

Vanguard Research Insight

Investors are “voting with their feet” on costs

Vanguard research | August 2019

Investors in low-cost funds are keeping more of what they pay for

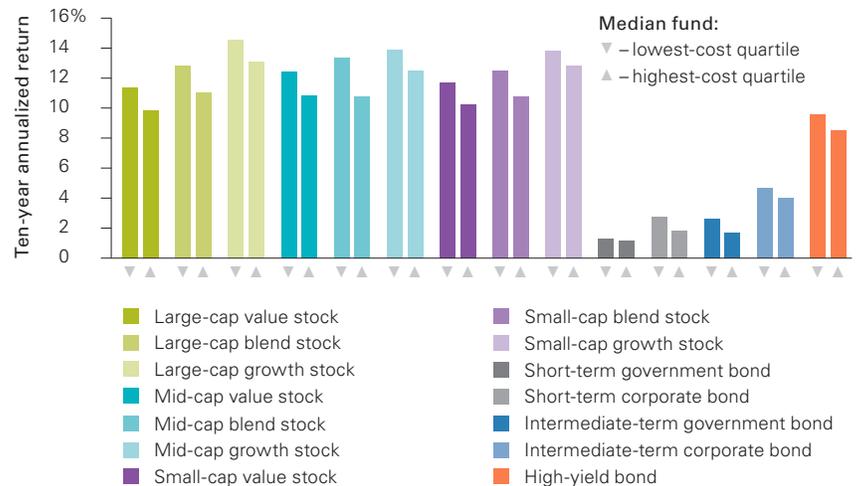
The message from investment research is clear: Don't assume that you'll get more if you pay more. You can't control the markets, but you can control the amount you pay to invest. Lower costs allow you to keep a greater share of an investment's return.

Over the ten-year period ended December 31, 2018, low-cost funds outperformed high-cost funds. So it's not surprising that investors frequently say that fees are an important consideration when buying a mutual fund.

Note: Data are as of December 31, 2018.

Source: Vanguard.

Difference in ten-year annualised return between median funds in lowest- and highest-cost quartiles



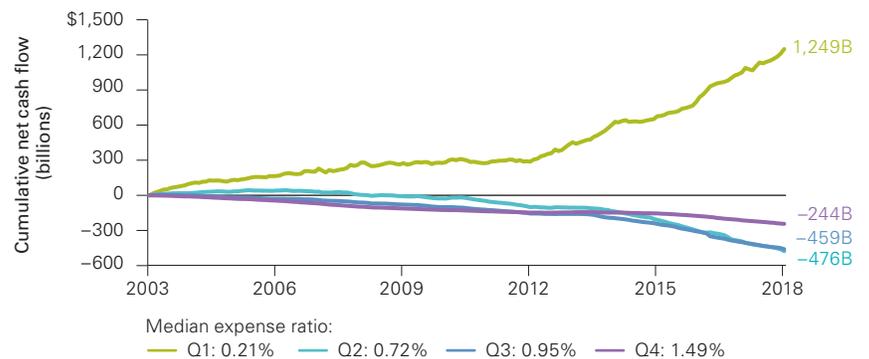
For more than ten years, investors have been favoring low-cost equity funds

Investors are increasingly gravitating toward low-cost options. The equity funds with expense ratios in the lowest quartile attracted \$1.25 trillion over the last 15 years, while funds with higher expense ratios suffered net outflows.

Notes: Expense-ratio quartiles were calculated annually. Equity funds are represented by Morningstar's U.S. equity category. Each quartile represents 2018 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data are as of December 31, 2018.

Source: Vanguard.

Relationship between net cash flow and expense-ratio quartile of U.S. equity funds and ETFs



Investors' preference for low-cost bond funds is clear

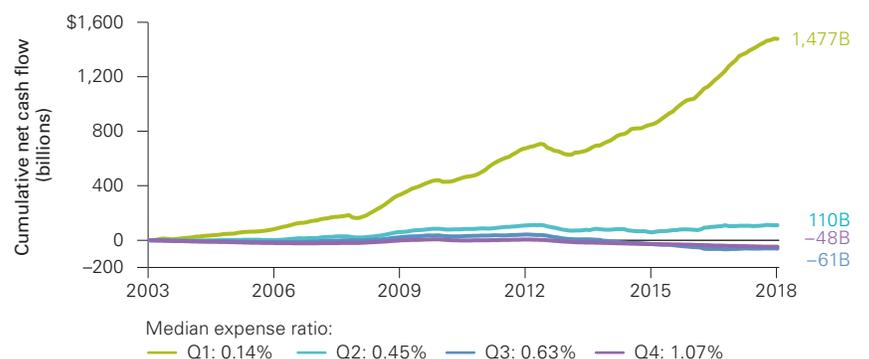
Nearly 100% of net cash flows into taxable bond funds went to low-cost options.

Clearly, the low-cost message has been received by investors in both equities and bonds.

Notes: Expense-ratio quartiles were calculated annually. Fixed income funds are represented by Morningstar's investment-grade U.S. fixed income categories. Each quartile represents 2018 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data are as of December 31, 2018.

Source: Vanguard.

Relationship between net cash flow and expense-ratio quartile of U.S. fixed income funds and ETFs



More about Vanguard's cash flow research.

The focus and efforts of the Vanguard Advisor's Alpha® Research team are centered on the value of advice and advisors, which requires an in-depth knowledge of investor behavior. The team has long tracked industry net cash flows to develop insights into what investors, collectively, are doing with a substantial portion of investable assets.¹ The goal is to provide insight on the actual behavior of investors (individuals, households, committees,

financial advisors, and consultants) that can help improve investor decision-making and outcomes. The findings have been leveraged in our research, beginning with our seminal piece, *Vanguard Advisor's Alpha*, and including *The Evolution of Vanguard Advisor's Alpha: From Portfolios to People* and Vanguard's risk speedometers.

¹ According to data from Morningstar, Inc., assets under management for U.S. open-end mutual funds, money market funds, and ETFs totaled \$20.0 trillion as of December 31, 2018.

Connect with Vanguard™ > vanguard.com.au > 1300 655 102

Vanguard Advisor's Alpha® research team

Francis M. Kinniry Jr., CFA
Donald G. Bennyhoff, CFA

UK-Europe

Georgina Yarwood

Americas

Michael A. DiJoseph, CFA
Yan Zilbering
Christopher Celusniak

This paper includes general information and is intended to assist you. Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) is the product issuer. We have not taken your or your clients' circumstances into account when preparing this document so it may not be applicable to the particular situation you or your client are considering. You should consider your and your clients' circumstances, and our Product Disclosure Statements ("PDSs"), before making any investment decision or recommendation. You can access our PDSs at vanguard.com.au or by calling 1300 655 101. Past performance is not an indication of future performance. This document was prepared in good faith and we accept no liability for any errors or omissions.

CFA® is a registered trademark owned by CFA Institute.



Vanguard Research

Level 34, 2 Freshwater Place
Melbourne 3006

© 2019 Vanguard Investments Australia Ltd.
All rights reserved.

ISGIVFAU 082019