



August 20, 2010

Vanguard Round-Up

It's been a busy couple of months for Vanguard, from the announcement of 20 new ETFs and index funds tracking a slew of market benchmarks, to the elimination of commissions on all ETFs for brokerage clients, to a manager addition to International Explorer, to Convertible Securities reopening. In the last week, Vanguard has made two more moves to add to that list, which you can read about below.

AXA Rosenberg Axed

On August 12, Vanguard announced that it was firing AXA Rosenberg from the three funds the firm co-managed: Explorer, Market Neutral 50% and U.S. Value 70%. The approximately 12% of assets that AXA oversaw at Explorer will be divvied up amongst the fund's remaining six advisory teams, while Vanguard's in-house Quantitative Equity Group will take over the 50% and 70% assets (as of year-end 2009) AXA ran at Market Neutral and U.S. Value, respectively. AXA's departure will also have a trickle-down effect on several of Vanguard's funds of funds that included Explorer, Market Neutral or U.S. Value in their portfolios, like STAR, the three Managed Payout funds and Diversified Equity.

Why the change? AXA has had a black mark in the industry dating back to June 2009, when the quantitative firm noticed a glitch in their computer systems (which it relies upon to make trading decisions) originating in April 2007. While AXA claims the error didn't negatively affect its clients (Vanguard backs up this claim for the portions of three funds AXA ran), the problems arose when the firm failed to report the malfunction to the institutions and investors who'd hired AXA to run their money. AXA said the error was fixed by November 2009, but the misstep and attempted cover-up have led to numerous firms firing AXA since. Vanguard is just the latest to cut ties.

We've made it clear in the past that we feel the multi-manager approach is often not in investors' best interests, so in that respect, it's good to see Vanguard jettisoning an untrustworthy firm from a number of funds. That said, the small-cap Explorer is still burdened with six other management teams, and Vanguard's Quantitative Equity Group doesn't have a great track record with its value investments, so it's quite possible that the firm will look to replace AXA on U.S. Value and Market Neutral at some point. Score the firing as a good public relations move, but it should not be an

In This Issue

- Vanguard Round-Up
- AXA Rosenberg Axed
- Targeting 2055

incentive to buy into any of the affected funds.

Targeting 2055

On August 18, Vanguard opened the twelfth of their Target Retirement lifecycle funds, aiming for investors retiring around the year 2055. The firm says that the fund best fits investors between the ages of 18 and 22 years (who can afford the fund's \$3,000 required minimum). You can see the fund's projected initial allocation in the table below-it's nearly identical to the four Target Retirement funds with their "due" dates the furthest off in the future (2050, 2045, 2040 and 2035).

Target Retirement 2055's Initial Allocation

Underlying Fund	Allocation
Total Stock Market Index	71.8%
Total Bond Market II Index	10.1%
European Index	8.6%
Pacific Index	4.8%
Emerging Markets Index	4.7%

Source: The Vanguard Group

As we mentioned in the June 11 *Adviser Fund Update*, lifecycle funds, such as Vanguard's Target Retirement series, are usually a poor substitute for a well-diversified portfolio of the best actively managed mutual funds. Target Retirement 2055 bypasses Vanguard's best funds, and its oversimplified approach to investing for retirement is not one we can recommend.

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