ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

May 19, 2017

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Fidelity Manager Changes

Joel Tillinghast, manager of Fidelity's Low-Priced Stock fund, has a long history of mentoring younger managers. Since 2011, beginning with and continuing after a brief leave of absence, he's had a team of co-managers running a 5% or so sleeve of the fund's portfolio. This structure serves the dual role of developing up-and-coming Fidelity manager talent while also helping Tillinghast with stock selection and idea generation for the fund. As part of that team's evolution, effective April 21, Low-Priced Stock added Salim Hart and Sam Chamovitz to the fund's management, and said goodbye to Jamie Harmon, who will continue to run Fidelity Advisor Small Cap.

Harmon managed 3%, or about $1.3 billion, of Low-Priced Stock, which was split 60/40 between Hart and a team of Chamovitz and Morgan Peck after Harmon's departure. Peck currently runs the information technology and telecom portion of the fund, and she and Chamovitz assumed Harmon's role overseeing the all sector sub-portfolio. Quantitative specialist Hart became the manager of a newly created sub-portfolio, U.S. all sector. This new sub-portfolio is spread across many investment sectors, with some international exposure, despite its name.

Chamovitz has been in the investments industry since 2002. He has also managed Fidelity International Small Cap Fund since February 2014. Hart joined Fidelity in 2007 as a quantitative research analyst. He specializes in portfolio construction research, designing quantitative models for stock selection and performing attributions to determine drivers of equity performance.

Harmon had managed assets at Low-Priced Stock since Tillinghast handpicked him to oversee Low-Priced Stock during his three-month sabbatical from September 2011 to January 2012.

Fidelity Manager Prepares for Hiatus

Fidelity manager Jed Weiss will be taking a five-month leave of absence beginning June 15, 2017, and will return on November 29, 2017. He is currently the sole portfolio manager on Fidelity International Growth and Fidelity International Small Cap Opportunities.

Weiss discussed his decision with Adviser Investments Chief Investment Officer Jim Lowell for Lowell's *Fidelity Investor* newsletter (which is completely independent from Adviser Investments). "You should not expect any significant repositioning of the fund(s) while I'm gone," he told Lowell. "I fully expect [International Growth's] annualized turnover rate will be at least as low, if not lower, than normal—this is not a moment for repositioning the fund."

As of March 31, interim managers began the transition to oversee Weiss' funds during his sabbatical. The interim steward of International Growth, Vincent Montemaggiore, was personally selected by Weiss for their similar investment philosophies and the types of growth companies in developed international markets they favor. Montemaggiore also manages the Fidelity Overseas fund, which he's helmed since 2012.

Patrick Buchanan and Patrick Drouot will assume temporary management of International Small Cap Opportunities. Each has been part of the small cap institutional research group supplying research to Weiss and other Fidelity fund managers for the past six years.

Weiss will be available for consultation if necessary, and Fidelity says that the investment objectives and strategies will be unchanged in his absence. Weiss will provide extensive guidance about every portfolio position, valuation and weighting before his leave begins.

While we don't expect a flood of fund managers to begin taking sabbaticals at Fidelity, we see the firm's flexibility in allowing key personnel like Weiss and Tillinghast to take some time off as a means of retaining the top active managers upon which the firm built its reputation. It also speaks to the strength of the institution that they have a stable of in-house talent ready to step up as portfolio stewards in the interim. We don't believe Weiss's leave should be a cause for concern for shareholders in his funds.

Fidelity Launches 'Sustainable' Funds

Earlier this week, Fidelity debuted two index funds focused on sustainability—Fidelity U.S. Sustainability Index and Fidelity International Sustainability Index—to expand their offerings for investors interested in the environmental, social and governance (ESG) factors behind the companies in their portfolios.

The products complement Fidelity's existing actively managed ESG fund, Select Environment & Alternative Energy Portfolio, as well as its FundsNetwork program, which offers investors more than 100 ESG funds to choose among.

Fidelity U.S. Sustainability Index will attempt to track the total return of the MSCI USA ESG Index by investing at least 80% of total assets in the 350-plus large- and mid-cap companies that comprise the index. International Sustainability Index will do the same in following the MSCI ACWI (All Country World Index) ex USA ESG Index, which is made up of nearly 900 large- and mid-cap companies in 22 developed markets and 23 emerging markets countries.

ESG funds are increasingly popular and the market is likely to continue growing, given their popularity among millennial investors, some 85% of whom view social, political or environmental impact as a key component in their investment decisions.

Investor class shares of U.S. Sustainability Index carry a 0.21% fee, while International Sustainability Index has a 0.30% expense ratio.

The move is just Fidelity's latest attempt to respond to what current and future customers are looking for from their investments, first in expanding its passively managed product line and in providing young investors with options that fit their budgets and personal philosophy.

At Adviser Investments, we believe that the desire to own ESG funds is understandable, but would caution any interested investors to take a close look at the funds' (or underlying indexes') track records and expenses alongside comparable non-ESG funds before putting money in them. If the ESG funds don't measure up from a return perspective, investors need to determine whether avoiding companies that don't qualify for these indexes is more important than maximizing their potential growth of assets over time. It's also worth understanding the criteria that ESG funds use for inclusion or exclusion—just because a company is included in an ESG portfolio does not necessarily mean it will measure up to an individual's personal standard for responsible or ethical behavior. That said, if investors can sleep better at night feeling as though their money is invested in "good" companies following a high standard of operational ethics and not involved in industries like alcohol, firearms, gambling, tobacco or nuclear power, then an ESG fund may be a good fit.

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recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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