



June 20, 2014

## In This Issue

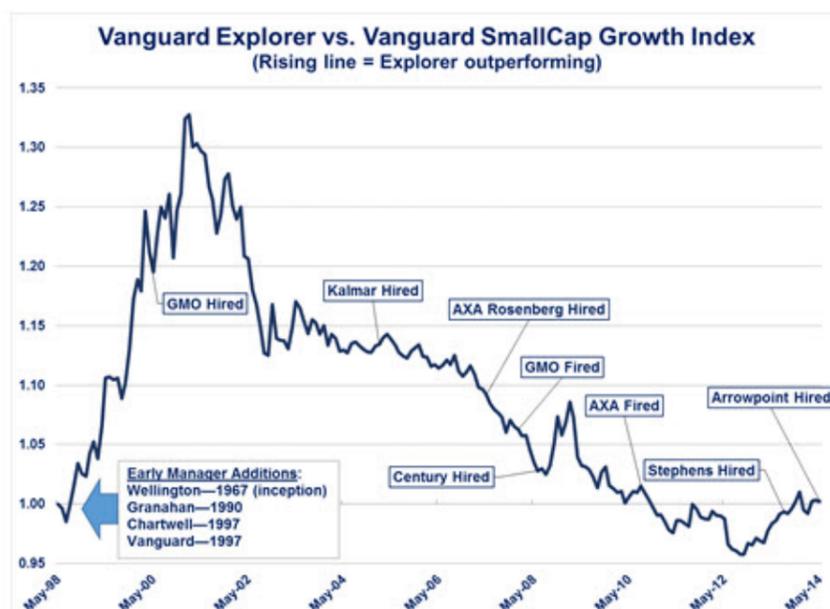
### Eight is More Than Enough

On Monday, Vanguard announced that it was adding yet another management team to its small-cap Explorer fund, handing firm newcomer Arrowpoint Partners 4% of the fund's \$12.4 billion in assets to start. Arrowpoint becomes the fund's eighth management team, and the move is emblematic of Vanguard's continuing infatuation with multi-managed funds, a trend we believe in most cases is detrimental to shareholders, producing bloated, index-like portfolios and diluting quality managers' performance.

- Eight is More Than Enough

With only a tiny slice of the portfolio, it's unlikely that Chad Meade and Brian Schaub, the team from Arrowpoint, will have much of an impact on Explorer's performance, although they likely will be adding to the 650 stocks held by the fund at the end of May. Meade and Schaub have worked together for more than 12 years, first as analysts and then fund managers at Janus, where they ran the Triton fund from 2006 and the Venture fund starting in 2010 before joining Arrowpoint in 2013.

While Vanguard touts multi-management as adding "diversity of thought and approach" to funds, and claims that it reduces risk while still providing top performance, in the case of Explorer, that does not seem to have been the case. In the chart below, comparing the performance of the actively managed Explorer against Vanguard's SmallCap Growth Index fund, which has a similar investment universe, you can see how the lower-cost index fund consistently outperformed (indicated by the downward-trending line) for more than a decade between 2001 and 2012, before Explorer finally regained a little ground.



Note: Chart shows early relative performance of Vanguard's Explorer and SmallCap Growth Index funds from 5/31/1998 through 5/31/2014.  
Sources: Morningstar (data); Adviser Investments (analysis).

You can also see how, over that period, Vanguard stepped up its hiring (and eventually, firing) of managers, wavering between seven and six teams before adding a seventh team for the third time in 2013 (Stephens) and breaking new multimanage ground with number eight Arrowpoint this month.

One of the qualities that we think sets Vanguard apart in the mutual fund space is its ability to identify top-notch sub-advisers for its funds. We just wish that the firm would hand these managers individual mandates as opposed to adding them to existing funds or bundling them together to co-manage new funds (think Explorer Value with its three teams from inception or Emerging Markets Select Stock and its four teams), which has been the pattern in recent years. While Vanguard may have good reason to be excited about the Arrowpoint team, we doubt Explorer's investors will notice any difference with its addition, and that's a shame.

### 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 2,500 clients and more than \$3.0 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. Adviser Investments was recently named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts.

For more information, please visit [www.adviserinvestments.com](http://www.adviserinvestments.com) or call 800-492-6868.

Disclaimer: This material is distributed for informational purposes only. The investment ideas and expressions of opinion may contain certain forward-looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities. Data and statistics contained in this report are obtained from what we believe to be reliable sources; however, their accuracy, completeness or reliability cannot be guaranteed.

Our statements and opinions are subject to change without notice and should be considered only as part of a diversified portfolio. You may request a free copy of the firm's Form ADV Part 2, which describes, among other items, risk factors, strategies, affiliations, services offered and fees charged.

Past performance is not an indication of future returns. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. We do not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

The *Barron's* ranking reflects the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.