ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Is Vanguard Gambling with Your Money?

Earlier this month, Vanguard was sued for the second time over investments in several offshore gambling firms. The suit was filed by two shareholders in two of the firm's funds, European Index and Global Equity, who claim that the fund managers knowingly invested in companies operating illegal businesses, which, when they were the subject of U.S. Government prosecution, lost money, thus harming investors.

This case dates back to 2006, when the U.S. Government began cracking down on offshore gambling companies, many of which were large and publicly traded, whose activities violated U.S. laws. Due to the crackdown, these companies were forced to shut down operations of their online gambling sites (poker, sports books, etc.) in the U.S., losing millions of customers and billions in revenue.

Fast forward to August 2008, when the shareholders filed their first suit in New York, where lawyers for the plaintiffs filed a Racketeer Influenced and Corrupt Organizations Act (RICO) suit not only against Vanguard's directors, but chief investment officer Gus Sauter, index fund manager Duane Kelly (who runs European Index) and outside managers Acadian Asset Management, AllianceBernstein and Marathon Asset Management for their work on Global Equity (the fourth management team, Baillie Gifford, added in 2008, was not named in the suit).

The New York judge dismissed the federal RICO charges in April 2009, ruling that shareholders were injured by the government's crackdown, and not by the funds' investments in the affected gambling businesses. State charges are still unresolved, although similar RICO suits filed against American Century and Causeway Capital Management were also dismissed (with state charges still pending resolution there as well).

Round two began earlier this month, when the New York attorney representing the plaintiffs in the 2008 case filed a class action lawsuit in Delaware against Vanguard once again, seeking to get compensation for investors who bought shares in the funds before July 17, 2006.

When the first suit was filed in New York, we took a look at European Index and Global Equity's holdings in the two gaming companies owned by both funds, PartyGaming PLC and Sportingbet PLC, to see what kinds of sums were involved, and how bad the losses could have been for shareholders. These companies' stocks have been owned at one time or another by various Vanguard funds, including the two already mentioned as well as Tax-Managed International, World ex-US Index and two Vanguard funds sold only to European investors: European Series European Index fund and European Series Global Stock Index fund.

After searching through literally hundreds of filings, it's clear that the amounts that were invested in both PartyGaming and Sportingbet were miniscule. The single largest holding of either company was a 0.036% position in Sportingbet in the European Series European index in June 2006—a whopping $1.1 million out of $3.1 billion in total assets. If Vanguard was gambling, we'd hardly call that a big bet! You can see how this all sorts out in the accompanying table.

Vanguard's *Big* Gambling Bets		
	PartyGaming PLC	Sportingbet PLC
European Index	**%-age**	**%-age**
6-Oct	0.01%	0.00%
7-Apr	0.01%	none
7-Oct	0.01%	none
8-Apr	0.00%	none
Global Equity		
6-Mar	none	0.01%
6-Sep	0.03%	0.01%
7-Sep	none	0.00%
8-Mar	none	0.01%
Tax-Managed International		
6-Jun	0.01%	0.02%
6-Dec	0.00%	none
7-Jun	0.01%	none
7-Dec	0.00%	none
World ex-US Index		
7-Oct	0.00%	none
8-Apr	0.00%	none
European Series European Index		
6-Jun	0.03%	0.04%
6-Dec	0.01%	none
7-Jun	0.01%	none
7-Dec	0.00%	none
8-Jun	none	none
European Series Global Stock Index		
6-Jun	0.01%	0.01%
6-Dec	0.00%	none
7-Jun	0.00%	none
7-Dec	0.00%	none
8-Jun	none	none
Source: The Vanguard Group, Inc.; Analysis: Adviser Investments		

We see this lawsuit as nothing for investors to worry about—it may make a splash in the media, but it seems like there isn't much proof that investors were significantly harmed by these investments, if at all. The plaintiffs have already made one wager with their first round of lawsuits, and lost. Will they be dealt a better hand the second time around? That's one bet we wouldn't make.

Fidelity's House Rules

Speaking of gambling, Fidelity made some headlines around the end of last year when the firm fired four employees for playing in buy-in fantasy football leagues. While the amounts involved were supposedly small (one league had a $20 buy-in), Fidelity saw the leagues, and more specifically, the fact that employees were using company computers and resources to run them, a violation of company policy, leading to the firings.

While it might be easy to sympathize with the fired employees for engaging in an activity that has millions of participants across the country (and continues to grow each year, with some publicly-traded companies cashing in on the trend), no one can question that Fidelity acted in its best interests (and by extension, shareholders' best interests) by making an example to ensure that employees adhere to company policy in the future.

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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