ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Tillinghast Returns as Fidelity Shakes Up Manager Ranks

As he told us he would when he left on a four-month sabbatical last September, Joel Tillinghast has returned to manage Fidelity Low-Priced Stock. While there was speculation that Tillinghast might be inching his way toward retirement, he says he plans to manage the fund for years to come. We thought that would be the case, and we think that it is good news for shareholders.

During his absence, a team of fund managers and analysts, led by veteran Fidelity fund manager Jamie Harmon, "ran" the fund. We put quotes around "ran" because Harmon's team was restricted in their ability to make major changes to the fund. Still, Tillinghast's colleagues did an admirable job of steering the fund through what was a very turbulent period.

It also appears that their performance earned a vote of confidence from Fidelity management, because they will continue to manage 5% of the fund's assets as part of "Team Joel." With more than $23 billion in total assets, that equates to more than $1 billion, which on its own would be considered a large fund from most other fund families. Meanwhile, Tillinghast will go back to doing what he does best--investing in solid overlooked and/or unloved companies at attractive valuations, while further cultivating the talents of the team that will likely succeed him at the fund when he does eventually retire.

Fidelity Manager Changes

While Tillinghast's return is noteworthy, several other Fidelity fund manager changes recently took effect. Most of the changes involved promoting a manager from Fidelity's Select sector fund lineup, which is run by an elite corps of up and coming managers who train their way through the Select funds to the larger, more diversified funds.

Jeffrey Feingold. You may recall that Feingold assumed management of Magellan last September. At that time, Fidelity indicated Feingold would continue in his role as manager of Trend, Large-Cap Growth and Advisor Strategic Growth. Perhaps the job of turning Magellan around is more difficult than anticipated, because Feingold will now devote all of his attention to that fund.

Dan Kelley. Kelley, who has co-managed Select Construction & Housing since May 2007, received a big bump in responsibilities by taking over at Trend, Large-Cap Growth and Advisor Strategic Growth. Kelley joined Fidelity as a real estate analyst in 2005 and previously worked as a research analyst at Morgan Stanley and Goldman Sachs. One reason for Kelley's promotion may be gleaned from Adviser Investments' Chief Investment Officer Jim Lowell's proprietary manager ranking system, which quantifies a manager's performance over the course of his or her career compared to peers. Kelley ranked fourth of 33 Fidelity Select sector fund managers in Jim's December 2011 rankings, an impressive showing.

Scott Offen. Offen, who managed Value Discovery since its inception in 2002, has been replaced by Sean Gavin. Offen will continue to manage Equity Income II, which he took over last October, as well as Strategic Dividend & Income, which he has managed since 2006. Gavin has been the co-manager of Select Transportation and Select Air Transportation since September 2010, and during his time on those funds, he's climbed to the sixth spot out of 33 Fidelity Select fund managers in Jim Lowell's December 2011 manager rankings.

Ian Hart has been shown the door at Overseas, where he'd been running things since January 2006. The fund's performance has trailed its benchmark, the MSCI EAFE index, over the past one-year, three-year, five-year and 10-year periods through year-end 2011, so we're not shocked by Fidelity's desire to go in a different direction (Hart ranked 11th of 14 international fund managers in Jim Lowell's manager rankings). Vincent Montemaggiore, who has been co-manager of Select Banking since June 2008 and previously managed Select Industrial Equipment, has been appointed to replace Hart. The fact that Montemaggiore is untested when it comes to managing international portfolios or large, diversified funds bears close watching, but in the course of his career managing the two Select funds, he's climbed to the number one spot out of 33 Fidelity Select fund managers in the December 2011 manager rankings. We'll be watching closely to see if he can translate his domestic sector outperformance to the foreign markets at Overseas.

Vanguard Adds to Target Retirement Ranks

On January 19, Vanguard announced the opening of Target Retirement 2060, which increases the firm's lineup of these target date funds to 12.

As we've mentioned in past updates, target date or lifecycle funds are designed to be a one-size-fits-all holding for investors planning to retire around a certain year. These types of funds slowly shift their allocations from stocks to bonds as that date nears, making assumptions about the kind of risk tolerance and income needs investors will have as they approach and enter retirement. So, using Target Retirement 2060 as an example, Vanguard recommends the fund to investors planning to retire around the year 2060, after which it will be merged into the firm's Target Retirement Income fund (Target Retirement 2005 is already slated to merge into the Income fund later this year).

Like the other Target Retirement funds with target dates decades in the future, 2060 will initially invest in three of Vanguard's index funds: Total Stock Market Index (63% of assets), Total International Index (27%) and Total Bond Market II Index (10%). As 2060 draws nearer, that allocation will shift away from equities and into bonds, adding investments in Vanguard's Inflation-Protected Securities and Prime Money Market funds. Target Retirement 2060 charges just 0.18% in expenses, and has a $1,000 minimum initial investment.

At Adviser Investments, we believe that investors can do better than a fund of funds that excludes the industry's best active managers and is not tailored specifically to their risk tolerance and investment goals. That said, for those who can't afford Vanguard's higher minimum funds, a low-minimum Target Retirement fund could be a way to get a foot in the door, acting as a stepping stone into a diversified portfolio down the line.

About Adviser Investments
Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,400 clients and over $2 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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