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February 6, 2009

Vanguard Closes Treasury Money Funds

Vanguard filed notice with the SEC on January 26 that it has closed its two Treasury money market funds to new investors. They first had closed off the funds to new defined benefit plans in December and now they have been shuttered completely. Those who are already in the funds can continue to invest new monies, but there will be no new accounts opened, Vanguard says. It's interesting that Vanguard chose to close the funds after two months in which investors actually took more money out than they put in. We estimate that the two Treasury funds saw a combined net outflow of approximately \$1.5 billion in November and December.

Still, it's all in the yield, and yields on the two Treasury funds fell all through 2008 and have continued their decline in 2009. At January's end, the 7-day yield on Admiral Treasury Money Market was 0.61%, while the yield on Treasury Money Market was 0.44%. By contrast, Prime Money Market's yield was 1.57%.

As other fund companies like Schwab and TD Ameritrade have been using fee waivers to keep yields in the plus column, Vanguard has been able to use its low-expense-ratio advantage to full effect. Still, while the 3-month T-bill yield has risen 11 basis points through the first month of 2009, the Treasury funds' yields have fallen 30 to 40 basis points.

We continue to believe that Vanguard investors should invest in the highest-yielding money fund the firm offers depending on their tax situation. Both Prime Money Market and the tax-exempt money funds are superbly run, very low cost, and super-safe.

Vanguard Makes Another Change at the Top

Vanguard is making another big management change on March 1, yet few investors have heard about it. And don't expect to see anything in shareholder reports over the next few months, either.

Joseph Brennan (no relation to Chairman Jack Brennan), head of the

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Portfolio Review Department, is leaving for the land down under, where he'll become chief investment officer for Vanguard's Australia division. Brennan is being replaced by Chris D. McIsaac.

While neither Brennan nor McIsaac manages money directly, the Portfolio Review Department is the managers' manager, responsible for hiring, overseeing and firing the outside firms that run many of Vanguard's best, and worst, funds.

Under Brennan, Vanguard hired, fired, and sometimes did both to firms such as Acadian Asset Management, Equinox Capital Management, GMO, Kalmar Investments, Provident Investment Counsel, Tukman Capital Management and Turner Investments, to name just a few.

McIsaac is a Harvard MBA who most recently ran Vanguard's institutional business and was also involved in the introduction of Vanguard's first exchange-traded fund. He joined Vanguard in 1997.

The Portfolio Review Department's work is done behind the scenes, but it has a huge role in the success or failure of Vanguard's actively managed funds. We'll have to see if the changing of the guard makes a difference in fund performance or manager turnover.

Fidelity Manager Moves

Over the past several weeks, Fidelity has made a number of routine manager changes, none of which should be of concern to investors in the affected funds.

As of February 4th, William Bower became manager (for the second time) of Advisor Diversified International, succeeding Penelope A. Dobkin, who is retiring after 29 years with the firm. Based on Chief Investment Strategist Jim Lowell's proprietary manager ranking system, this change is a slight step up for the fund, as Bower was ranked fifth of Fidelity's 17 international managers through 2008, while Dobkin was sixth. Bower will continue to manage Diversified International, where he has held the reins since 2001. Bower started out as a summer intern with Fidelity in 1993, joining the firm the following year as an analyst following the building materials, housing, recreational vehicle, manufactured-housing, mortgage banking and household products industries. He managed Select Construction & Housing from 1994 to 1996. In 1996, Bower moved to Fidelity's international group as an equity analyst, and subsequently served as sector leader of international research, spearheading the globalization effort of Fidelity's international research analysts. He managed International Growth & Income Fund from 1998 to 2001, and Advisor Diversified International from 2001 to 2004. He also co-managed Advisor Global Capital Appreciation from 2004 until 2006.

Adam J. Kutas was named manager of the Latin America and Advisor Latin America funds (his second stint on both funds), succeeding Brent B. Bottamini, who has been reassigned to an analyst position and is now covering emerging markets companies. Kutas will continue to manage both the investor and Advisor share classes of the Emerging

Europe, Middle East and Africa (EMEA) fund, which he has managed since inception last year. Kutas joined Fidelity International Canada Unlimited (FICU) in 1996 as a research analyst, and managed FICU's fund analysis and research group from 1997 to 1999. He then moved to Boston and joined the Canadian Equity research team, following Canadian equity securities across a variety of sectors, while also managing Canadian portfolios available exclusively to foreign investors. In 2004, Kutas joined the Latin America research team, and followed companies in the banking, energy, mining, paper, steel, and transportation industries. He previously co-managed Latin America and Advisor Latin America from 2005 until 2006, when he moved to Fidelity's London office. Prior to joining Fidelity, Kutas spent two years in Hong Kong with two firms, BZW Investment Management and Richmond Asia Pacific Ltd., from 1994 to 1996. He started his career in 1992 as a stock expeditor in the Canadian Equity Clearing group for RBC Dominion Securities in Toronto.

As of January 23rd, Stephen R. Petersen took over as manager of Equity-Income II and Advisor Equity Income, succeeding C. Robert Chow. Chow ranked six spots higher on Jim's year-end manager rankings than Petersen (where they were 13th and 19th among Fidelity's 39 broad domestic equity managers, respectively), but we doubt investors will see any significant drop off in performance due to the change. Petersen will continue to manage sister funds Equity-Income and VIP Equity-Income. He joined Fidelity in 1980 as a research analyst covering the airline and insurance industries. In 1985, he began managing large-cap value portfolios for institutional clients. From 1996 to 1997, he managed Balanced. He was named manager of Equity-Income in 1993 and VIP Equity-Income in 1997. From 2000 until 2008, he also managed Puritan.

Steven C. Calhoun was appointed manager of Mid Cap Growth (Advisor shares as well), succeeding Patrick L. Venanzi, who was moved to an analyst position in the small-cap research group following the health care sector. Calhoun will continue to manage Aggressive Growth, Advisor Aggressive Growth and VIP Aggressive Growth, each of which he has managed since 2005. Calhoun joined Fidelity's equity research group in 1994 following specialty chemical companies and other cyclical industries. From 1997 to 1999, he was director of associate research and was responsible for recruiting, mentoring and training research associates within the equity division. He got his start managing funds in 1999 with Select Retailing going on to manage a number of Fidelity's health-care funds through 2004, while also serving as sector leader for the health-care equity research group. In 2005, Calhoun served as co-manager on Mid-Cap Stock.

Steven S. Wymer is now manager of Advisor Growth Opportunities and VIP Growth Opportunities, succeeding John R. Porter III. This change should be of benefit to investors, as Wymer ranked very highly on Jim's manager rankings—fourth out of the 39 broad domestic equity managers ranked at year's end, while Porter came in last. Wymer will continue to manage Growth Company, which he has managed since 1997. He joined Fidelity in 1989 as an equity research analyst following the chemical, automotive parts and leisure durables

industries. In 1990, he was named portfolio manager for Select Automotive, which he managed through 1992. Wymer also managed Select Chemicals from 1993 to 1994. In 1995, he was named portfolio manager of Dividend Growth, which he managed until 1997.

About Adviser Investments

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