



December 22, 2010

Converting a Winner--Vanguard Gives Convertible Securities Flexibility

On December 20, Vanguard announced that it was sprucing up its Convertible Securities fund for the New Year, increasing its ability to forage overseas and adding a duo of co-managers to the fund to help oversee the fund's new foreign holdings. In addition, the fund will now be benchmarked against a global index standard.

Until this change, Convertible Securities was benchmarked to the Bank of America (BoA) Merrill Lynch (ML) All U.S. Convertibles Index, which is a market-capitalization-weighted index of domestic corporate convertible securities (high-yield securities that act something like a stock, but pay dividends more like bonds). Going forward, the fund's new benchmark will be a 70%/30% mix of the BoA ML All U.S. Convertibles Index and the BoA ML Global 300 Convertible ex-U.S. Index. In addition, the fund's former 20% restriction on international holdings has been lifted (at the end of November, Convertible Securities had only 3.0% allocated overseas, which will certainly go up in the coming months).

The fund's two new managers are Jean-Paul Jacques Nedelec and Abe Ofer, both long-term members of Oaktree Capital Management's team, having come aboard at the firm's founding in 1995. They join Convertible Securities' veteran manager, Larry Keele, who has managed the fund since the end of 1996. Keele will be managing the domestic portion of the portfolio, while Nedelec and Ofer will be responsible for the fund's international holdings.

Nedelec was born in Paris and educated in France before attending San Diego State University in 1981. He has worked for Manufacturers Hanover Ltd. and Dai Ichi Kangyo Bank in London, as well as AXA Group in Paris. He joined Trust Company of the West in 1994 and operates out of Oaktree's New York offices, co-managing the international convertible investments of the group.

Ofer got his start in investment management in 1984 with Trust Company of the West, where he worked his way up from an equity research analyst specializing in technology, to a credit analyst in TCW's High Yield and Convertible Securities department. In 1989, he began to manage investments in "busted" convertible portfolios. He is a Managing Director at Oaktree. Ofer earned his BA in Mathematics from Reed College and an MBA in Accounting and Finance from the University of Chicago.

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The increased international exposure adds an interesting new element to Convertible Securities, but should not be a cause for concern for investors. Keele, Nedelec and Ofer are all experienced convertibles traders, and incorporating a greater emphasis on overseas investments makes sense, as emerging and developing economies begin to account for more of the world's markets.

We've found that Convertible Securities' best use is in an income-focused portfolio where higher yields and lower risk are more important than absolute tax efficiency and performance. But it has very specific uses in a portfolio and is not necessarily the best choice for most investors.

Happy Holidays!

From our Adviser Investments family to yours, we wish you a merry, healthy holiday season and a Happy New Year!

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