



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



October 9, 2015

Leading Vanguard Manager Pares Back

Last week, Vanguard announced that Jim Barrow, 75, will step away from management duties on its Windsor II and Diversified Value Annuity funds at the end of the year. Barrow has managed the \$45.7-billion Windsor II since its 1985 inception and Diversified Value Annuity since its 1999 inception.

One of Vanguard's longest-tenured fund managers, Barrow is a founder and executive director of Barrow, Hanley, Mewhinney & Strauss, one of the five advisers on the large-cap value Windsor II fund. He is also a co-manager on Vanguard's Selected Value fund, which the firm has advised since its 1996 inception.

Barrow will be succeeded at Windsor II and Diversified Value Annuity by current co-managers (and colleagues at Barrow Hanley) Jeff Fahrenbrunch and David Ganucheau. Vanguard has said that there will be no changes to the funds' investment objective, strategies, philosophy and management style.

The longtime Windsor II helmsman isn't fully retiring, however, just reducing his responsibilities. He will remain active at Barrow Hanley and continue to act as co-manager of Selected Value with long-time copilot and protégé Mark Giambrone.

Barrow Hanley manages around 60% of both Windsor II and Selected Value, and is the sole management team responsible for Diversified Value Annuity.

There's been speculation about Barrow's retirement plans of the last several years, and even a few false alarms. It appears that his passion for portfolio management hasn't waned, but that this was a good time to transition to a less demanding workload. While the moves represent a changing of the guard at the two funds, we don't think it's an immediate cause for concern for current shareholders.

Vanguard International Index Funds Track New Benchmarks

On October 1, Vanguard's European Index and Pacific Index

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funds began tracking new, broader benchmarks, reflecting the addition of small-cap exposure to both funds.

Investors shouldn't really notice any major changes, though over time the addition of small-cap stocks could increase both risk and return on the margin.

The firm's Developed Markets Index fund should start tracking a new index for similar reasons by the end of the year, and its Emerging Markets Index will begin the process of adding small-cap stocks and Chinese A-Share stocks at that time as well.

The moves reflect the developing philosophical shift that's taken place with Vanguard's indexing and portfolio allocation team toward tracking market-cap weighted benchmarks. This is part and parcel of the changes that have seen greater allocations to foreign stocks and bonds within the firm's funds-of-funds. The idea is that indexes should be more inclusive of stocks of all sizes and that portfolios should include a market-cap weight that accurately reflects the global markets, where foreign stocks make up around 50% of the whole.

Not all investors will be at ease with these shifts on a portfolio level, but we can expect to see more of this theme playing out across Vanguard's index funds in the coming years. If you're an index or fund-of-funds investor at Vanguard, it's important to be aware of these changes, and make sure that they are in line with your long-term objectives and risk comfort zones.

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