ADVISER INVESTMENT MANAGEMENT

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investment Management

November 1, 2007

Fidelity Goes Multi

Fidelity has (and has had) several team-managed funds in the past, both in their retail fund group as well as in their institutional fund group; but this month they announced the launch of new type of team-managed fund which takes a decidedly different approach to team-management from its prior funds or from rivals in the team-managed business, such as American Funds. In sum: Fidelity's fund(s) won't be ruled by an investment committee but will take a page from our book at Adviser Investments, where we are expert managers of managers.

Fidelity announced that, effective October 25, the newly created Multi-Manager Group (MMG), led by Robert Stansky, would be taking over management of VIP Contrafund, replacing Will Danoff. While this news may not seem particularly momentous on the surface, going with a multi-manager approach could have a widening impact on a number of Fidelity funds going forward.

The MMG will feature the talents of 10 Fidelity managers, each responsible for different market sectors. The roster reads as follows: John Avery (Industrials and Materials), Matthew Friedman (Energy), Adam Hetnarski (Technology), Steven Kaye (Health Care), Robert Lee (Consumer Staples), John Roth (Consumer Discretionary), Douglas Simmons (Telecommunications Services and Utilities), and Pierre Sorel (Financials), with the aforementioned Robert Stansky responsible for managing daily cash flows, directing risk management and overseeing the broad portfolio.

Each of the managers in the group will retain responsibility for the funds they managed previously—John Avery will continue to manage Fidelity Fund; Matthew Friedman will continue to manage Value Strategies (along with Advisor and VIP clones); Adam Hetnarski will continue to manage Advisor Capital Development; Robert Lee will continue to manage Select Consumer Staples (along with Advisor and VIP clones); John Roth will continue to manage New Millennium; and Douglas Simmons will continue to manage Utilities (along with Advisor and VIP clones) and Select Utilities Growth.

Asset Flows A Concern

You have to believe that Fidelity paid close attention to the fact that, year-to-date through August, the firm saw only $1.6 billion in new stock and bond fund asset inflows while top competitors like American Funds and Vanguard took in over $50 billion, according to Financial Research Corp.

What Fidelity has going for it that American Funds does not is a much greater degree of diversity in fund offerings and managers (Fidelity also does not charge the hefty front-end loads that American does). And unlike Vanguard, which has also used a multi-manager approach on a number of its funds, Fidelity can draw upon a much deeper pool of in-house talent, rather than seeking out top independent advisors to manage their funds as Vanguard has done.

This makes the creation of the Multi-Manager Group prudent in a number of ways. This new approach to management will give Fidelity investors even more choices—instead of just their traditional, single-manager funds (which the vast majority of the firm's funds will remain), investors will have multi-managed funds to consider too. It will also allow Fidelity to keep funds open longer (as opposed to closing a fund, then having the expense of opening and marketing a copycat fund, which the firm has had to do several times in the past). A third benefit is that it provides some insurance for the funds under the MMG's oversight—if a star manager leaves a fund that she's captained to outperformance, assets could follow her on the way out. With a team-managed fund, assets are more spread out, and the departure of one of the team members should have much less of an impact on the overall portfolio.

Investor Impact

Our opinion is that Stansky is a good choice to run the MMG. While his performance on Fidelity's flagship Magellan fund left more to be desired, he is well respected by his peers, has experienced being in the spotlight, under intense internal and external scrutiny and has the knowledge base to deliver expert guidance. Of course what it will all come down to is how well the funds under the MMG's oversight perform (and we do expect that VIP Contrafund will not be the last of Fidelity's funds to adopt the team-managed approach), not only against relevant benchmarks, but against other team-managed funds, most notably those at American Funds.

Quality performance and management, whether it's a team-managed or single manager fund, will continue to be the most important factors for Adviser Investments as we evaluate funds for our client portfolios, and it should be the same for other investors as well. The team-managed approach makes sense for some funds, but if it can't deliver, you should look elsewhere.

Other Fidelity Moves

As of November 1, Advisor New Insights will be reopened to new accounts. The fund has been closed since April 2006. Since that time, cash flows have slowed considerably. In addition, because of the manager transition on VIP Contrafund, Danoff is handing over a significant portion of his total assets under management to the MMG. In light of these two factors, Fidelity believes that the time is right to make this fund available again to advisor clients. (Note: Danoff will continue to run the non-VIP version of Contrafund.)

Also as of November 1, Jane Y. Liou has been named manager of Select IT Services, succeeding Benjamin Hesse. Hesse will continue to manage Select Brokerage and Investment Management, for which he assumed responsibility in June 2007. Since joining Fidelity in 2004 as an equity research analyst, Liou has been following companies in the apparel sector and then was a generalist in the IT services and software sectors. She previously served as an analyst at SPO Partners, a private equity firm, from 1999 to 2002. Liou began her career at Goldman Sachs, where she served as an investment banking analyst from 1997 to 1999.

About Adviser Investment Management, Inc.

Adviser Investment Management, Inc. is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,400 clients and $1 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 27 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

For more information, please visit www.adviserinvestment.com or call 800-492-6868.

Adviser Investment Management
85 Wells Avenue
Newton, MA 02459
USA