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Vanguard Looks Longingly At New Fund

On June 25th, Vanguard announced that it had filed with the SEC to create a long-duration bond index fund. Extended Duration Treasury Index will be aimed primarily at institutional investors managing pensions, designed as a tool for them to try to match their long-term liabilities with long-term duration assets.

The fund will track an index created specifically by Lehman Brothers for Vanguard, the Lehman Brothers STRIPS 20-25 Year Equal Par Bond Index. STRIPS are zero-coupon bonds that have been "stripped" into an income generating component and a principal component.

In keeping with its institutional focus, the fund will have two institutional share classes with minimums far beyond the reach of the average investor (\$5 and \$100 million). However, as with nearly all of Vanguard's newer index fund offerings, there will be ETF shares available when the fund hits the market (most likely some time in the third quarter). The ETF shares are slated to have a 0.14% expense ratio.

This is not an ETF that most investors will want to dabble in, but for educated (and risk-seeking) investors, it could provide a very good play on interest rates, as its long duration will make it highly sensitive to changes in those rates. One could reap big profits here if they felt rates were going to move down, or, once enough shares are trading, one could short the ETF in a rising interest rate environment. But, again, this fund is not for the weak of heart, as it carries a high level of risk, especially considering that we're in a period of rising rates.

Fidelity's Manager Carousel Keeps On Turnin'

Ever active, Fidelity has made several manager moves in the last few weeks, two of which affect funds we invest in for our clients.

As of July 1st, Matthew Friedman became assistant manager for Value (as well as its Advisor and VIP clones) while lead manager Rich Fentin takes a leave of absence. Friedman will continue to manage Value Strategies, Advisor Value Strategies and VIP Value Strategies. He's been with Fidelity since 1999, starting as a summer intern, and moved up to a full time position the following year. Since then Friedman has managed a slew of sector funds for brief stints, before taking on Value Strategies and its clones in 2006. We feel that this change is not significant enough for us to trade out of Value, although if Rich

Fentin's leave of absence becomes permanent we may reevaluate.

Also as of the 1st, Robert Galusza was made lead manager at Short-Term Bond, Advisor Short Fixed-Income and Ultra-Short Bond (which we use in some client portfolios). He will be co-managing the funds with current manager Andrew J. Dudley, who is having his responsibilities in the institutional fixed-income area expanded. Galusza has been with Fidelity since 1987, and up until recently, he managed short-term fixed-income portfolios for large institutional accounts. We do not think this change will have a negative effect on any of the funds concerned.

As of June 25th, Edward Best was appointed manager of Large Cap Growth as well as its Advisor clone, succeeding Bahaa W. Fam. Fam will keep his role managing Mid Cap Growth, Advisor Mid Cap Growth and institutional portfolios for Fidelity subsidiary Pyramis Global Advisors. Best is a new hire for Fidelity, and has bypassed the normal manager progression in assuming his role at Large Cap Growth. He spent the previous nine years at Trusco Capital Management, holding various positions from analyst to director and portfolio manager, before joining Fidelity this year. He also spent time earlier in his career with AIM Management (no relation to Adviser Investment Management) and Barra.

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