



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



June 5, 2015

Vanguard Alternative Strategies Fund Live

In contrast to the [oft-delayed launch](#) of its municipal bond index fund and ETF, Vanguard successfully birthed its Alternative Strategies fund (ticker symbol: VASFX) last week, although it is not yet available for investment (the official debut will likely come after it's gathered some assets internally). The fund is an unusual one in the Vanguard universe, generally known for its low-cost, straightforward stock, bond and money market options.

The fund can use long-short strategies, event-driven investing and strategies to attempt to capture mispricing in the bond market, as well as commodity contracts and currencies. Fund manager Michael Roach, from Vanguard's quant team, is expected to use leverage to amplify the investments in the fund.

Vanguard has long cautioned individual investors against getting into this area. So what gives? To start, the fund has a \$250,000 minimum, putting it out of reach for most retail investors, allowing Vanguard to keep to the spirit of its past advice.

Rather than to attract individual investors, the fund was really created to fill a need within Vanguard's Managed Payout fund-of-funds. Alternative Strategies will take the place of two sleeves of Managed Payout: Commodities, formerly owned through a special internal fund but more recently accessed by way of the PowerShares DB Commodity Index Tracking fund; and long-short strategies, represented by the firm's Market Neutral fund.

As of April 30, Managed Payout's 10.1% allocation to Market Neutral represents \$162 million, a little less than half of the total \$377 million in assets in the long-short fund, whose days may now be numbered.

Expenses for Alternative Strategies run 1.10%, well below the 1.64% expense ratio on Market Neutral.

In This Issue

- Vanguard Alternative Strategies Fund Live
- Supreme Court Rules in Favor of 401(k) Investors

Alternative Strategies could very quickly blossom to more than \$250 million in assets by replacing Managed Payout's allocation to Market Neutral and the current 5.3% allocation to commodities. We're not convinced that the addition of Alternative Strategies will make Managed Payout a better investment, but it could bring expenses down and make management of the fund easier for Vanguard.

Supreme Court Rules in Favor of 401(k) Investors

Last month, the Supreme Court ruled unanimously in *Tibble v. Edison International* that companies overseeing 401(k) plans are legally obligated to provide ongoing monitoring of investments. The Justices also expanded protections for employees in the retirement savings plans—good news for participants nationwide.

In his opinion, Justice Stephen Breyer wrote that 401(k) plan advisers' continuing fiduciary duty "to monitor trust investments and remove imprudent ones" must "exist separate and apart from the trustee's duty to exercise prudence in selecting investments at the outset."

The case was filed in 2007 by employees of energy company Edison International who alleged that the company failed to fulfill its fiduciary responsibility when it purchased retail mutual funds, rather than the less-expensive and virtually identical institutional-class funds, in 1999.

The Supreme Court's decision overturned a lower-court ruling that held the suit had been filed past a six-year statute of limitations set automatically when investments are purchased.

Instead, Breyer explained, basing the opinion on centuries of common law, that investment managers responsible for the assets of other people remain responsible for monitoring investments beyond the initial investment decision.

The Court ruled the case valid, but kicked it back to the Ninth U.S. Circuit Court of Appeals to decide the outcome.

While the ruling has certainly been closely followed by plan administrators, it also serves as a good reminder to all members of a 401(k) of the importance of keeping a close eye on fees and the responsibility of your plan sponsor to find good options at the lowest possible cost. These are also core tenets of our approach.

When Adviser Investments constructs 401(k) plans, management fees are analyzed as closely as returns and risk concerns. As a 3(21) and 3(38) fiduciary (meaning we are required to put client interests ahead of our own), we understand our ongoing responsibilities and our clients' expectations. Our plan construction offers a high-quality set

of investment options along the risk-reward spectrum for employees and their beneficiaries to choose among, while minimizing fees.

Our plans' objectives are typically five-fold:

- Provide a diverse and comprehensive set of passively and actively managed mutual funds to participants who wish to direct their own investments.
- Provide one-size-fits-all, third-party target-date funds to participants who want funds automatically reallocated based on an estimated retirement date.
- Provide portfolios composed of our top fund picks, managed and designed to match a range of risk comfort zones.
- Provide a long-term competitive rate of return.
- Control costs.

If you'd like to learn more about our 401(k) plan construction, please feel free to contact us at (800) 492-6868. We also regularly helps clients build portfolios within their existing retirement plans to match their investment objectives.

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 over \$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.

You are receiving emails from Adviser Investments because you have agreed to receive updates and information about Adviser Investments via email.

Please [click here](#) to manage your email subscriptions or unsubscribe from further email-based communications. For more information you can also see our [Privacy Policy](#).

Adviser Investments 85 Wells Avenue Newton, MA 02459 USA