Seeking Alpha α

Vanguard Announces More Cheap International Exposure

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News from MarketWatch yesterday of Vanguard about to fire another shot across the bow and as usual, it's more of a shotgun approach than a rifle. It's broad access to the international space with nothing new but the same old EAFE exposures we've had from ETFs like iShares MSCI EAFE Index Fund (EFA). But unlike BGI's offering with a 35bps MER, this new fund from Vanguard (VEA) will sit at 15bps.

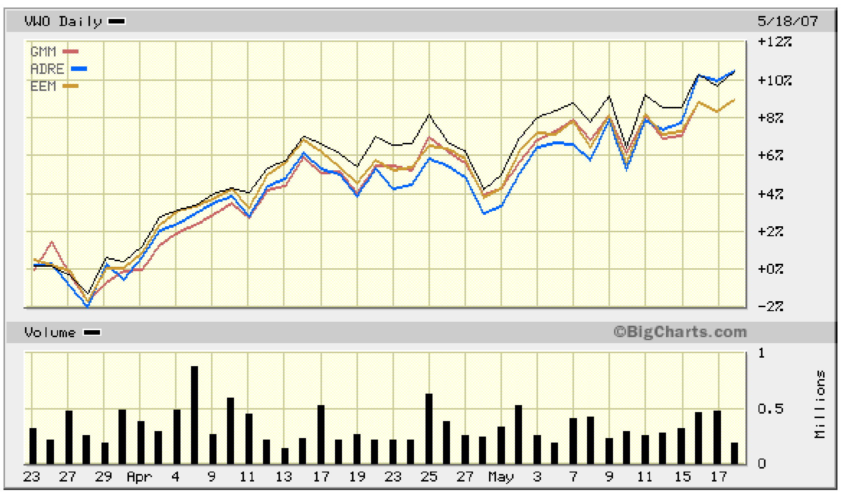
Vanguard already allows investors cheap international exposure to Europe and the Far East (Vanguard European ETF (VGK) and Vanguard Pacific ETF (VPL) respectively) both at 18bps but this new ETF will allow international exposure in one position. With the ETF world having focused in recent years on the narrowest of regions and sectors, we're now seeing quite a few product launches for broader international exposures.

For example, SSGA now has three ETFs allowing for very broad international exposure:

- The SPDR S&P World ex-US ETF (GWL) covers most of world outside of the US market. The underlying index is the S&P/Citigroup BMI World Ex US Index. This ETF has roughly 670 holdings and has an MER of 35bps.
- The SPDR S&P International Small Cap ETF (GWX) does the same as CWI but limits holdings to small cap equities. The underlying index is the S&P/Citigroup World Ex US Range < 2 Billion USD Index. This ETF has roughly 500 holdings and has an MER of 60bps.
- The SPDR MSCI ACWIsm ex-US ETF (CWI) is very similar to CWI in most respects except the underlying index is the MSCI ACWIsm ex USA Index. This ETF has roughly 680 holdings and has an MER of 35bps.

These SSGA funds allow for some (although not much) exposure to emerging markets while EFA and Vanguard's new offering do not. Focusing on the large cap exposures (GWL and CWI) from SSGA, in general, you're getting greater diversification from these compared to the BGI and Vanguard offerings which both track the MSCI EAFE Index. According to the iShares website, this factsheet for EFA shows that the three top country exposures are the UK (23.11%), Japan (22.29%) and France (9.46%). A total of about 55% in these three countries. Based on the SSGA website, GWL and CWI have the same top three countries but with decreased weights. Both GWL and CWI have about 45% in these three countries. I don't see that significant a divergence among these funds in terms of general country and sector allocations.

Of course, many investors will want to make their own decision on how to split the developed and developing world within their portfolio. SSGA has recently launched a broad emerging market ETF (GMM) as well as five regional emerging market ETFs but with all of them at a 60bps MER, they like iShares MSCI Emerging Markets Indx (EEM) (75bps) are relatively expensive compared to Vanguard's Emerging Market ETF (VWO) at 30bps. I think it's worthwhile to explore the SSGA site to dig into their new emerging market ETFs as it allows investors to implement asset mix decisions within the emerging markets space and I've discussed this area a few months back here. SSGA's emerging market ETFs weren't available until the middle of March 2007 so they weren't a part of that February posting but as you can see from this chart, the four broad emerging market ETFs track closely with a few times when the month-to-month return difference is rather significant.



I should also note that Vanguard has a competitor to SSGA's GWL and CWI in their Vanguard FTSE All-World ex-US ETF (VEU). According to Vanguard's website, VEU holds about 1,500 stocks (overkill?) yet is quite similar in terms of asset mix to the international funds from SSGA. Again, I find the same top three country exposures for its underlying index as the UK (17.3%), Japan (15.7%) and France (8.6%). But SSGA's funds are at 35bps and VEU is at 25bps. In general, it looks like Vanguard is the cheapest with the broadest international exposure. Was there ever any doubt?

VEU began trading earlier this year so this chart goes back as early as will allow analysis of it versus the other broad international ETFs I've mentioned above (Note: SSGA's GWL was not available until April 20, 2007 so I've excluded it here just so that it won't be a one month chart).

A tighter group but again some spread in time. I don't want to comment too positively on the good performance of Vanguard in both charts above, but if international exposure is a long-term hold for you, then the effects of fees and the benefits of diversification should allow consideration for Vanguard's VEU and VWO as core holdings.

Many may disagree, but on top of these two core holdings, I would overlay some active tilting using a VGK/VPL combination for the developed world as well as SSGA's new emerging market ETFs for the developing world.