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In This Issue

Top Fidelity Manager Is Going Walkabout

Earlier this month, before Fidelity publicly broke the news, we learned that Joel Tillinghast, the renowned manager of Fidelity Low-Priced Stock, would be departing on a four-month leave of absence this September. A standout among Fidelity's managers, Tillinghast has been tireless in his pursuit and delivery of managerial excellence on behalf of his shareholders. He's the real deal: A manager who measures his own worth not by the size of his bank account but by his shareholders' returns.

- Top Fidelity Manager Is Going Walkabout

After nearly 22 years managing the fund, we really cannot begrudge Tillinghast's decision to take some time off (although the news initially did give us some concern). According to Fidelity, Tillinghast plans to travel to Asia, continue his work writing a personal finance book for retail investors, and spend time mentoring some of Fidelity's analysts and first-year portfolio managers.

We wish Tillinghast the best--his fund has long been a component of many client portfolios--and hope he returns from his walkabout refreshed and recharged. Meanwhile, his impending departure raises several questions for shareholders like us. Unlike individual investors in the fund, however, our unique access to Fidelity allowed us to speak directly to Tillinghast and his colleagues to get answers to those questions and begin to make contingency plans should the need arise.

Who will mind the shop during Tillinghast's absence?

Jamie Harmon, a 16-year Fidelity veteran, was handpicked by Tillinghast to oversee the fund. He'll be leading a team of five sector managers who will contribute ideas for the fund's portfolio. This team includes:

- Shadman Riaz: Materials, Energy and Utilities
- Kathy Buck: Consumer Staples and Consumer Discretionary
- Rayna Lesser: Telecom Services and Information Technology
- Justin Bennett: Financials
- John Mirshekari: Industrials

"Team Joel" has been working alongside Tillinghast since mid-March (and will continue to do so until his departure), which should give

the team plenty of time to learn the ropes. But even as Tillinghast globetrotts, ruminates and educates, investors can be reassured that he will retain oversight of the fund. No major changes to sector weightings or international exposure will be made without his approval, and no changes to his top 50 holdings will be made without his say so.

What experience does Harmon bring to the table?

Harmon earned a B.A. from Harvard University in 1994 and joined Fidelity's equity research department in 1995, focusing on energy and health care services stocks. Since 1998, he has worked exclusively in the small-cap stock arena. He's managed Advisor Small Cap since October 2005, and has previously managed:

- Small Cap Growth (April 2005 to October 2005)
- Stock Selector Small Cap (April 2001 to October 2005)
- Small Cap Discovery (September 2000 to October 2005)
- Select Biotechnology (June 1997 to May 1998)

How does Harmon's track record stack up against Tillinghast's?

Because Harmon has not run any retail Fidelity funds since 2005, he has not been part of Chief Investment Officer Jim Lowell's regular retail fund manager rankings since then. However, after taking a closer look at his track record at Advisor Small Cap, we were pleasantly surprised to learn that had Harmon been included, he would have ranked higher than both Tillinghast and Will Danoff, the successful manager of Contrafund. (Through June 30, 2011, Tillinghast and Danoff ranked 10th and 11th, respectively, out of 27 managers in the "growth and growth & income" category.)

Take a look at the table below, where Tillinghast and Harmon's performances on Low-Priced Stock and Advisor Small Cap over various periods are laid out side by side. Since Harmon took over the management of Advisor Small Cap at the end of October 2005 through the beginning of this month, his fund outperformed Low-Priced Stock by 2.1%, cumulatively. While past performance is not a good predictor of future results, Harmon's record next to Tillinghast's is impressive, and bodes well for the fund during Tillinghast's leave.

How Do Harmon's Returns Measure Up?

	Tillinghast (Low-Priced Stock)	Harmon (Advisor Small Cap)
1 year	30.4%	30.5%
3 year	32.9%	28.2%
5 year	36.4%	42.0%
Year-to-date as of 7/12/11	8.3%	8.4%
10/31/05 to 7/12/11	50.0%	52.1%

Note: 3- and 5-year returns are cumulative, as is the 10/31/05 to 7/12/11 return. Source: *Fidelity Investor*.

Harmon's style, philosophy, and discipline are highly correlated to Tillinghast's approach. As of each fund's most recent holdings report, Harmon's three largest sector allocations include information

technology (28%), health care (21%) and industrials (18%). Tillinghast also favors information technology (16%) and health care (13%), but his top sector remains consumer discretionary (26%).

Is there a chance Tillinghast won't return to the helm of Low-Priced Stock?

Fidelity says Tillinghast will begin his leave on September 6 and will return in January 2012. We were curious to know if the sabbatical is a trial separation, illness-related, or simply a walkabout quest. After speaking directly with Tillinghast, Brian Hogan, who oversees Fidelity's equity funds, as well as Harmon, we're confident that Tillinghast will return as scheduled.

Should investors consider exchanging out of Low-Priced Stock?

Based on Harmon's strong results and our confidence that Tillinghast will be back, we believe shareholders should stay put. We will be closely watching the performance of Low-Priced Stock during the interim period for any signs of unexpected divergence from Tillinghast's past performance behavior. But, with Harmon's own past performance reflecting a very similar style and outcome, we think it makes fundamental sense to stay the course with Low-Priced Stock.

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