in 2014. The reason is that as the capital markets have done well--both stock and bond markets have rallied--insurance companies' book values have gone up. That has resulted in declining customer prices and as a result, lower ROICs for insurers. Several suitable insurance-sector ETFs are SPDR S&P Insurance (KIE) (0.35% expense ratio) and iShares U.S. Insurance (IAK) (0.46%).

**Financial-Services Subsector ETFs' Recent Performance**

| | Ticker | YTD | Trailing 1-Year Return | Trailing 3-Year Return | Trailing 5-Year Return |
|---|---|---|---|---|---|
| SPDR S&P Bank | KBE | 2.1% | 13.3% | 13.4% | 15.9% |
| SPDR S&P Regional Banking | KRE | 1.0% | 15.1% | 18.1% | 20.2% |
| iShares U.S. Regional Banks | IAT | 6.2% | 15.7% | 16.1% | 17.7% |
| PowerShares KBW Regional Banking | KBWR | 0.4% | 18.7% | — | — |
| Vanguard REIT | VNQ | 17.4% | 12.4% | 11.0% | 24.7% |
| Schwab US REIT | SCHH | 18.1% | 13.0% | 9.6% | — |
| iShares U.S. Real Estate | IYR | 15.8% | 13.0% | 8.5% | 23.0% |
| iShares Cohen & Steers REIT | ICF | 18.3% | 11.5% | 9.0% | 24.2% |
| SPDR S&P Insurance | KIE | 2.8% | 19.0% | 16.9% | 22.9% |
| iShares U.S. Insurance | IAK | 2.7% | 17.9% | 16.7% | 21.4% |

Source: Morningstar data.
Data as of July 3, 2014.

## Flow Trends

A look at where fund flows have been going often can help give investors some insight into what other investors are thinking. Recent fund-flow data for financial services show several noteworthy dynamics. First, strategic-beta ETFs devoted to the financials industry have enjoyed strong inflows during the past year, owing to their track records of outperformance and a generally increased focus from investors and advisors on strategic-beta funds. Next, most regional-bank ETFs have had significant inflows during the past year but outflows year to date. Also, there have been meaningful flows into financial-services industry ETFs devoted to European financial companies (see tables on the following page).

**Top- and Bottom-Flowing Financial-Services ETFs in 2014**

| | Ticker | YTD ($Mil) | 1 Month ($Mil) | 1 Year ($Mil) | Assets ($Mil) | 1-Year Organic Growth Rate (%) |
|---|---|---|---|---|---|---|
| **Top-Flowing Funds** | | | | | | |
| Financial Select Sector SPDR | XLF | 878 | 237 | 1,672 | 18,590 | 11.57 |
| Vanguard Financials | VFH | 282 | -14 | 474 | 2,110 | 34.67 |
| First Trust Financials AlphaDEX | FXO | 172 | -139 | 386 | 874 | 112.54 |
| iShares MSCI Europe Financials | EUFN | 148 | 10 | 390 | 505 | 499.67 |
| Fidelity MSCI Financials Index | FNCL | 109 | -7 | 147 | 121 | — |
| **Bottom-Flowing Funds** | | | | | | |
| SPDR S&P Regional Banking | KRE | -303 | 47 | 424 | 2,570 | 24.23 |
| SPDR S&P Insurance | KIE | -201 | 6 | -101 | 274 | -31.62 |
| iShares U.S. Financial Services | IYG | -43 | -29 | -19 | 568 | -3.84 |
| iShares Global Financials | IXG | -31 | -12 | -37 | 306 | -12.73 |
| iShares U.S. Insurance | IAK | -28 | 0 | -2 | 140 | -1.59 |

Source: Morningstar data.
Flows data as of June 30, 2014.

**Inflows Into Strategic-Beta Financial-Services ETFs in 2014**

| Top-Flowing Funds | Ticker | YTD ($Mil) | 1 Year ($Mil) | 1-Year Organic Growth Rate (%) |
|---|---|---|---|---|
| First Trust Financials AlphaDEX | FXO | 172 | 386 | 112.54 |
| Guggenheim S&P 500 Equal Weight Financial | RYF | 25 | 23 | 35.17 |
| PowerShares KBW High Dividend Yield Financial | KBWD | 23 | 13 | 5.44 |

Source: Morningstar data.
Flows data as of June 30, 2014.

ETF Spotlights

# Spotlighting a Strategic Beta ETF & the Utilities Sector

Morningstar analyst insight, plus two complimentary full-length ETF research reports.

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## First Trust Large Cap Core AlphaDEX FEX

Perhaps the biggest surprise in fund flows for exchange-traded products during the past year is the strength of First Trust. The firm has catapulted itself from the 11th largest provider of exchange-traded products to the sixth largest in just one year. Much of the strong flows are accumulating to funds that have been around for years. What has changed is the increasing acceptance of strategic beta. While they may track an index, strategic beta funds are active, so it is no surprise that investors might take a wait-and-see approach before investing, particularly when the methodology appears to be complex and untested. However, of the 23 First Trust AlphaDEX market-cap and sector funds (excluding the international AlphaDEX funds), the average Morningstar Rating is 4 stars, which is truly impressive. Unlike some single factor funds, the methodology behind AlphaDEX is fairly opaque, but their performance warrants a deep dive.

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## Vanguard Utilities ETF VPU

Utilities companies have made up significant ground this year after trailing the broader U.S. equity market by a wide margin in 2013. A broad utilities-oriented exchange-traded fund, Vanguard Utilities ETF (VPU), has returned 14.5% year to date, versus the S&P 500 Index's 7.7% return during the same interval.

Utilities companies' fundamentals have remained strong. Most utilities have strengthened their earnings profiles and balance sheets by taking advantage of low-cost borrowing and rich market prices. The utilities sector's average dividend yield remains near 4%, which is nearly double the market's average yield and some 130 basis points above the 10-year U.S. Treasury yield. We see no wholesale threats to dividends across the sector. Not surprisingly, investors in utilities companies keep a close eye on interest rates. With Treasuries remaining near record lows, investors have rewarded utilities companies. Right now, Morningstar's equity analysts view utilities companies as being fairly valued. However, for investors who remain bullish on utilities companies, there are several dynamics ahead that would be captured by VPU.

First, a recent rebound in power and natural gas prices boosted earnings for power producers. In fact, after a brutal winter, forward power prices and natural gas prices in the Mid-Atlantic region climbed 18% between January and May 2014, boosting the earnings of utilities with wholesale generation fleets in the Eastern United States. If power prices continue to rise, utilities companies could surprise to the upside.

As noted above, another dynamic affecting the utilities sector is interest rates. Since 2000, when interest rates began a secular decline, utilities companies have seen their investor bases broadened by those also seeking price appreciation in addition to income generation and reliability. Now, Morningstar's equity analysts believe that investors currently are pricing in 4% U.S. Treasury yields, so we don't expect substantial moves downward from utilities if rates hit that level. At the same time, another way utilities companies could continue their recent outperformance would be if Treasury rates stabilized close to 3%.

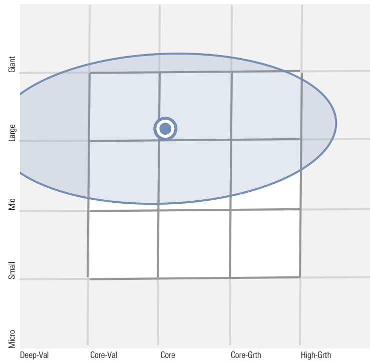
Still another dynamic worth watching is environmental regulation and litigation. On the legal front, the U.S. Environmental Protection Agency recently won two important court cases supporting their regulations limiting certain noncarbon coal plant emissions. The rulings have been prompting utilities to shut down older, inefficient coal plants. Further environmental regulation could actually be a boost for diversified utilities and independent power generators in the coming years, because newer rules and more shuttered plants could result in power shortages and higher power prices.

# First Trust Large Cap Core AlphaDEX FEX

**Morningstar Rating™**
★★★★

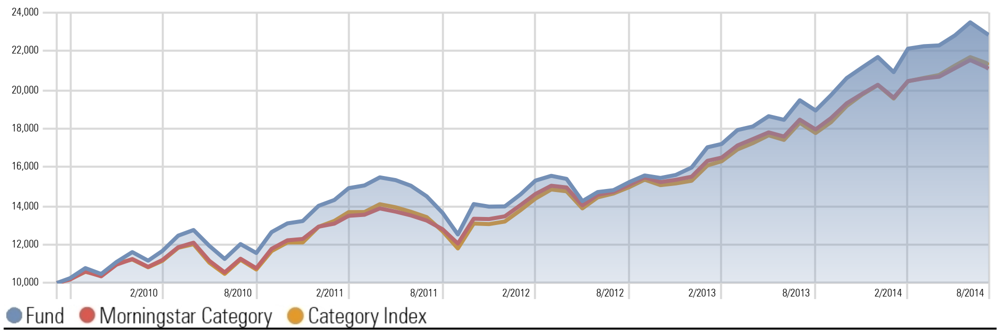
| Morningstar Category | Category Index | Prospectus Benchmark |
|---|---|---|
| US ETF Large Blend | S&P 500 TR USD | Defined Large Cap Core TR USD |

## Style Map




## Performance

Time Period: 8/6/2009 to 8/5/2014



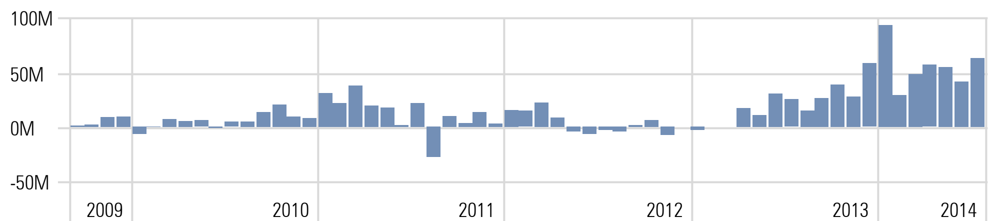

## Snapshot

| | |
|---|---|
| Inception Date | 5/8/2007 |
| Expense Ratio % | 0.66 |
| Assets (millions) | 1,153 |
| Avg Dly Vol (3 Mo) | 158,241 |
| 12 Month Yield % | 1.11 |
| Portfolio Date | 8/5/2014 |
| Distribution Freq | Quarterly |
| ETN | No |
| Replication Method | Physical-Sample |
| Fund Lgl Structure | Open Ended Investment Company |

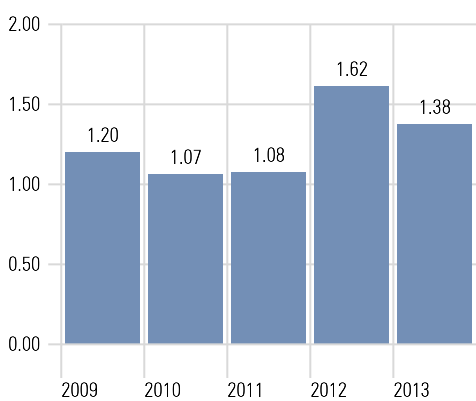
## Annual Returns %

| | 2009 | 2010 | 2011 | 2012 | 2013 | YTD |
|---|---|---|---|---|---|---|
| First Trust Large Cap Core AlphaDEX | 36.14 | 20.63 | -0.21 | 14.41 | 35.79 | 5.27 |
| S&P 500 TR USD | 26.46 | 15.06 | 2.11 | 16.00 | 32.39 | 5.10 |
| US ETF Large Blend | 28.83 | 14.89 | 4.14 | 15.25 | 30.70 | 4.08 |

## Monthly Fund Flows (millions)




## Annual Income Return %




## Risk/Return Analysis (3 years)

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Standard Deviation % | 13.83 | 12.20 | 12.29 |
| Arithmetic Mean % | 1.36 | 1.37 | 1.29 |
| Sharpe Ratio | 1.18 | 1.34 | 1.26 |
| R-Squared | 96.51 | — | 94.75 |
| Beta | 1.11 | — | 0.98 |
| Alpha % | -1.90 | — | -0.57 |
| Treynor Ratio | 14.81 | — | 16.17 |
| Sortino Ratio | 2.06 | 2.36 | 2.22 |

# Suitability

By Michael Rawson, CFA 6/9/2014

First Trust Large Cap Core AlphaDEX FEX is a suitable core equity holding for investors looking to tilt toward mid-cap and value stocks. Despite its complex methodology, the fund provides no discernible edge beyond that obtained through traditional size and value tilts. Those exposures are available more cheaply and transparently through other funds.

This fund attempts to outperform traditional market-cap-weighted indexes. It tracks an index that ranks stocks based on separate models for growth and value stocks, eliminates the worst-scoring 25%, and then groups the remaining stocks into quintiles. Stocks in the best-scoring quintile receive the greatest weight in the portfolio. Stocks are equal-weighted within each quintile.

The factors used by the fund's two models are similar to those used by traditional value and growth style funds. But while style funds typically split stocks into separate value or growth groups, this fund retains top-scoring stocks from both models. The result is a core portfolio with a slight tilt toward value, yet growth characteristics similar to a blend fund.

The weighting methodology results in an average market capitalization of $20 billion, nearly one fifth of the $98 billion large-blend category average. The fund has 45% of assets in mid-cap stocks compared with just 16% for the category average. Within the Morningstar Style Box, the fund has 24% of its assets in mid-cap value stocks, more than any other of the nine partitions.

These tilts do not come without risk. Since inception, the fund has had a volatility of 19%, 2 percentage points greater than the S&P 500 Index, and the fund fell more than the S&P 500 Index during the financial crisis in 2008. Still, it has offered decent performance, and investors have been compensated for accepting this greater risk--at least over the past several years. While the fund has outperformed the large-blend category to which it is assigned, most of that outperformance can be explained by its significant tilt toward mid-cap stocks. Investors might be disappointed if mid-cap stocks start to lag.

# First Trust Large Cap Core AlphaDEX FEX

**Morningstar Rating™**
★★★★

| **Morningstar Category** | **Category Index** | **Prospectus Benchmark** |
|---|---|---|
| US ETF Large Blend | S&P 500 TR USD | Defined Large Cap Core TR USD |

## Fundamental View

A number of indicators suggest that the U.S. stock market is no longer attractively priced. At 18 times trailing earnings, the current price/earnings ratio for the S&P 500 index is above its median level of 16, dating back to 1947. In the past, when the valuation multiple has been above its long-term average, future returns have tended to be lower versus periods marked by a below-average valuation multiple. With its mid-cap and value tilts, the current price/earnings valuation for this fund is slightly lower, at 17 times.

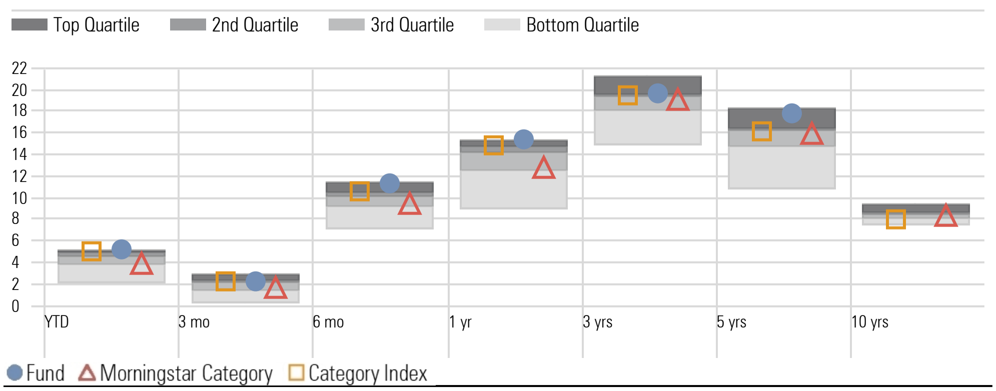
Morningstar equity analysts cover 342 out of 376 stocks in FEX, accounting for 97% of the assets. They build discounted cash flow models for each stock and assign a fair value estimate, which can then be aggregated to the fund level. The analysts currently see the price/fair value of this fund at about 1.06. That is about the same level as the S&P 500.

The holdings of FEX appear to be slightly lower-quality compared with the S&P 500 Index but higher than the typical mid-cap value fund. Firms in the S&P 500 Index generated an average return on invested capital of 13% over the trailing 12 months through May 2014 compared with just 10% for FEX and 9% for the mid-cap value Morningstar Category average. In addition, FEX has only 14% of assets in wide-moat stocks, versus 46% for the S&P 500. Still, this is higher than the 8% of assets in wide-moat stocks for the mid-cap value category. The lower weighting in high-quality stocks is reflected in the higher volatility of FEX compared with the S&P 500.

With its tilts toward value and mid-cap stocks, the performance of the portfolio is likely to diverge from the broad market at times. For example, mid-cap stocks outperformed in 2013, which helped this fund beat the S&P 500 Index. But that will not always be the case. While they have a good long-term record relative to their growth counterparts, value stocks tend to be less profitable and may underperform during tough economic climates.

### Trailing Returns Relative to Peer Group %

Peer Group (5-95%): Exchange Traded Funds - U.S. - Large Blend




| | YTD | 3 mo | 6 mo | 1 yr | 3 yrs | 5 yrs | 10 yrs |
|---|---|---|---|---|---|---|---|
| First Trust Large Cap Core AlphaDEX | 5.27 | 2.29 | 11.39 | 15.44 | 19.77 | 17.96 | — |
| S&P 500 TR USD | 5.10 | 2.42 | 10.74 | 14.83 | 19.55 | 16.30 | 8.15 |
| US ETF Large Blend | 4.08 | 1.89 | 9.52 | 12.84 | 19.24 | 16.09 | 8.54 |

### Morningstar Fundamental Analysis

| | |
|---|---|
| Fair Value Estimate | 42.29 |
| Valuation Rating | Fairly Valued |
| Price/Fair Value | 1.02 |
| # of Holdings Covered | 342 |
| # of Holdings | 379 |

### Economic Moat %

| | |
|---|---|
| Wide Moat | 16.24 |
| Narrow Moat | 53.96 |
| No Moat | 19.71 |

### Fundamental Ratios

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Net Margin % | 11.03 | 14.26 | 15.15 |
| Return on Equity % | 17.69 | 20.75 | 20.03 |
| Return on Assets % | 7.00 | 8.11 | 8.77 |
| Debt to Capital % | 36.17 | 35.80 | 34.22 |

### Value and Growth Measures

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Price/Proj. Earnings | 17.04 | 18.20 | 18.18 |
| Price/Book | 2.19 | 2.61 | 2.67 |
| Price/Sales | 1.21 | 1.73 | 1.98 |
| Price/Cash Flow | 9.44 | 11.05 | 11.98 |
| LT Earnings Growth % | 10.52 | 10.16 | 7.94 |
| Sales Growth % | 3.97 | 3.05 | 1.34 |
| Cash Flow Growth % | 6.17 | 6.23 | 7.05 |
| Book Value Growth % | 6.63 | 7.46 | -5.84 |

### Market Performance Statistics

Time Period: 5/9/2007 to 8/5/2014

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Up Capture Ratio % | 106.57 | 100.00 | 96.40 |
| Down Capture Ratio % | 106.29 | 100.00 | 96.09 |
| Max Drawdown % | -58.41 | -55.25 | -55.09 |
| Max Gain % | 277.18 | 229.31 | 235.71 |
| Best Month % | 15.96 | 10.93 | 13.46 |
| Worst Month % | -20.14 | -16.79 | -19.00 |

### Total Return Percentile Rank in Category

# First Trust Large Cap Core AlphaDEX FEX

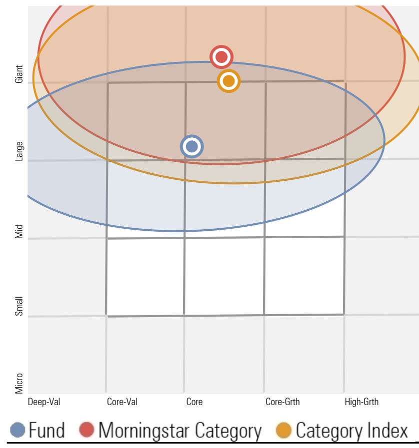
**Morningstar Rating™**
★★★★

| **Morningstar Category** | **Category Index** | **Prospectus Benchmark** |
|---|---|---|
| US ETF Large Blend | S&P 500 TR USD | Defined Large Cap Core TR USD |

## Portfolio Construction

The fund follows the Defined Large Cap Core Index created by Standard and Poor's. The index ranks each stock in the S&P 500 Index with either a value or growth model depending on its S&P style designation. Stocks that S&P classifies as core take the higher score from the two models. Growth stocks are scored using three-, six-, and 12-month price appreciation, sales/price, and one-year sales growth, while value stocks are scored based on book value/price, cash flow/price, and return on assets. The top 75% of companies are included in the final portfolio. Stocks in the best-scoring quintile receive larger weights than stocks in lower quintiles, and stocks are equally weighted within each quintile. The strategy results in about 375 holdings, and turnover has averaged 92%, which is high for an index fund. Sector exposure can vary from that of the Russell 1000 Index, depending on the value and growth characteristics of individual stocks. Currently, the fund has a large bet on utilities and consumer cyclical stocks but has underweightings in consumer staples and technology stocks. The fund does not currently engage in securities lending.

### Holdings Based Style Map

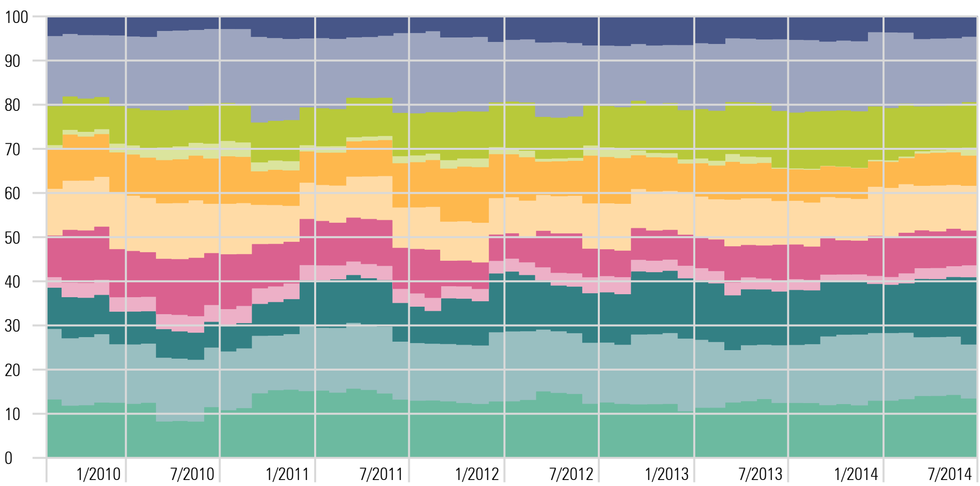



| | ETF | Cat Index | Cat Avg | | ETF | Cat Index | Cat Avg |
|---|---|---|---|---|---|---|---|
| Avg Market Cap (mil) | 20,365 | 67,872 | 100,340 | Turnover Ratio % | 78.00 | — | 20.56 |
| 12 Month Yield % | 1.11 | — | — | % Asset in Top 10 | 4.84 | 17.52 | 45.64 |
| Market Price | 42.97 | 7,541.97 | — | # of Holdings | 379 | 501 | 466 |

### Market Cap %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Giant | 12.71 | 50.89 | 71.89 |
| Large | 41.34 | 36.87 | 9.54 |
| Mid | 45.95 | 12.24 | 15.87 |
| Small | 0.00 | 0.00 | 2.61 |
| Micro | 0.00 | 0.00 | 0.10 |

### Equity Sector Breakdown History




### Current Equity Sector Breakdown %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Basic Materials | 4.85 | 3.36 | 3.84 |
| Consumer Cyclical | 15.22 | 10.35 | 10.49 |
| Financial Services | 10.05 | 14.71 | 15.55 |
| Real Estate | 0.57 | 1.94 | 1.66 |
| Consumer Defensive | 7.38 | 9.99 | 9.95 |
| Healthcare | 9.93 | 13.24 | 13.53 |
| Utilities | 8.48 | 3.15 | 2.38 |
| Communication Services | 2.46 | 3.99 | 3.57 |
| Energy | 13.50 | 10.83 | 10.21 |
| Industrials | 13.20 | 11.21 | 12.26 |
| Technology | 14.36 | 17.22 | 16.55 |

### Top 10 Holdings

Portfolio Date: 8/5/2014

| | Ticker | Portfolio Weighting % |
|---|---|---|
| Marathon Petroleum Corp | MPC | 0.50 |
| Facebook Inc Class A | FB | 0.49 |
| Urban Outfitters Inc | URBN | 0.49 |
| Intel Corp | INTC | 0.49 |
| AmerisourceBergen Corp | ABC | 0.48 |
| Staples Inc | SPLS | 0.48 |
| Xerox Corporation | XRX | 0.48 |
| Southwest Airlines Co | LUV | 0.48 |
| Coach Inc | COH | 0.48 |
| Hewlett-Packard Co | HPQ | 0.48 |

### Equity Region %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| North America | 96.00 | 98.33 | 95.31 |
| Latin America | 0.00 | 0.00 | 0.03 |
| Japan | 0.00 | 0.00 | 0.15 |
| Australasia | 0.00 | 0.00 | 0.06 |
| Asia Developed | 0.00 | 0.10 | 0.22 |
| Asia Emerging | 0.00 | 0.00 | 0.09 |
| United Kingdom | 1.79 | 0.47 | 1.27 |
| Europe Developed | 2.22 | 1.10 | 2.75 |
| Europe Emerging | 0.00 | 0.00 | 0.01 |
| Africa/Middle East | 0.00 | 0.00 | 0.12 |

# First Trust Large Cap Core AlphaDEX FEX

**Morningstar Rating™**
★★★★

| Morningstar Category | Category Index | Prospectus Benchmark |
| --- | --- | --- |
| US ETF Large Blend | S&P 500 TR USD | Defined Large Cap Core TR USD |

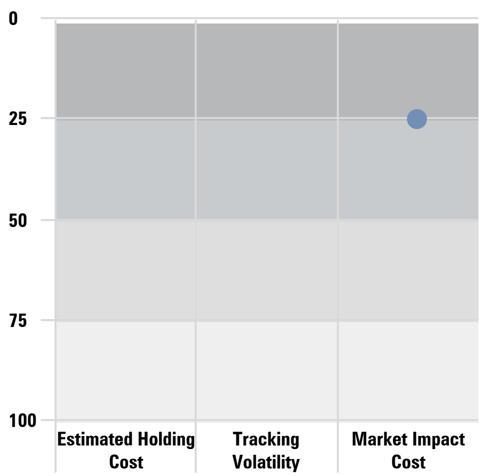
## Fees

The fund charges 0.66%, well above the average large-cap exchange-traded fund and well above other strategy ETFs. Still, the expense ratio is half of the average large-blend mutual fund. Over the past five years, the fund has lagged its index by about 0.90% per year, suggesting implementation costs have created a drag on the fund's performance.

**Expenses**

| | ETF | Cat Avg |
| --- | --- | --- |
| Gross Expense Ratio % | 0.66 | 0.44 |
| Net Expense Ratio % | 0.66 | 0.38 |
| Expense Waiver | — | — |
| Expense Waiver Expiration Date | — | — |
| Expense Waiver Type | — | — |
| Prospectus Date | 12/2/2013 | — |

**Percentile Rank Relative to ETF Universe**




**Total Cost Analysis Data Points**

| | |
| --- | --- |
| Estimated Holding Cost % | — |
| Tracking Volatility % | — |
| Market Impact Cost % | 0.01 |

**Estimated Holding Cost** is essentially the difference between the ETF return and the benchmark return and represents the realized cost of replicating the benchmark. Lower costs indicate that the ETF is doing a better job of matching its benchmark while minimizing costs.

**Tracking Volatility** measures the uncertainty with which an ETF tracks a benchmark. A higher tracking error indicates a wider confidence interval for expected performance around the benchmark. Lower numbers and ranks are better.

**Market Impact Cost** represents the liquidity of the ETF and is based on the average market price movement in percent caused by a $100,000 trade in the ETF. Calculated as the residual volatility unexplained by movements in NAV and the previous day's premium or discount, scaled by average dollar volume traded. Lower numbers and ranks are better.

## Alternatives

PowerShares FTSE RAFI US 1000 PRF (0.39% expense ratio) may be a suitable alternative. This fund weights stocks based on fundamentals, thus breaking the link between stock price and index weight. This approach gives it a value tilt and a disciplined rebalancing strategy that may help boost returns over the long term. WisdomTree LargeCap Dividend DLN (0.28% expense ratio) takes a different tack and weights its holdings by the dollar amount of dividends paid. This approach introduces a similar rebalancing discipline. Guggenheim S&P 500 Equal Weight RSP (0.40% expense ratio) also applies a disciplined rebalancing strategy by assigning equal weightings to all of the stocks in the S&P 500 Index, resulting in a pronounced mid-cap tilt.

Those looking for a cheaper way to tilt toward mid-cap value stocks might consider Vanguard Mid-Cap Value ETF VOE, which charges just 0.09%.

**Operations**

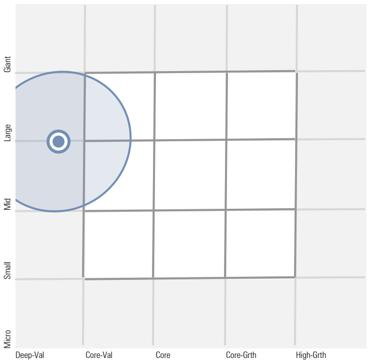
| | |
| --- | --- |
| Longest Tenured Manager | Multiple |
| Manager Tenure (Longest) | 7.25 |
| Manager Tenure (Average) | 7.25 |
| Exchange | NYSE ARCA |
| Web Address | www.ftportfolios.com |

# Vanguard Utilities ETF VPU

**Morningstar Rating™**
★★★

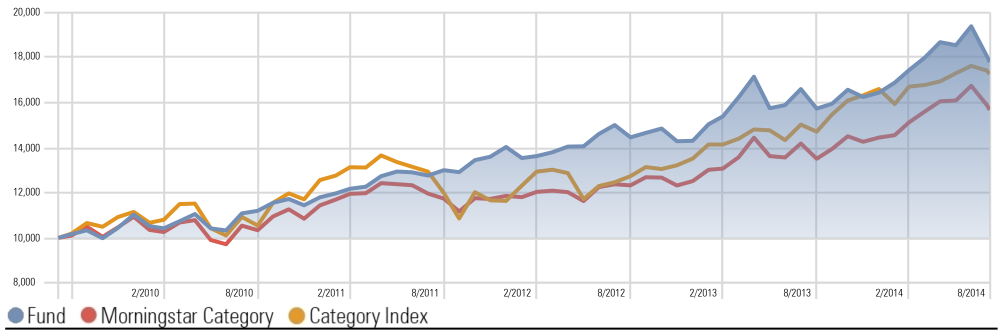
| Morningstar Category | Category Index | Prospectus Benchmark |
|---|---|---|
| US ETF Utilities | MSCI ACWI NR USD | MSCI US IMI/Utilities 25-50 GR USD |

## Style Map




## Performance

Time Period: 8/6/2009 to 8/5/2014



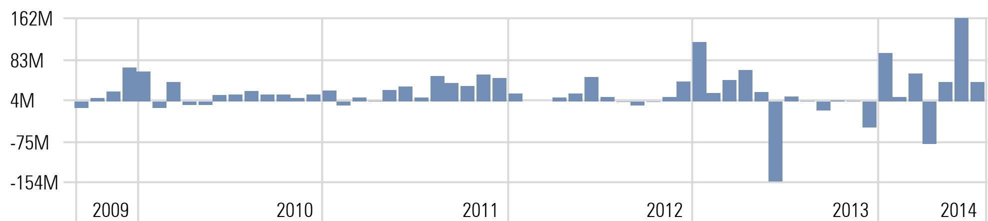

## Snapshot

| | |
|---|---|
| Inception Date | 1/26/2004 |
| Expense Ratio % | 0.14 |
| Assets (millions) | 1,702 |
| Avg Dly Vol (3 Mo) | 171,368 |
| 12 Month Yield % | 3.44 |
| Portfolio Date | 6/30/2014 |
| Distribution Freq | Quarterly |
| ETN | No |
| Replication Method | Physical-Full |
| Fund Lgl Structure | Open Ended Investment Company |

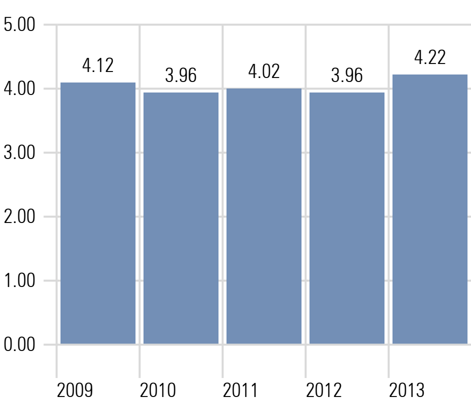
## Annual Returns %

| | 2009 | 2010 | 2011 | 2012 | 2013 | YTD |
|---|---|---|---|---|---|---|
| Vanguard Utilities ETF | 11.45 | 6.95 | 18.91 | 1.95 | 14.93 | 8.24 |
| MSCI ACWI NR USD | 34.63 | 12.67 | -7.35 | 16.13 | 22.80 | 3.99 |
| US ETF Utilities | 15.99 | 4.58 | 3.67 | 5.55 | 15.40 | 8.51 |

## Monthly Fund Flows (millions)




## Annual Income Return %




## Risk/Return Analysis (3 years)

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Standard Deviation % | 11.82 | 14.25 | 12.19 |
| Arithmetic Mean % | 1.02 | 0.91 | 0.84 |
| Sharpe Ratio | 1.03 | 0.76 | 0.86 |
| R-Squared | 6.29 | — | 29.79 |
| Beta | 0.21 | — | 0.44 |
| Alpha % | 9.96 | — | 5.29 |
| Treynor Ratio | 58.49 | — | 33.24 |
| Sortino Ratio | 1.55 | 1.16 | 1.39 |

# Suitability

By Robert Goldsborough 5/16/2014

Vanguard Utilities ETF VPU offers exposure to regulated utilities, diversified utilities, and unregulated power generators. VPU is a suitable satellite holding for investors seeking defensive exposure to the U.S. equity market and dividend income. The fund is currently yielding 3.6% and over the past few years, its yield has averaged around 4%. This ETF also can serve as a tactical bet on low interest rates and long-term growth in electricity demand.

Prior to 2000, utilities' reputation among investors was one of reliability and income generation, and not necessarily price appreciation. However, since that time, the long decline in interest rates arguably broadened utilities companies' investor base. However, since the yield spread--the difference between utilities companies' dividend yields and 10-year U.S. Treasury rates--began its compression in June 2012, utilities companies have meaningfully trailed the broader equity market. And longer-term, in a rising-rate environment, we would expect flat returns at best for utilities companies and underperformance when compared with other equity sectors. Higher rates generally make fixed-income instruments more attractive on a relative basis and make bondlike equities, such as utilities companies, less attractive.

Most utilities companies include debt as part of their capital structure, generally borrowing to fund capital expenditures and issuing dividends from retained earnings. Regulated utilities are by definition subject to regulators, who allow utilities companies to pay dividends, borrow for capital expenditures, and then raise rates to fund debt service. Payout ratios for utilities companies generally are in the 50%-60% range, with a very stable outlook for those ratios. Our analysts assign most regulated utilities narrow moats, as they have reliable cash-flow streams and some monopoly-like characteristics but also are subject to regulators. Our analysts assign no moat to unregulated utilities, which are effectively commodity producers with no differentiated characteristics.

This ETF's volatility is low. Over the past five years, this ETF's volatility of return of 10.9% is lower than the 13.5% that the S&P 500 Index has experienced.

# Vanguard Utilities ETF VPU

**Morningstar Rating™**
★★★

| Morningstar Category | Category Index | Prospectus Benchmark |
|---|---|---|
| US ETF Utilities | MSCI ACWI NR USD | MSCI US IMI/Utilities 25-50 GR USD |

## Fundamental View

Since the start of 2014, the utilities sector has significantly outperformed the broad U.S. equity market after lagging it (and every other U.S. equity sector) by a meaningful amount in 2013. Even so, 2013 was a historically good year for utilities companies, whose 14% total return was nearly twice the sector's long-term annual return.

Extreme winter weather has helped utilities companies, particularly gas utilities. However, this year's outperformance likely is the result of sector rotation (and the sector playing "catch-up" relative to other sectors), very temporary but favorable weather trends, and lower interest rates. Historically, interest rates have had a major impact on utilities companies, which tend to outperform other equity sectors in declining-rate environments or low-rate environments. Despite many economists' prognostications to the contrary, thus far this year, interest rates actually have fallen slightly, helping utilities.

Higher interest rates remain a concern for utilities firms. Morningstar's equity analysts believe that investors currently are pricing in a 4% 10-year U.S. Treasury yields, so we don't expect a substantial move in utilities if rates hit that level. Our analysts believe investors will continue to realize 7%-8% total returns from the sector on a normalized basis regardless of the direction in which interest rates move. And if Treasury rates stabilize closer to 3%, utilities actually could outperform the market. If rates rise, our analysts expect flat returns for utilities and underperformance relative to other U.S. equity sectors.

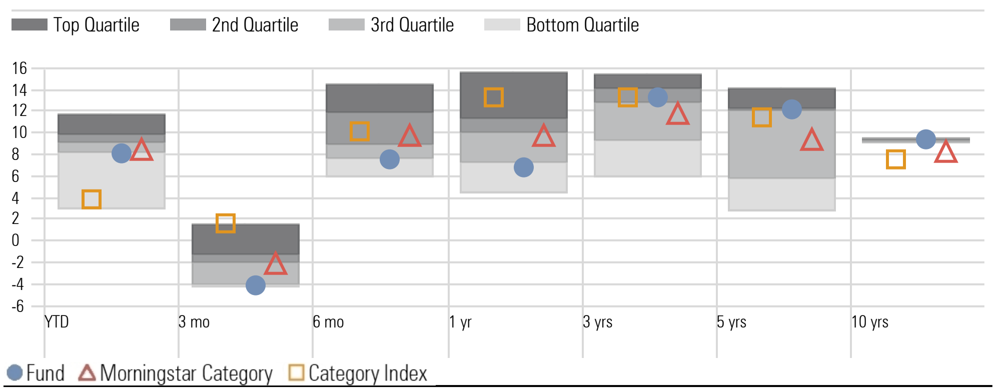
Utilities companies' fundamentals have remained strong. Most utilities have strengthened their earnings profiles and balance sheets by taking advantage of low-cost borrowing and rich market prices. We see no wholesale threats to dividends across the sector.

Several dynamics that utilities-sector investors should watch closely include continued low electricity demand, the impact of low natural gas prices on higher-cost coal and nuclear plants (and broadly, on unregulated power producers), and new environmental regulation, which could result in coal plant closures, reduced emissions, and increased capital investments. In the medium term, new environmental regulation could have the effect of taking plants off line, resulting in power shortages, higher power prices, and a boost for diversified utilities and independent power generators over the next five to 10 years.

To cope with low power prices in the short run, diversified utilities and independent power producers continue to pursue mergers and acquisitions to improve cost efficiency and geographic diversification and to expand into new growth markets. Good-sized recent deals include Exelon's EXC proposal to acquire Pepco POM, Berkshire Hathaway's BRK.A December 2013 acquisition of NV Energy, Exelon's acquisition of Constellation Energy, UIL Holdings' UIL bid for Philadelphia Gas Works, TECO Energy's proposed purchase of New Mexico Gas, and NRG Energy's NRG acquisition of GenOn Energy. (Another big merger was Northeast Utilities' NU purchase of NSTAR, but those are both regulated utilities, so the merger had nothing to do with power prices and everything to do with cost efficiencies.) If power prices remain low, industry consolidation will likely continue.

### Trailing Returns Relative to Peer Group %

Peer Group (5-95%): Exchange Traded Funds - U.S. - Utilities




| | YTD | 3 mo | 6 mo | 1 yr | 3 yrs | 5 yrs | 10 yrs |
|---|---|---|---|---|---|---|---|
| Vanguard Utilities ETF | 8.24 | -4.02 | 7.64 | 6.94 | 13.32 | 12.22 | 9.49 |
| MSCI ACWI NR USD | 3.99 | 1.69 | 10.16 | 13.28 | 13.40 | 11.55 | 7.72 |
| US ETF Utilities | 8.51 | -1.90 | 9.81 | 9.87 | 11.85 | 9.41 | 8.40 |

### Morningstar Fundamental Analysis

| | |
|---|---|
| Fair Value Estimate | — |
| Valuation Rating | — |
| Price/Fair Value | 1.00 |
| # of Holdings Covered | 47 |
| # of Holdings | 80 |

### Economic Moat %

| | |
|---|---|
| Wide Moat | 5.06 |
| Narrow Moat | 79.49 |
| No Moat | 4.59 |

### Fundamental Ratios

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Net Margin % | 9.03 | 13.93 | 9.52 |
| Return on Equity % | 9.30 | 17.75 | 11.61 |
| Return on Assets % | 2.61 | 6.96 | 2.85 |
| Debt to Capital % | 52.58 | 33.74 | 58.33 |

### Value and Growth Measures

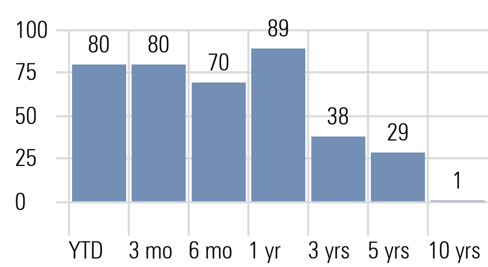
| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Price/Proj. Earnings | 20.76 | 16.80 | 20.73 |
| Price/Book | 1.82 | 1.99 | 2.10 |
| Price/Sales | 1.66 | 1.34 | 1.63 |
| Price/Cash Flow | 7.27 | 9.71 | 7.74 |
| LT Earnings Growth % | 5.25 | 10.55 | 7.21 |
| Sales Growth % | -0.48 | -22.66 | 0.16 |
| Cash Flow Growth % | 0.62 | 4.22 | 3.33 |
| Book Value Growth % | 3.78 | -23.37 | 3.70 |

### Market Performance Statistics

Time Period: 1/27/2004 to 8/5/2014

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Up Capture Ratio % | 68.89 | 100.00 | 79.76 |
| Down Capture Ratio % | 64.04 | 100.00 | 76.74 |
| Max Drawdown % | -46.26 | -58.38 | -50.70 |
| Max Gain % | 193.26 | 182.77 | 160.57 |
| Best Month % | 7.31 | 11.80 | 8.84 |
| Worst Month % | -12.90 | -19.82 | -16.51 |

### Total Return Percentile Rank in Category






MORNINGSTAR®

# Vanguard Utilities ETF VPU

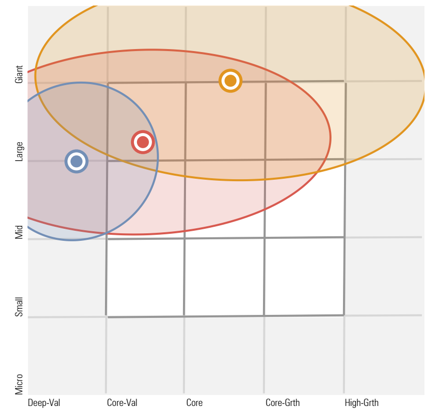
Morningstar Rating™ ★★★

| Morningstar Category | Category Index | Prospectus Benchmark |
|---|---|---|
| US ETF Utilities | MSCI ACWI NR USD | MSCI US IMI/Utilities 25-50 GR USD |

## Portfolio Construction

The fund tracks the MSCI US Investable Market Utilities 25/50 Index by owning every stock in the index. This benchmark includes all companies that have a GICS utilities sector classification from the MSCI US Investable Market 2500 Index, which represents 98% of the total U.S. stock market. The index provider follows a modified cap-weighting approach that limits individual constituents to 22.5% of the portfolio. Additionally, the combined weight of all companies over 4.5% may not exceed 45% of the index. This cap-weighting approach allows funds that track this index to conform to IRS requirements that allow them to receive favorable tax treatment. While it's not surprising that large caps represent the majority of the fund's assets (53.5%), mid-caps also represent a significant chunk of the portfolio (38%). As a result, the portfolio's average market cap is only $15.6 billion. Top subindustry weightings belong to electric utilities (52.5%), diversified utilities (34%), and gas utilities (6.5%). Independent power producers and energy traders only account for 4.5% of the portfolio, while water utilities are just 2.5%.

### Holdings Based Style Map



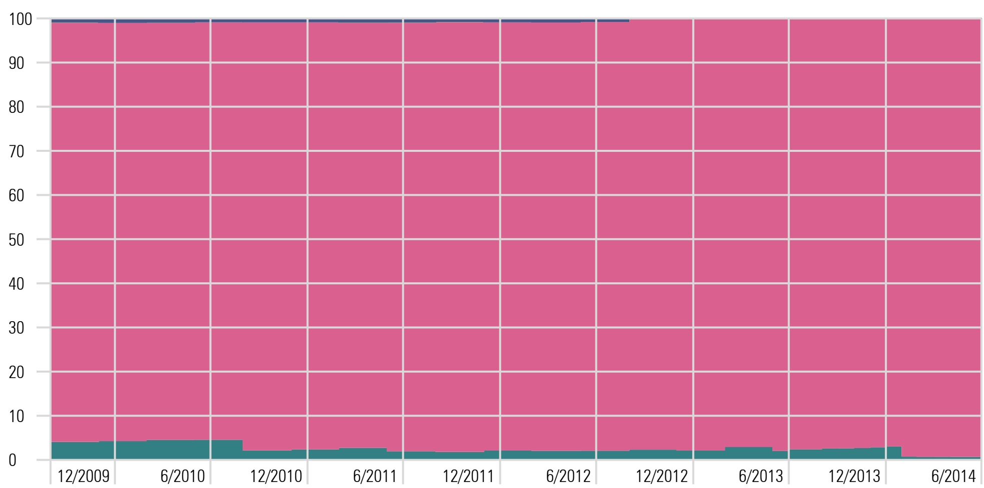

Fund Morningstar Category Category Index

| | ETF | Cat Index | Cat Avg | | ETF | Cat Index | Cat Avg |
|---|---|---|---|---|---|---|---|
| Avg Market Cap (mil) | 15,781 | 44,566 | 20,079 | Turnover Ratio % | 7.00 | — | 20.19 |
| 12 Month Yield % | 3.44 | — | — | % Asset in Top 10 | 47.46 | 8.25 | 51.02 |
| Market Price | 87.73 | 187.68 | — | # of Holdings | 80 | 2,446 | 471 |

### Market Cap %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Giant | 0.00 | 52.74 | 10.69 |
| Large | 54.86 | 34.83 | 48.64 |
| Mid | 35.97 | 12.35 | 33.96 |
| Small | 8.50 | 0.05 | 6.41 |
| Micro | 0.67 | 0.03 | 0.31 |

### Equity Sector Breakdown History




### Current Equity Sector Breakdown %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| Basic Materials | 0.00 | 6.25 | 0.08 |
| Consumer Cyclical | 0.00 | 10.50 | 0.55 |
| Financial Services | 0.00 | 18.85 | 0.13 |
| Real Estate | 0.00 | 2.72 | 1.01 |
| Consumer Defensive | 0.00 | 9.71 | 0.00 |
| Healthcare | 0.00 | 10.67 | 0.00 |
| Utilities | 99.19 | 3.31 | 69.50 |
| Communication Services | 0.00 | 4.98 | 11.45 |
| Energy | 0.81 | 10.12 | 14.33 |
| Industrials | 0.00 | 10.51 | 2.74 |
| Technology | 0.00 | 12.37 | 0.21 |

### Top 10 Holdings

Portfolio Date: 6/30/2014

| | Ticker | Portfolio Weighting % |
|---|---|---|
| Duke Energy Corporation | DUK | 7.61 |
| NextEra Energy Inc | NEE | 6.48 |
| Dominion Resources Inc | D | 6.04 |
| Southern Co | SO | 5.85 |
| Exelon Corp | EXC | 4.54 |
| American Electric Power Co Inc | AEP | 3.95 |
| Sempra Energy | SRE | 3.54 |
| PPL Corp | PPL | 3.25 |
| PG&E Corp | PCG | 3.19 |
| Public Service Enterprise Group Inc | PEG | 3.00 |

### Equity Region %

| | ETF | Cat Index | Cat Avg |
|---|---|---|---|
| North America | 100.00 | 52.20 | 86.40 |
| Latin America | 0.00 | 1.93 | 0.87 |
| Japan | 0.00 | 7.41 | 0.60 |
| Australasia | 0.00 | 2.87 | 0.73 |
| Asia Developed | 0.00 | 4.64 | 0.51 |
| Asia Emerging | 0.00 | 3.50 | 0.50 |
| United Kingdom | 0.00 | 8.13 | 3.89 |
| Europe Developed | 0.00 | 17.19 | 5.57 |
| Europe Emerging | 0.00 | 1.00 | 0.61 |
| Africa/Middle East | 0.00 | 1.13 | 0.31 |

# Vanguard Utilities ETF VPU

**Morningstar Rating™**
★★★

| **Morningstar Category** | **Category Index** | **Prospectus Benchmark** |
|---|---|---|
| US ETF Utilities | MSCI ACWI NR USD | MSCI US IMI/Utilities 25-50 GR USD |

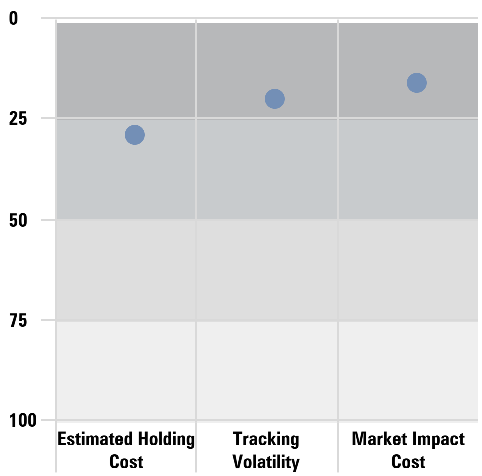
## Fees

The fund charges a reasonable 0.14% expense ratio, which is lower than its closest peer of any size (Utilities Select Sector SPDR XLU, which levies an annual fee of 0.16%). Partially as a result of its low fees, VPU has tracked its benchmark closely since inception.

### Expenses

| | ETF | Cat Avg |
|---|---|---|
| Gross Expense Ratio % | 0.14 | 0.42 |
| Net Expense Ratio % | 0.14 | 0.41 |
| Expense Waiver | — | — |
| Expense Waiver Expiration Date | — | — |
| Expense Waiver Type | — | — |
| Prospectus Date | 12/23/2013 | — |

### Percentile Rank Relative to ETF Universe




### Total Cost Analysis Data Points

| | |
|---|---|
| Estimated Holding Cost % | 0.15 |
| Tracking Volatility % | 0.03 |
| Market Impact Cost % | 0.00 |

**Estimated Holding Cost** is essentially the difference between the ETF return and the benchmark return and represents the realized cost of replicating the benchmark. Lower costs indicate that the ETF is doing a better job of matching its benchmark while minimizing costs.

**Tracking Volatility** measures the uncertainty with which an ETF tracks a benchmark. A higher tracking error indicates a wider confidence interval for expected performance around the benchmark. Lower numbers and ranks are better.

**Market Impact Cost** represents the liquidity of the ETF and is based on the average market price movement in percent caused by a $100,000 trade in the ETF. Calculated as the residual volatility unexplained by movements in NAV and the previous day's premium or discount, scaled by average dollar volume traded. Lower numbers and ranks are better.

## Alternatives

Utilities Select Sector SPDR XLU is a more liquid, though less diversified, alternative. It invests in all 30 utilities companies in the S&P 500 Index. This approach gives XLU a stronger large-cap tilt and more concentrated portfolio than VPU. XLU's top 10 holdings account for more than 59% of its portfolio. Despite its more concentrated portfolio, XLU has not experienced significantly greater volatility than VPU over the past five years. During that period, these funds were nearly perfectly correlated. While XLU's 0.16% expense ratio is comparable to VPU, its asset base and trading volume are substantially higher, which tends to make it a better option for large traders. XLU also offers a more attractive dividend yield.

IShares U.S. Utilities IDU is a more expensive alternative. Its fees take a 0.45% bite out of the fund's returns each year. For this hefty price, investors get a portfolio of 62 large-, mid-, and small-cap stocks in the Dow Jones Utilities Index. However, more than 95% of IDU's assets overlap with VPU. IDU also has fewer assets than VPU. Therefore, we'd recommend either VPU or XLU over IDU.

A recently launched and very inexpensive option is Fidelity MSCI Utilities Index ETF FUTY, which charges 0.12%. However, FUTY has minimal assets and is thinly traded. FUTY tracks a slightly different index from Vanguard Utilities ETF; FUTY tracks the MSCI USA IMI Utilities Index, while VPU tracks the MSCI US Investable Market Utilities 25/50 Index. Fidelity customers with a minimum balance of $2,500 can buy FUTY commission-free, although they are subject to a short-term trading fee by Fidelity.

### Operations

| | |
|---|---|
| Longest Tenured Manager | Michael D. Eyre |
| Manager Tenure (Longest) | 3.67 |
| Manager Tenure (Average) | 3.67 |
| Exchange | NYSE ARCA |
| Web Address | www.vanguard.com |

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