ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Lowers the Bar on Admirals

On October 6, Vanguard launched yet another offensive in the continuing battle over operating expenses and fund minimums, significantly reducing the entry price for a majority of its funds' lower-cost Admiral share class.

Vanguard has slashed the minimums on most of its Admiral shares from the old $100,000 level for first-time buyers to anywhere from $10,000 for index funds to $50,000 for actively managed funds. In the past, established Vanguard investors who'd held a fund for 10 years with a balance of $50,000 or more were allowed to convert to Admiral shares, but this move obviously opens up access to a far greater number of investors. $10,000 or $50,000 is quite a bargain when compared to the post-2005 $100,000 minimum or the original $250,000 price of entry for Admirals.

This is just another aggressive step Vanguard has taken over the last few months to garner greater market share in its mutual funds and ETFs. For Vanguard investors, it means lower prices, which we always like to see. If you invest in the Investor class shares of a fund that also offers Admiral shares, we urge you to see if you now qualify for the Admiral version--a call to your rep or a visit to Vanguard's website could get you promoted to Admiral and save you some money on expenses.

Overdue Manager Change

Just a day after dropping its Admiral bomb on the marketplace, Vanguard dropped another bigger one on the AllianceBernstein team managing two-thirds of the perennially underperforming U.S. Growth, firing them from the fund. William Blair & Co. will continue to manage about a third of the fund's assets, with a third each handed to Wellington Management and a newcomer to Vanguard, Delaware Investments.

AllianceBernstein was originally hired to run U.S. Growth in June 2001 to replace Lincoln Capital and they were joined by a team from William Blair in April 2004. Since 2008, AllianceBernstein swapped the managers within the firm responsible for running U.S. Growth a few times, calling into question whether the fund would ever see continuity in management. None of the teams had much success however, with U.S. Growth's performance relative to Vanguard's other growth funds consistently lagging, often significantly.

In fact, the years of underperformance (something we've talked about in past Adviser Fund Updates) and the steady bleeding away of billions of dollars of fund assets (from $11.6 billion when AllianceBernstein took over to just $3.7 billion at the end of September) invites questions about Vanguard's board of director--most importantly, where were they as this slow-motion train wreck of a fund ran off the rails? It's a question we will probably never see satisfactorily answered now that the manager change has been made.

We're glad to see the firm finally take action (although we still harbor reservations about the multiple manager approach to fund management) and we'll be watching U.S. Growth closely in the coming months to see if there is any improvement under the new regime. For now, we'd advise investors to continue to give U.S. Growth a wide berth.