ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard's Manager Rotation

At the end of February, Vanguard announced that it was making a number of leadership and manager changes in an effort to rotate talent and strengthen its team. As part of that rotation, quite a few index funds, ETFs and annuities were appointed new managers or co-managers while the Equity Index, Bond Index and Active Equity Groups all have new heads.

Here is a brief rundown of the new leadership appointments:

- Joseph Brennan, who had been heading Vanguard's Asia Pacific branch from Australia since 2009, has returned to the U.S. to take over the Equity Index Group, which oversees all of the firm's domestic and international equity index funds and annuities. Gregory Davis, former head of the Bond Index Group, has filled Brennan's role in the Southern hemisphere.
- Joshua Barrickman is the new head of the Bond Index Group. Barrickman has been a bond manager with Vanguard for the last decade and will continue to manage or co-manage a handful of bond portfolios.
- John Ameriks, Ph.D., is the new chief of the Active Equity Group, which is responsible for all of the funds (and portions of funds) that Vanguard actively manages. Ameriks has been with Vanguard since 2003 and was the head of the Investment Counseling & Research Group for the last five years. Ameriks will fill part of the role vacated by Sandip Bhagat, the former head of the Equity Investment Group, who resigned at the end of 2012 after Tim Buckley took over as chief investment officer.

The table below shows the manager changes that have gone into effect as a result of the rotation. With index funds, the manager often takes secondary importance to the underlying benchmark and objective, but he or she can add an element of risk with something called "sampling error." For funds that track larger indexes where it is impossible or inefficient to own every component, the manager is responsible for choosing representative holdings from the index to build a portfolio that closely matches its performance. When this process is not successful, the fund's performance can significantly diverge from the index's. Fortunately, with Vanguard, sampling error is a very rare occurrence (most recently seen in several of the bond indexes nearly a decade ago) and it is not uncommon for the managers to lag their benchmarks' performance (which do not have expenses or fees) by less than the fund's operating expenses, a notable feat.

Manager Musical Chairs

Equity Funds	Old Manager(s)	New Manager(s)
Admiral Tax-Managed International	Donald Butler	Christine Franquin
Balanced Index	Michael Perre (stock portion), Gregory Davis (bonds)	Christine Franquin (stocks), Joshua Barrickman, Paul Malloy (bonds)
Conservative Allocation Annuity	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
Diversified Equity	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
Global ex-U.S. Real Estate Index	Gerard O'Reilly	Michael Eyre
MidCap Growth Index	Gerard O'Reilly	Donald Butler
Moderate Allocation Annuity	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
S&P 500 Growth ETF	Ryan Ludt	Michael Johnson
S&P 500 Value ETF	Ryan Ludt	Michael Johnson
S&P MidCap 400 ETF	Donald Butler	Christine Franquin
S&P MidCap 400 Growth ETF	Donald Butler	Christine Franquin
S&P MidCap 400 Value ETF	Donald Butler	Christine Franquin
S&P SmallCap 600 ETF	Michael Buek	Andrew Maack
S&P SmallCap 600 Growth ETF	Michael Perre	Andrew Maack
S&P SmallCap 600 Value ETF	Michael Buek	Andrew Maack
STAR	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
Target Retirement funds	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
Total Stock Market Annuity	Duane Kelly	Michael Buek, William Coleman, Walter Nejman
Total World Stock Index	Ryan Ludt	Christine Franquin
World ex-U.S. SmallCap Index	Ryan Ludt	Michael Eyre

Bond Funds	Old Manager(s)	New Manager(s)

Extended Duration Treasury ETF	Gregory Davis	Joshua Barrickman, William Baird
Intermediate-Term Corporate ETF	Joshua Barrickman	Joshua Barrickman, Paul Malloy
Intermediate-Term Government ETF	Gregory Davis	Joshua Barrickman
Long-Term Bond Index	Gregory Davis	Joshua Barrickman, Paul Malloy
Long-Term Corporate ETF	Joshua Barrickman	Joshua Barrickman, Paul Malloy
Long-Term Government ETF	Gregory Davis	Joshua Barrickman
Mortgage-Backed Securities ETF	Gregory Davis, William Baird	Joshua Barrickman, William Baird
Short-Term Bond Index	Gregory Davis	Joshua Barrickman, Yan Pu
Short-Term Corporate ETF	Joshua Barrickman	Joshua Barrickman, Paul Malloy
Short-Term Government ETF	Gregory Davis	Joshua Barrickman
Total Bond Market Annuity	Gregory Davis, William Baird	Joshua Barrickman, William Baird
Total Bond Market Index	Kenneth Volpert, Gregory Davis	Kenneth Volpert, Joshua Barrickman

It's unlikely that investors will notice any changes in the funds with new managers or that there will be any observable differences in how Vanguard operates overall. However, the three fund group managers do have a part in new fund development, so it will be interesting to see what, if any, new investments are eventually brought to market. That said, apart from sporadic spurts of activity, Vanguard has been slow in recent years to open new funds, usually introducing just a couple per year.

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