ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

July 28, 2017

In This Issue:

- Vanguard Preps New Global Balanced Funds
- The Circle of Life for Vanguard Retirement Funds

Vanguard Preps New Global Balanced Funds
On July 6, Vanguard filed paperwork with the Securities and Exchange Commission for the proposed launch of its first two actively managed global balanced funds—Global Wellington and Global Wellesley Income—tentatively set to debut in the fourth quarter this year. Both funds will be run by Wellington Management Company.

The move expands the “Wellington-subadvised balanced fund” franchise. Vanguard’s Wellington and Wellesley Income funds have delivered tremendous success over the years with strong returns relative to their objectives and in their appeal to investors; combined, the funds have gathered more than $150 billion in assets. If the global funds can achieve similar results, it will be a win-win for investors and the Malvern-based fund colossus.

Like Wellington, the new Global Wellington fund will typically allocate 65% of assets to stocks and 35% to bonds. And similar to its domestic sibling, Global Wellesley Income will invest 65% of assets in bonds and 35% in stocks. As suggested by their names, the new funds will take a global approach to both stock and fixed-income investing, whereas the existing funds mostly stick to the U.S. Vanguard hasn’t placed any limitations on how much or how little should be invested domestically for either fund.

The fixed-income portions of each portfolio will be managed by John Keogh, Loren Moran and Michael Stack, while new-to Vanguard managers will oversee the stock side.

Ed Bousa manages the stock portion of Wellington, and his colleague, Nataliya Kofman, will run the stock side of Global Wellington. Bousa and Kofman have co-managed a Wellington Global Quality Equity strategy since year-end 2008.

Similarly, Michael Reckmeyer manages Wellington Income, while his colleague Ian Link will oversee Global Wellesley Income. The two have co-managed Hartford Global Equity Income since May 2014 and are two of four managers on Hartford Balanced Income (a U.S.-focused fund), where they’ve collaborated since October 2007.

So in each case, you could describe the new global manager as arriving from the same Wellington team as the old fund’s manager. It’s probably safe to assume that the new portfolios will be managed in a similar style as the existing version, albeit with a global pond to fish in.

The Investor share class of each fund will require a $3,000 minimum while the Admiral shares are slated to have a $50,000 initial investment threshold. Global Wellington is expected to charge 0.45% in operating expenses for Investor shares compared with 0.35%

for Admiral. Global Wellesley Income will charge 0.42% and 0.32% for the two share classes, respectively.

Once these funds go live in the fourth quarter, Vanguard will have yet again set up a race between man and machine. The new Wellington-run funds will go head-to-head against the index-fund-only global balanced funds STAR LifeStrategy Moderate Growth and STAR LifeStrategy Conservative Growth. Those index-fund-based funds have roughly a 30-basis-point (or 20-basis-point for the Admiral shares) head start on the new actively managed funds, though history suggests that the Wellington Management team could catch up and outrun the passively managed funds over time.

We'll be watching with interest to see how Wellington approaches these global balanced strategies, particularly how they allocate between foreign and U.S. stocks and bonds. If Hartford Global Equity Income (co-managed by Reckmeyer and Link, as mentioned above) is any indication, we could see 50% or more of the stock portions of the portfolios invested in foreign stocks. From a top-down perspective, this would represent a truly global approach to the funds' allocations—how well that fits in with balanced fund investors' risk comfort zones and objectives will come down to individual preference.

The Circle of Life for Vanguard Target Retirement Funds
At the start of the year, Vanguard announced plans to fold Target Retirement 2010 into Target Retirement Income. That merger occurred last Friday. Earlier this month, Vanguard launched its latest Target Retirement fund, Target Retirement 2065, aimed at forward-thinking young investors eyeing retirement in or around 40 years from now.

Turning first to Target Retirement 2010, investors in that fund didn't need to take any action for their assets to roll over into Target Retirement Income. The merger occurred after the 2010 fund's target allocation finished its glide path and had been made identical to the Income fund's 70/30 mix of bonds and stocks.

Like Vanguard's other Target Retirement funds, the investor shares of Target Retirement 2065 have a $1,000 minimum investment and an expense ratio of 0.16%. The institutional shares, which will likely be only available to individual investors who participate in large, employer-sponsored plans that offer them, require a $100 million minimum investment and are expected to charge 0.10% in fees.

2065's initial allocation is comprised of the following Vanguard funds: Total Stock Market Index (54%), Total International Stock Market Index (36%), Total Bond Market II Index (7%) and Total International Bond Index (3%). This matches the allocations of the current lineup's four most stock-tilted funds, the 2060, 2055, 2050 and 2045 portfolios.

This is the second time we've seen the full lifecycle of Target Retirement products—where one fund is "retired" into Target Retirement Income and a new one is launched—and we can expect to see it recur every five years for as long as these one-stop shops remain popular.

But popularity doesn't mean they're for everyone. As Vanguard itself claims, its target-date funds are for "initial investors, not experienced or sophisticated investors." And don't get us wrong, we're happy to see anyone investing in their retirement, especially young people like those that the Target Retirement 2065 fund is, ahem, targeting. But color us skeptical that the only consideration that matters in determining the allocation between stocks and bonds in a portfolio is an investor's age.

That's where target-date funds fall short in our book. These products fail to take into account some of the essential elements for crafting a retirement plan, such as your current or future expected wages, additional sources of cash flow in retirement or cash needs down the road (paying for college, a vacation house, etc.). People who have worked hard to build up their retirement nest egg can do better, and a good financial adviser will take all of these considerations and more into their retirement planning.

Another factor that the fund companies providing these products typically fail to clue investors in on is the age of one's spouse. If your spouse is younger, and especially if they are female, given actuarial realities, the investor's retirement date matters far less than the spouse's expected life span. When people do invest in target-date funds and plan to leave a legacy that will last through their spouse or partner's lifetime, a savvy move is to invest with the younger partner in mind.

At Adviser Investments, we don't buy in to the one-size-fits-all approach. We partner with clients to build portfolios that better help each investor to secure their financial future and attain their *individual* investment aims. Helping people reach those goals as securely as we can is our primary concern and only job.

About Adviser Investments
Adviser Investments operates as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 3,000 clients and have over $4 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2016, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the fourth consecutive year. We have also been 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.

Disclaimer: This material is distributed for informational purposes only. The investment ideas and expressions of opinion may contain certain forward-looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities. Data and statistics contained in this report are obtained from what we believe to be reliable sources; however, their accuracy, completeness or reliability cannot be guaranteed.

Our statements and opinions are subject to change without notice and should be considered only as part of a diversified portfolio. You may request a free copy of the firm's Form ADV Part 2, which describes, among other items, risk factors, strategies, affiliations, services offered and fees charged.

Past performance is not an indication of future returns. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. We do not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

The *Barron's* rankings consider factors such as assets under management, revenue produced for the firm, regulatory record, quality of practice and philanthropic work. This award does not consider client experience and is not indicative of future performance.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.

Adviser Investments 85 Wells Avenue Newton, MA 02459 USA