



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



July 31, 2015

Vanguard Keeps Active ETF Options Open

Vanguard surprised many observers in March 2014 when it filed with the SEC for permission to create exchange-traded fund (ETF) share classes of its actively managed open-end mutual funds, as we discussed [at the time](#). Earlier this month, Vanguard adjusted that filing to seek even more leeway in the active ETF market—should it ever actually offer any.

Vanguard's amended filing in June 2015 requests the opportunity to introduce stand-alone active ETFs. To date, all of Vanguard's ETFs are share classes of open-end index mutual funds, and the previous filing sought to extend this practice to its roster of actively managed funds.

The firm has claimed that the active ETFs are unlikely to ever become reality, and is merely keeping its options open. In a July 17 comment to *Barron's*, a Vanguard spokesperson said, "We are simply seeking the flexibility to offer stand-alone ETFs where such ETFs may make sense."

Under the current regulations for ETFs, it's tough to see how ETF versions of its actively managed funds make sense for Vanguard. The SEC mandates that ETFs are required to reveal detailed portfolio holdings on a daily basis, something that active managers would seemingly be loath to do. Managing a fund would become even more challenging, as competitors and other institutional investors would be able to track a fund's daily changes and mimic them (possibly causing a disruption of the strategy in the process—there are already a number of "event-driven" funds that seek to take advantage of changes in index funds, this would be something that active managers would have to contend with as well if their portfolios were disclosed daily).

Active ETFs comprise a small, but growing, investment space. As of March 31, there were 128 such funds industry-wide, totaling about \$19 billion in assets, with nearly half of the funds launched since the start of 2014. But even with the growth, they remain only about 1% of the

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overall \$2 trillion ETF market.

Fidelity debuted its [own active ETFs](#) in October, launching three bond ETFs: Corporate Bond ETF, Limited Term Bond ETF and Total Bond ETF.

Our view remains that Vanguard won't be ready to enter the active ETF market anytime soon, but wants to keep its options open until the moment is right. While the field may someday play a large role in the mutual fund industry, active ETFs are still a small drop in a huge pond, and the market forces don't appear compelling enough yet for Vanguard to dip in its toe.

Fixed Income Manager Shuffle at Fidelity

This week, Fidelity announced three managerial changes effective July 27 to fill positions vacated by Pramod Atluri.

Jeff Moore was named sole portfolio manager of Investment Grade Bond Fund, which he previously co-managed with Atluri. Moore has worked in Fidelity's fixed income division for 15 years, overseeing Investment Grade Bond Fund since 2004 and Total Bond Fund and Global Bond Fund since 2012. Previously, he served as an analyst in the sovereign debt, energy, REIT, Yankee banks and Canada spaces. He joined Fidelity in 1995.

Ford O'Neil was tapped to become co-manager of Balanced Fund, Advisor Balanced Fund and VIP Balanced Portfolio. He will work under lead manager Robert Stansky and alongside nine other co-managers. In addition, O'Neil was named portfolio manager of VIP Investment Grade Portfolio. He has managed Total Bond Fund since December 2004 and Strategic Real Return since June 2012. O'Neil began his Fidelity career in 1990.

Michael Plage was picked as co-manager on Puritan Fund, joining existing co-manager Harley Lank and lead manager Ramin Arani. He also became co-manager of Fidelity Total Bond ETF, alongside existing co-managers Ford O'Neil and Michael Foggin. Plage has been a manager on Corporate Bond Fund since May 2010 and Short Duration High Income Fund since November 2013.

Outside Fidelity's fixed income division, on July 14, Kyle Weaver took over as co-manager of Fidelity Advisor Growth Opportunities, VIP Growth Opportunities and Advisor Series Growth Opportunities, joining Steve Wymer on the funds. The pair will co-manage the funds temporarily, with Weaver eventually assuming the sole management role.

Weaver succeeds Gopal Reddy, who is leaving Fidelity. Reddy had co-managed these funds with Wymer since

October 2012 before taking lead management this January. Fidelity has not announced a public timetable for Weaver to begin managing the funds on his own.

Weaver also manages Select IT Services and Select Wireless. Technology is the biggest sector in each of the funds he's now helming, so his knowledge of that industry makes him a good fit with Wymer, who has managed Growth Company for Fidelity since 1997.

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

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