



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



September 25, 2015

Vanguard to Launch Overseas Dividend Funds

On September 22, Vanguard filed plans with the SEC to launch International Dividend Appreciation Index and International High Dividend Yield Index in both open-end and ETF formats. The funds are set to debut on December 7.

The funds fill a couple of niches in Vanguard's lineup for index investors seeking dividend-paying foreign stocks for their portfolios. With bond yields still low (and looking to stay that way for some time), stock funds with an income component have appeal for investors, and Vanguard is looking to capitalize on this.

Much like Vanguard's U.S.-only versions of these funds, Dividend Appreciation Index and High Dividend Yield Index (both of which launched in 2006), there is some overlap to their objectives, as they both center their strategies around dividend-paying stocks. But if they follow in the footsteps of their domestic-fund siblings, International Dividend Appreciation Index will have a higher-quality portfolio of more established, stable companies, while International High Dividend Yield Index should generate a higher yield.

International Dividend Appreciation Index will carry a 0.35% expense ratio for its Investor-class shares, while the Admiral and ETF shares will charge 0.25%. The fund will track a variant of the NASDAQ International Dividend Achievers Index called the NASDAQ International Dividend Achievers Select Index, which consists of around 200 stocks of developed and emerging market companies with a record of increasing their annual dividends over time.

International High Dividend Yield Index will charge 0.40% for Investor shares and 0.30% for Admiral and ETF shares. It will track a brand new index, the FTSE All-World ex US High Dividend Yield Index, which consists of around 800 of the highest yielding large-cap and mid-cap stocks in the developed and emerging markets.

It will be interesting to see how well these new funds match up with or complement their domestic-focused counterparts. It makes sense that Vanguard is testing the foreign dividend

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stock fund waters with index products, but we would have liked to see an actively managed option as well. Time will tell on both counts.

Fidelity Manager Taking Leave

Earlier this week, Fidelity announced that Charles Myers, portfolio manager of Small Cap Discovery and Fidelity Series Small Cap Discovery, would be taking a leave of absence starting March 1, 2016. He plans to return next September.

Myers' co-manager on Fidelity Small Cap Value and Advisor Small Cap Value since January 2013, Derek Janssen, will serve as interim manager on the Small Cap Discovery funds during his leave. Janssen will also assume sole responsibility for the two Small Cap Value portfolios beginning January 1. Janssen is a nine-year Fidelity vet and has extensive small-cap expertise, with a very similar investment philosophy and portfolio construction style as Myers.

Myers' sabbatical is not for health reasons; he merely wants to take time off to travel and spend time with his family, and while he will not be actively involved with fund management over the period, he will be available to consult if he is needed.

Janssen provides capable hands to care-take the funds—he indicated that he'd add when positions get cheap and trim when they get expensive, but is not expected to make substantial changes unless market activity is significant and dictates such activity. We do not feel that Myers' leave should be a concern for investors the Small Cap Discovery funds.

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