ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

March 13, 2015

In This Issue

Vanguard Makes Changes to Funds-of-Funds
At the end of February, Vanguard announced several changes to its Target Retirement and STAR *LifeStrategy* funds.

First, Vanguard is rolling out a new Institutional Target Retirement lineup. The new funds, expected to launch at the end of June, will be available for large retirement plans with over $100 million in assets, and are expected to charge 0.10% in annual operating expenses. (The current Target Retirement series charges 0.16% to 0.18%.) Otherwise the new lineup should look essentially identical to the old series.

We've wondered in the past why Vanguard didn't use the least expensive share classes of its funds in many retirement plans. The firm may now be making a move in that direction, but in this case, investors will only benefit if they work for companies with plans large enough to qualify for the new funds—employees of mid-sized and small companies will be stuck with the more costly investor shares.

Secondly, Vanguard's investment management committee has decided to increase its allocations to Total International Stock Index and Total International Bond Index in its various funds-of-funds, raising its total exposure to foreign stocks to 40% of equity assets (from 30% previously) and exposure to foreign bonds to 30% (from 20%) of the overall fixed-income sleeve. While we agree that an allocation to foreign securities is a critical element of a well-diversified portfolio, a 40% stock slice is a big one, and well in excess of what Vanguard has recommended in the past.

The change marks the fourth reallocation of assets since the Target funds opened in 2003, suggesting that Vanguard agrees with our opinion that there is no single "right" track to investing before or during retirement, and that investors should be prepared to make allocation changes over time as market conditions shift. However, we believe that investors can do better than Vanguard's Target Retirement lineup by working with a trusted financial adviser to build portfolios tailored specifically to their investment goals and risk comfort zones.

Vanguard Enters Alternative Space

On February 27, Vanguard filed registration papers for the Vanguard Alternative Strategies fund, scheduled to open in late May.

The fund has the option of using long-short strategies, event-driven investing, strategies aimed at capturing mispricing in the bond markets, as well as investments in commodity contracts and currencies. Alternative Strategies will be managed by Michael Roach, a portfolio manager in Vanguard's Quantitative Equity Group, who is expected to use leverage to amplify the investments in the fund.

This move might come as a surprise to Vanguard investors and followers—the firm has criticized the alternative space as being overpriced and inappropriate for most people in the past. Vanguard has done its best to address the latter of those two issues by placing a $250,000 minimum on the fund, putting it out of the reach of most individual investors. It's also projected to charge 1.10% a year in expenses—high for Vanguard, but considerably below the average alternative fund's 1.90% in fees, according to Morningstar.

Furthermore, Alternative Strategies is being launched primarily for use in Vanguard's Managed Payout fund, which already invests in commodities through a special internal fund at Vanguard, and long-short strategies through Vanguard's Market Neutral fund.

Managed Payout will put 10% of its assets into Alternative Strategies, which Vanguard expects will raise that fund's expense ratio to 0.42% from 0.34%. We expect that Market Neutral will eventually be dropped from Managed Payout in lieu of the new fund.

It will be interesting to see how Vanguard approaches the alternative space, but we're happy to observe from afar.

Fidelity Launches IRA Match Program

In late February, Fidelity announced its new IRA Match program, which is designed to give IRA investors a helping hand as a reward for moving their accounts to Fidelity's platform.

The program is intended to mimic the matched employer contribution in many 401(k) plans. However, Fidelity's version, instead of matching equal sums up to a certain percentage of salary, will prorate its deposits into investor accounts based on the overall IRA account size—up to 10% of the annual contribution amount for three years. So if you qualify for the maximum "match" of 10%, a $5,500 contribution would get a $550 boost from Fidelity, for example. (Note that Fidelity's contribution does not count against the annual limit for IRAs; the IRS will regard it as interest earned within the account. This means that investors who can afford to contribute the maximum of $5,500 for tax years 2014 and 2015—$6,500 if they are over 50—could legally exceed the limit with Fidelity's help.)

The firm says the initiative came out of a desire to motivate investors to save and contribute regularly for retirement, noting the success of employer matching programs. Obviously, Fidelity will also benefit from new or increased client assets on its brokerage platform and the annual fees collected from them.

Fidelity's IRA Match is available to new or existing retail customers who transfer any Roth, traditional or rollover IRA to Fidelity. (Advisory clients are not eligible, nor are direct rollovers from 401(k) or 403(b) plans, and newly created IRA accounts are also excluded.) For the three years after coming aboard, Fidelity will match contributions based on the reward tiers below.

Fidelity's IRA Match Tiers

Account Size	Matched % of Annual Investor Contributions
$10,000	1.0%
$50,000	1.5%
$100,000	2.5%
$250,000	5.0%
$500,000	10.0%

Source: Fidelity.

As we've said many times, every penny counts when it's being saved in an investment vehicle with the tax-deferred compounding power of an IRA. Getting extra bang for your buck on Fidelity's dime is icing on the cake.

About Adviser Investments
Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,600 clients and more than $3 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2014, 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 second time in 2015. We are also recognized on the *Financial Times* 300 Top Registered Investment Advisers list.

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 reflect the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

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.