ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Planning Fund Merger

In 2007, the state of Florida eliminated its intangible personal property tax, which taxed assets held in investments like stocks, bonds and mutual funds. Since 1992, Vanguard has offered a Florida-specific municipal bond fund that invested in securities exempt from the now-defunct intangible tax. Now, six years after the law went off the books, Vanguard plans to let shareholders in its Florida Focused Long-Term Tax-Exempt fund--who have received no Sunshine State tax advantage by investing in the fund since--vote on whether or not to merge it into the national Long-Term Tax-Exempt fund.

Our first reaction to the news was, "What took them so long?" But Vanguard seems to have no lack of patience when it comes to its bond funds--we've covered the delays and indefinite hiatuses for a number planned fund openings over the years in prior *Adviser Fund Updates*, and the Florida fund is a microcosm of the firm's foot-dragging ways. It wasn't until May 2011 that Vanguard overtly acknowledged that Florida had gotten rid of the intangible personal property tax by changing the fund's mandate (and later the name to include "Focused") to allow a greater allocation to non-Florida bonds. (You can read more about that change by clicking here.)

But even with a widened investment universe, the fact that there was no tax benefit for Sunshine State residents (the only folks who can invest in the fund) made Florida Focused Long-Term Tax-Exempt an anachronism. The one thing it had going for it was a slim margin of outperformance over Vanguard's broader Long-Term Tax-Exempt, somewhat surprising given the far narrower focus of the state-specific fund.

We think shareholders will approve the merger and the Florida fund will disappear by the end of July, 2013. As of March 27, Florida Focused Long-Term Tax-Exempt is closed to new and existing investors in anticipation of the merger. We doubt investors in the fund will notice any significant changes in a transition to the national fund, but shareholders do have an opportunity to cast a "nay" vote if they do have concerns--Vanguard says it will be mailing proxy voting forms soon.

Why Manager Changes Matter

If you've been reading these *Adviser Fund Updates* for any length of time, you've noticed that we devote a good amount of space to covering manager changes at Fidelity and Vanguard, the two firms in which we have extensive expertise. One of Adviser Investment's core philosophies is to buy managers, not funds--this tenet drives many of our portfolio decisions for clients.

Fund strategies are important, but we strongly believe the right person needs to be pulling the strings for a portfolio to be successful. New fund managers can literally change the fortunes of shareholders--they can brighten the prospects of a perennial underperformer, cast a shadow over a fund's future if the manager has stumbled repeatedly on past assignments, or indicate a fund is staying the course as mentors make way for the next generation. We closely track the careers of the managers of all our clients' funds, and are also constantly on the lookout for managers for future consideration and those to avoid. We believe that a solid understanding of what makes managers tick helps us make the right investment choices and benefits our clients as they pursue their long-term investment goals.

Fidelity Veteran Fund Manager Retiring
Christine McConnell, manager of Fidelity's Floating Rate High Income fund and an employee of 25 years, is retiring as of April 1st. Eric Mollenhauer has been named as her replacement.

Mollenhauer has been managing internal floating rate portfolios as well as the Pyramis Leveraged Loans Composite separate account (Pyramis is a branch of Fidelity's asset management business) for Fidelity since 2007. (He'll retain responsibility for these products, although Fidelity left open the possibility of adding co-managers if he needs some help.) Overall, Mollenhauer has 18 years of investment experience, and has spent the last six working alongside McConnell. He joined Fidelity's high income division in 1995 as a research analyst, covering a variety of industries over the years, including entertainment and leisure, gaming and lodging, homebuilding, paper, printing and publishing, and services. He served as director of high yield research from 2003 to 2006 and has earned the Chartered Financial Analyst designation.

Fidelity doesn't expect the portfolio or strategy to change significantly with McConnell's retirement and Mollenhauer's advance to the fore, and neither do we.

Manager Change at Fidelity International Fund
Earlier in March, Fidelity announced that Risteard Hogan had replaced Melissa Reilly as manager of the Europe Capital Appreciation fund and the European portion of the Fidelity Global Balanced fund. Reilly is moving on to serve as the Chief Investment Officer of Fidelity's Capital Appreciation/Growth group.

Hogan has managed Fidelity's Europe fund since April 2012 and has been with Fidelity since 2005. He was a co-manager on the International Equity Central fund (an internal-use-only product that other Fidelity funds invest in) from 2008 to 2011, consecutively handling the consumer staples and financial sector sub-portfolios during that time. Past experience includes a stint at Fidelity Worldwide Investment as an equity research analyst, head of corporate development for Heiton Group, financial controller for CRH plc (Heiton and CRH are both building materials distributors) and as an auditor and manager for Lybrand (the last three are all Irish-based companies).

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 2,400 clients and over $2.5 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.

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