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ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



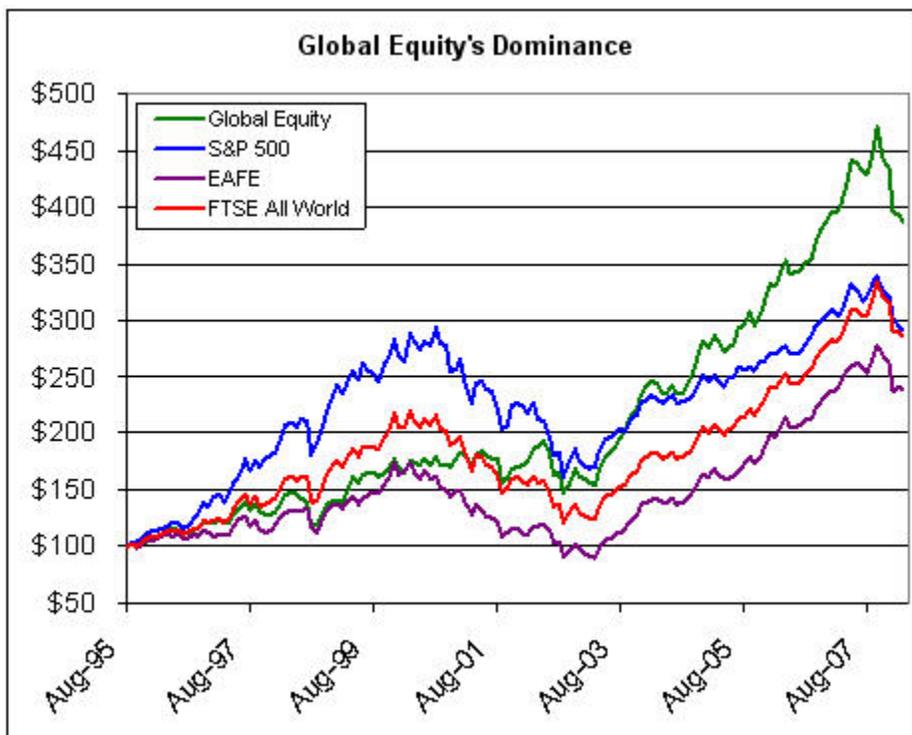
April 18, 2008

Vanguard Adds Managers to Two Funds

On April 11, Vanguard announced that it was adding several managers from Baillie Gifford to two funds, Global Equity and Growth Equity. The two funds are at the opposite ends of the performance spectrum—Global Equity a consistently strong performer and Growth Equity one of Vanguard's worst growth funds—so the addition of managers in one case gives us pause, while in the other we feel a change was long overdue.

Global Equity Needed Help?

Global Equity is one of our favorite Vanguard funds, and it's found a place in a number of our client portfolios. Performance has been quite impressive since its August 1995 inception compared to the S&P 500, MSCI EAFE and the FTSE All World Index, as you can see in the chart below.



While Global Equity was closed to investors due to original manager

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Marathon Asset Management's asset capacity concerns for about a year starting in December 2003, the addition of teams from Acadian Asset Management in October 2004 and AllianceBernstein in April 2006, seemed to have alleviated the capacity issues while sustaining the same standard of performance experienced during Marathon's solo tenure.

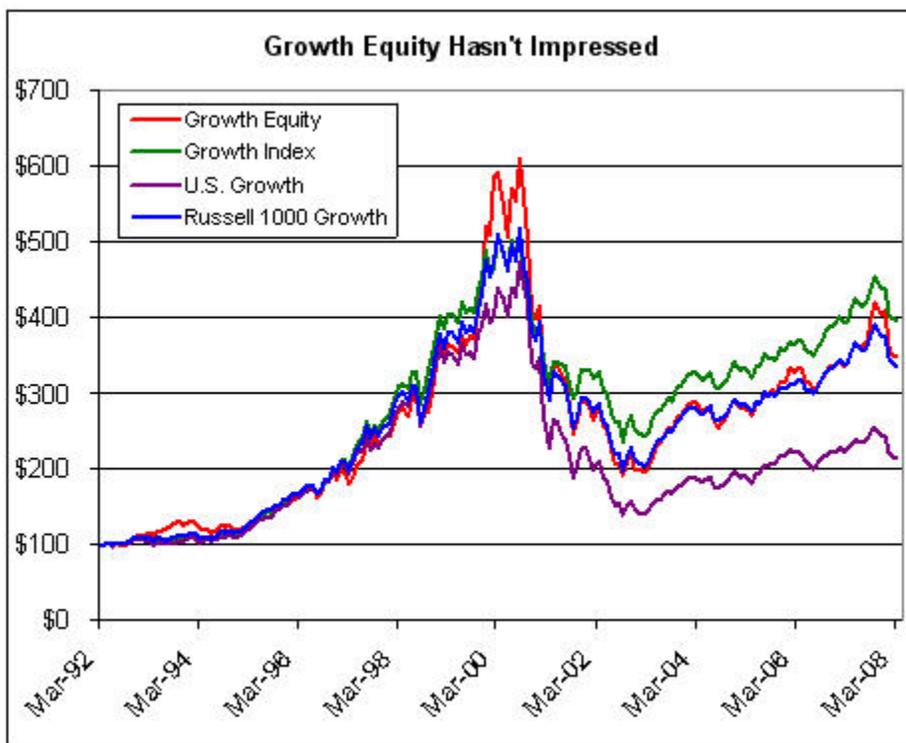
The addition of a trio of managers from Scotland-based Baillie Gifford—Spencer Adair, Malcolm Maccoll and Charles Plowden—to Global Equity is somewhat puzzling to us, considering that it bumps the number of management teams on the fund to four and the number of individual managers on those teams from nine to twelve at a time when it does not appear that performance nor asset flows are a problem. The concern, and it's one we've remarked upon over the years as Vanguard has gone to a multi-manager setup on a number of funds, is that too many teams could lead to index-like performance for the fund.

That said, we see no reason to consider trading out of Global Equity on this news. Baillie Gifford is a seasoned advisor (they've managed portions of International Growth and International Annuity with solid results since February 2003) and as of right now it's not even clear what percentage of Global Equity's assets their team will be taking on.

We will, of course, closely watch the fund for any signs that performance or quality is slipping, but until they appear, we will continue to invest in Global Equity on our clients' behalf with confidence.

Growth Equity—Help on the Way!

While Global Equity did not seem to need any help, Growth Equity has been a perennial disappointment for most of the last decade and could certainly use a boost. The fund has been run since its March 1992 inception by Turner Investment Partners, and was added to the Vanguard roster in June 2000.



Billed as an aggressive growth fund, Growth Equity has failed to distinguish itself from its Russell 1000 Growth benchmark, and its only claim to fame is that it has yet to sink to U.S. Growth's abysmal lows. If you take a look at the chart above, you can see that Growth Equity fails to match Growth Index, and more or less tracks the same line as the Russell index.

After years of stagnation, Vanguard has finally decided to try to turn this fund around through the addition of Baillie Gifford's Mark Brewis. Brewis leads Baillie Gifford's North American investment team, and has run the firm's in-house American Fund since its July 1997 inception (he's been with the firm since 1985). His team's style seems less aggressive than the quantitative strategy employed by Turner and will hopefully spur the fund to better performance.

It's encouraging to see that Vanguard is, at last, giving some attention to a struggling, below average fund, but until we see some positive results and the potential for better long-term performance, we'd still recommend that investors stay away from Growth Equity.

Fidelity's First Hedge Fund

In our last update (<http://www.adviserinvestments.com/pdf/contentmgmt/040308.pdf>), we talked a little bit about Fidelity's newest fund in the pipeline, the 130/30 Large Cap Fund (FOTTX), which has since opened to new investors.

130/30 Large Cap has a higher minimum initial investment than most of Fidelity's funds, requiring a \$10,000 buy-in. As mentioned in the April 3 *Adviser Fund Update*, 130/30 Large Cap will normally invest 130% of the fund's assets in long positions and 30% in short positions (with some variation in those percentages from month to month), with the goal of long-term growth. It will invest in both the growth and value arenas, choosing among foreign and domestic large cap companies to shape the portfolio. The fund's performance benchmark is the S&P 500 index, but do not be surprised if 130/30 Large Cap's performance does not appear to have any correlation with its bogey over shorter periods.

Fidelity has appointed Keith Quinton, a seven-year Fidelity veteran with 25 years of investment management experience, the fund's lead manager. Quinton will continue to manage Tax Managed Stock (as well as its Advisor-class clone) and Disciplined Equity, which he has been managing since 2004 and 2006, respectively.

We see the fund as potentially suitable for growth-oriented investors who can handle the volatility and higher expense ratio (1.89%, but capped at 1.30% for now) that this type of fund typically engenders, not to mention the possibility of performance that diverges significantly from its S&P 500 benchmark. It is not, and should not be viewed as, a guaranteed way to safely short the market—no such thing exists. We consider shorting stocks consistently, and profitably, more difficult than what most investors set as their goal—outperforming the market via more traditional investment vehicles.

This is one of Fidelity's more innovative products to hit the market recently, and it will be interesting to see what successes and shortfalls it experiences now that it's trading.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,400 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 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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