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May 16, 2008

### **Vanguard Managed Payouts Ready to Start Paying Out**

On May 5<sup>th</sup>, Vanguard's three new Managed Payout funds began trading after a two-week subscription period. The funds, Managed Payout Growth Focus, Managed Payout Growth & Distribution and Managed Payout Distribution Focus, each require a \$25,000 minimum initial investment and charge 0.58%, 0.58% and 0.57% in expenses, respectively.

As mentioned in our October 5<sup>th</sup> *Adviser Fund Update*, the funds will seek to make 12 equal monthly distributions while preserving and, for two of the funds, growing capital. The initial payout amounts have been set based upon the funds' different goals and opening share prices of \$20. Managed Payout Growth Focus aims to make monthly distributions of \$0.0500 per share per month (adding up to 3% of the \$20 NAV at inception); Managed Payout Growth and Distribution will pay out \$0.0833 per share per month (5%); and Managed Payout Distribution Focus \$0.1167 per share per month (7%).

The funds are purposed mainly for investors in retirement seeking a regular source of income, and the bulk of assets will be invested in other Vanguard funds, although market neutral strategies and commodities, alongside stocks, bonds, cash, REITs and inflation bonds will also make up a segment of the portfolios.

Despite the funds opening to investors, Vanguard has declined to make public just who will be sitting on the funds' investment committee, guiding the funds' strategy and investment process. Michael H. Buek, a member of Vanguard's Quantitative Equity Group and manager of a number of the firm's index funds, is the only name attached to the three Managed Payouts.

We'll watch the progress of these funds, but until more information about just how they will be run is available and how closely they can match their distribution goals is determined, we will not be investing in them on behalf of our clients.

### **Fidelity Manager Moves**

None of the following moves are cause for concern for investors in the affected funds:

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On May 9<sup>th</sup>, Fidelity appointed Charles L. Myers to run Small Cap Value (as well as its Advisor clone), replacing Thomas Hense, who was promoted up to a senior management role within the Fidelity Management & Research Company. Myers will continue to manage Small Cap Retirement, which he's run since 2006. He joined Fidelity's small-cap team in 1999, moving across the pond to London to work as a research analyst following European telecom companies from 2001 to 2003. He moved back to Boston in 2003 and rejoined the small-cap team, and in 2004 was appointed portfolio assistant on Low-Priced Stock. From 2005 to 2006, he co-managed Small Cap Growth (and its Advisor clone). Before joining Fidelity, Myers worked with Morgan Stanley Asset Management in London (also putting in a summer in their New York office in 1997), and prior to that, served as director of investments and sat on the board of directors for the University of Pennsylvania's Student Federal Credit Union.

On May 1<sup>st</sup>, Fidelity shuffled a number of managers on several Select funds.

Brian Wilhelm took over Select Insurance, from Stephen Hermsdorf. Wilhelm has been with Fidelity since 2006, when he got his start as an equity research analyst covering property casualty insurance and reinsurance companies. Prior to joining the firm, he spent 10 years with Dowling & Partners, an equity research firm specializing in the insurance industry—he began his tenure as an analyst and left a partner.

Maurice FitzMaurice succeeds Andrew Hatem as manager of Select Defense and Aerospace. FitzMaurice has been managing Select Air Transportation and Select Transportation since 2007, and during his tenure with the firm has also managed the high-yield portions of Balanced (along with its Advisor and VIP clones) and Total Bond fund. He got his start with Fidelity as part of the High-Income Division in 1998, and since that time has covered a wide array of sectors, including airlines, consumer products, energy, media, railroad, real estate and utilities. Before he joined Fidelity, FitzMaurice spent two years in Lehman Brothers' Investment Banking Division as an analyst from 1994 to 1996.

Jonathan Kasen now runs Select Industrial Equipment, having replaced Vincent Montemaggiore. Kasen joined Fidelity in 2006 as an equity analyst following electrical products, industrial distribution, machinery and mid-cap diversified industrial stocks. His prior investment experience includes a summer internship with Fred Alger Management in 2005 and several years (2001 to 2004) analyzing the health care and technology sectors with Hellman Jordan Management.

John Sheehy was promoted to sole manager of Select Paper and Forest Products—previously he co-managed the fund with Justin Bennett starting in early 2008. Sheehy has been with Fidelity since 2006, getting his start as so many other managers do as an equity research analyst—in Sheehy's case, he followed companies in the paper and packaging sectors. Prior to joining Fidelity, Sheehy was an audit manager with Deloitte LLP from 1998 to 2005.

## About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds.

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