

Memo



To: FELRA Pension Investment Committee:
George Murphy, David Blitzstein, Ward Kraemer,
Jeff Champion
CC: Bill Jensen, Barry Slavin, Harry Burton
From: Richard Sichel and David Russell
Investment Performance Services
Date: July 23, 2013
Re: **Index Fund Providers**

As a follow up to the July 8, 2013 Investment Committee teleconference meeting, Investment Performance Services (IPS) has undertaken a review of index fund providers for:

- A Total U.S. Stock Market Index mandate with an initial investment of \$22 million (proceeds from the NWQ liquidation);
- A Developed non-U.S. Stock Market Index mandate for \$30 million;
- An Emerging Markets Index mandate for approximately \$30 million.

IPS recommends Vanguard as the index fund provider.

PNC does not provide index funds for the desired mandates. Other large custodian banks which offer the desired benchmarks, such as SSgA and BNYMellon, have very high minimum fees that would result in uncompetitive fees for assets in the \$5 to \$20 million range.

Vanguard's fees for their Institutional Share Class (accounts of \$5 million or more) offers the most competitive fees. Should account balances fall below the \$5 million minimum, Vanguard offers both ETFs and Admiral Share Class funds that would still be cost effective. Blackrock's iShares ETF fees are shown for comparative purposes.

We would note that in prior reports IPS recommended Russell and MSCI sponsored index benchmarks for the index products. The Vanguard and Blackrock products use different, but essentially equivalent, benchmarks. They have selected alternative benchmark providers to reduce benchmark licensing fees and to keep overall fees to a minimum. IPS is comfortable with and recommends the use of these alternative benchmarks.

Index Fund Fee Comparison

<u>Mandate</u>	Vanguard Institutional Shares*		Vanguard Admiral Share**		Vanguard ETF		Blackrock iShare ETF	
	<u>Ticker</u>	<u>Fees</u>	<u>Ticker</u>	<u>Fees</u>	<u>Ticker</u>	<u>Fees</u>	<u>Ticker</u>	<u>Fees</u>
Total U.S. Stock Market	VITSX	0.04%	VTSA	0.05%	VTI	0.05%	ITOT	0.07%
Developed non-U.S. Stock Market	VIDMX	0.07%	VDMA	0.10%	VEA	0.10%	IEFA	0.14%
Emerging Markets	VEMIX	0.12%	VEMA	0.18%	VWO	0.18%	IEMG	0.18%

Vanguard has recently benchmarked all of their index funds and ETFs to the Center for Research on Securities Prices (CRSP) Indices for U.S. equity products and use the FTSE indices for all of their non-U.S. equity products. Blackrock iShares use the S&P Composite 1500 Index for total U.S. equity and the MSCI indices for non-U.S. equity.

* Vanguard Institutional Share Class requires a \$5 million minimum.

** Vanguard Admiral Share Class requires a \$10,000 minimum.