ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Shuts the Doors

On August 14, Vanguard announced that it was closing PRIMECAP Core to most new accounts (certain retirement savings plans and Flagship clients are the exception) and placing a $25,000 a year limit on additional purchases for existing shareholders. The firm also further limited access to closed sister funds Capital Opportunity and PRIMECAP by placing a $25,000 a year threshold for additional investments by Flagship investors (those with more than $1 million invested in Vanguard funds).

Up until this point, PRIMECAP Core was Vanguard's only available option for investors looking to benefit from the PRIMECAP Management team's expertise—the other two PRIMECAP funds mentioned above have been closed since March, 2004.

The firm termed the closing and new limits to Capital Opportunity and PRIMECAP as a "preemptive step" intended to limit the growth of the funds, and indeed, this seems to be a case where Vanguard is anticipating future demand. While all three funds have experienced steady inflows of cash since February, over the last year through July, only PRIMECAP Core, which saw steady inflows over the entire period, had increased in size, as you can see in the table below. In fact, accounting for performance over the last year, Capital Opportunity and PRIMECAP have both seen significant net outflows ($110 million and $360 million, respectively). PRIMECAP Core, on the other hand, experienced a net inflow of $790 million, certainly owing in part to its status as Vanguard's only open PRIMECAP-run fund during that time.

Assets in the PRIMECAP Funds ($ millions)

	Jul-08	Feb-09	Jul-09
Capital Opportunity	$8,805	$4,919	$7,356
PRIMECAP	$31,923	$18,745	$25,836
PRIMECAP Core	$3,421	$2,422	$3,821

Figures for Capital Opportunity and PRIMECAP include investor and Admiral shares

In past updates, we've expressed our confidence in the PRIMECAP team and their growth-at-a-reasonable-price (GARP) philosophy for stock selection. We have included one or more of their funds in many of our growth-focused client portfolios over the years, and when Capital Opportunity and PRIMECAP closed in the past (2004 is only the most recent shuttering of these funds), we've had to seek viable alternatives.

Fortunately, the PRIMECAP team manages a trio of funds under their in-house Odyssey label that are very similar in style and objective to the funds they run for Vanguard, but significantly smaller in size, giving the managers much more flexibility in how they handle the funds—making them reminiscent of the early years for Capital Opportunity and PRIMECAP, before they swelled to their current sizes. Since their November 2004 inception, the Odyssey funds have all performed about the same (or better) than their Vanguard cousins. The best match for PRIMECAP Core is Odyssey Stock (POSKX), Odyssey Aggressive Growth (POAGX) is most similar to Capital Opportunity and PRIMECAP tallies best with Odyssey Growth (POGRX).

The Odyssey funds do have slightly higher fees than their Vanguard counterparts (between 23 and 27 basis points or 0.23% to 0.27% higher). That said, the Odyssey funds are far more accessible—before it closed, PRIMECAP Core required a minimum initial investment of $10,000, compared to a $2,000 minimum on each of the Odyssey funds. If you find yourself shut out of the Vanguard selection of PRIMECAP funds, the Odyssey funds are fantastic alternatives, and should help you achieve the same objectives in your portfolio.

Fidelity Finished with Layoffs
In recent comments to the media, Fidelity Investments president Rodger Lawson revealed that the fund giant was "done" with layoffs.

Due to a combination of the market meltdown and a restructuring plan, Fidelity saw its number of employees worldwide shrink from nearly 46,000 last year to about 38,000, presently. Lawson said that the firm plans to keep at the current level for the foreseeable future.

While Fidelity was busy cutting salaries and staff, the company saw assets under management grow from $2.6 trillion to $2.8 trillion, which included a growth in fund assets from $1.24 trillion to $1.35 trillion. Not surprisingly, given investors fears, a large amount of assets currently flowing into Fidelity's funds is going to money market and bond funds.

8,000 jobs lost is nothing to celebrate, but Fidelity did manage to avoid the even more devastating cutbacks that some other large firms have experienced. We feel that even with the layoffs, Fidelity remains one of the best mutual fund providers in the market today.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $900 million dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 35 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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