ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

June 11, 2010

International Explorer Goes Multi

On Wednesday, June 9, Vanguard announced it was adding a new advisory team from Wellington Management to International Explorer, which had previously been run solo by Schroder Investment Management since its 1996 inception. Incidentally, this was the last of Vanguard's actively managed international funds to employ a single management team; now, all four have at least two or more teams running the portfolios.

Simon H. Thomas will head up the four-person team responsible for Wellington's portion of assets. Thomas has been with the firm since 2002, working with their international small cap equity team and has been a co-manager on the Hartford International Small Company fund since 2006, which has performed very similarly to International Explorer under his tenure.

We don't see the addition of this new team having a great impact on the fund in the near future as, at first, Thomas and his team will only be taking on a portion of International Explorer's current cash position (about 4% of assets) as well as a chunk of any new money flowing into the fund. This should keep the Wellington team's portion of assets (and thus, influence over performance) relatively small for now.

So while we don't view this addition as an immediate downgrade, we aren't thrilled by the fund adopting a multi-manager approach either. We view the addition of multiple management teams to a fund in a generally negative light, as we feel it dilutes performance and rarely improves the quality of the fund.

More Managers for Your Buck—Good Value?

As Richard Fentin, the longtime manager of Fidelity's Value fund, prepares to retire from active fund management in August, Fidelity has implemented a transition process that has seen six new managers assigned to the fund.

The first to join Fentin in managing the fund was Matthew Friedman at the beginning of May, when Fentin's retirement plans were first

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revealed. Friedman has been with Fidelity since 1999, having worked his way up from a summer intern to a research analyst to a fund manager (past assignments include Select Multimedia, Select Chemicals, Select Cyclical Industries, Select Natural Gas, Select Energy, Select Natural Resources and Value Strategies). Friedman also manages Balanced (Advisor class too), VIP Contrafund and the Series All-Sector Equity fund.

This kind of a transitional co-management set-up is the norm at Fidelity (and throughout the industry as a whole), but the firm added a new twist at the beginning of June, when it announced it was handing a portion of the fund's assets to a group of five managers, each of whom will be responsible for one or more market sectors, taking a sector neutral approach. The team consists of Shadman Riaz, Stephen Barwikowski, John Mirshekari, Laurie Bertner and James Justin Bennett, all of whom, with the exception of Bertner, also manage or have managed other funds. Barwikowski has managed Select Electronics since the beginning of 2009, Bennett cut his teeth on Select Paper and Forest Products (he no longer manages it, however), Mirshekari currently manages Select Transportation and Select Air Transportation (both since 2009), and Riaz manages Small Cap Independence and Series Small Cap Opportunities (started at both near the end of 2009).

Fidelity may have decided to take a new approach with Value, a fund we've invested in on behalf of our clients in the past, due to its benchmark lagging performance of late (it has fallen behind its Russell MidCap Value bogey over the one-year, three-year, five-year and 10-year periods through the end of May). And while each member of the five-person team just added to the fund has a relatively short track record and don't show up in our proprietary Manager Ranking System yet, both Friedman and Fentin do. For his work on Value Strategies, Friedman was ranked as the tenth best of 34 Fidelity growth/growth and income managers through the end of 2009. Fentin came in at the 24th position out of 34, so by that reckoning, Friedman should be an upgrade on his portion of the fund. As to how successful the six managers can work together as a whole, we'll have to see, but there is certainly some room for improvement.

Off-Target Investing
Vanguard announced at the beginning of this month that it was expanding its lineup of Target Retirement funds to include a twelfth fund; Target Retirement 2055. While this might excite retirement plan managers (where these funds are most popular), for most investors, this should pass as a non-event.

We've discussed life-cycle funds and Vanguard's Target Retirement series in this space a number of times in the past, but here's a quick refresher: Life-cycle funds attempt to provide a one-stop, one-size-fits-all approach to investing through funds of funds, or as Vanguard has labeled its target market: "initial investors, not experienced or sophisticated investors." The idea is to pick the date when you plan to retire and then invest in that fund, with Vanguard handling all of the allocation decisions for you over the 10, 20, 30 or, in the case of the

2055 fund, 45 years before that date. The Target Retirement funds invest in other Vanguard funds, and, beyond our problem with the simplification of the investment process. We take issue with the selection of underlying funds Vanguard is relying upon, which are all indexes, and certainly not the best the firm has to offer.

We feel that investors are better served by a portfolio of funds that suit their investment goals, risk tolerance and time horizon run by the best managers available. In fact, we've built our business and reputation on it.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.1 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 35 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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