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ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



August 21, 2008

Vanguard Makes a Change at the Top

Earlier this month, as was expected, it was announced that as of August 31, F. William McNabb III will be replacing John Brennan as chief executive officer of Vanguard. If you recall, McNabb already nabbed the position of president back in March, shortly after the transition plan was first announced, with the CEO duties to be passed along at a later date, now revealed. By all indications, McNabb will likely stay the course, keeping Vanguard on the track Brennan set it on. This move should have little to no effect on Vanguard's clients and is nothing to worry about.

Brennan will remain chairman of the board and be involved in other aspects of the firm's businesses as well. Being removed from the day-to-day responsibilities he had as president and CEO, Brennan will be free to do more work behind the scenes and will perhaps take a more active role as a spokesperson for Vanguard, attempting to set himself up as the next voice of the firm, once again following in founder Jack Bogle's footsteps (although likely with a less critical stance towards his successors).

Funds Re-Open

Vanguard revealed on August 7th that its Health Care and Explorer funds have reopened to new investors, as the firm believes their current sizes and cash flows will allow the managers to account for new investments going forward. This is somewhat of a mixed bag, as our opinion of each of the two funds is contrary to the other. We see Health Care as a fund with top-notch management and strong long-term prospects, as the industry it invests in is much broader and more diversified than most other sectors and will be constantly driven by companies developing highly-desired, and necessary, drugs and technologies. Explorer, on the other hand, is a fund with poor longer-term prospects, carrying the burden of seven separate management teams.

A Healthy Choice

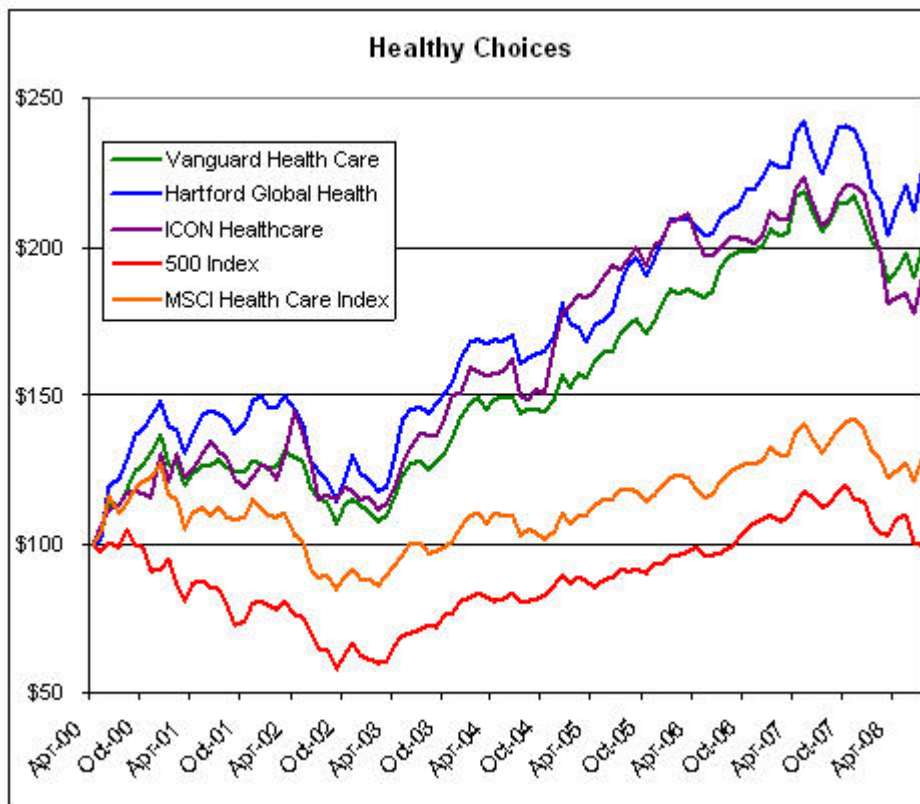
Health Care closed to new investors in March 2005, forcing us to look for alternatives to this excellent fund, which we bought for many of our clients' portfolios prior to the doors slamming shut. We were able to identify a couple of suitable options in the Hartford Global Health and Icon Healthcare funds.

Hartford Global Health is run by Vanguard Health Care manager Ed

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Owens's support team from Wellington Management, and while the fund charges significantly more in fees—1.39% in operating expenses (compared to the Vanguard fund's 0.26%) plus a 5.50% front-end load—it has actually outperformed Vanguard's offering since inception. (Note: Adviser Investments clients are not subject to Hartford Global Health's front-end load.) Icon Healthcare is a somewhat lower-cost, no-load substitute, charging 1.21% in fees, and its performance has been competitive with the Vanguard and Hartford funds, albeit with greater volatility, as you can see in the chart below. For comparison, we've also charted the performance of 500 Index and MSCI Health Care, neither of which hold a candle to any of the three health care funds.



So while we have found viable substitutes in the two funds listed above, we are still quite happy to see Health Care reopened, as more options for our clients' portfolios are always welcome. If you currently own Hartford Global Health, we would not recommend exchanging your shares, but it may be worth considering if you've had to settle for Icon's fund. That said, make sure you take into consideration any tax implications before making the trade. In addition, be aware of Health Care's \$25,000 minimum initial investment—if this is too steep, staying put in Hartford Global Health or Icon Healthcare, both of which require only \$1,000 to start an account, may be preferable.

Not Worth Exploring

Explorer's reopening is less of a cause for celebration, as it has been our opinion for some time that the seven management teams and bloated portfolio have had a negative impact on performance. As more and more teams have been added to the fund over the past several years, Explorer has come to resemble an index fund, with nearly 1200 holdings and performance that trails its benchmark and its index-fund counterpart, Small-Cap Growth Index. We'd advise that investors looking to add a small-cap component to their portfolios seek their fortunes elsewhere.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and \$1.2 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 40 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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