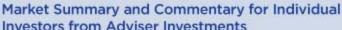


ADVISER FUND UPDATE





December 23, 2009

New Fund for the New Year

On December 22nd, Vanguard announced that it planned to open a new actively-managed domestic equity fund sometime in the first quarter of 2010. The fund, Explorer Value, will focus on small- to mid-sized value companies, which Vanguard sees as an open niche in their actively managed fund lineup.

Explorer Value will be the first fundamentally managed fund Vanguard has opened since PRIMECAP Core, which made its debut back in 2004, a period during which the firm introduced more than 20 index funds and ETFs. Of course, if you included their fund-of-active-funds offering, Diversified Equity, introduced in 2005, then the time lag shortens a bit. And the new Explorer Value has more in common with Diversified Equity than it does PRIMECAP Core.

The original Explorer fund, which Explorer Value is intended to complement, is Vanguard's only actively managed small-cap fund other than the quantitatively-run Strategic SmallCap Equity, and it suffers from a major case of manager bloat, with eight managers from seven advisory firms each managing chunks of the fund's assets. Throw in a portfolio of 1,070 stocks and you have a recipe for index-like performance. Due to these factors, we have not recommended Explorer for quite some time.

Unfortunately, it seems like Explorer Value may be bound for a similar fate, as seven managers from three management teams have been tapped to manage portions of the fund. We've written to you in the past how we feel about piling management teams onto funds—while multiple teams can flatten out volatility, they can also negatively impact performance, as has been the case at Explorer.

Two of the advisory firms are new to Vanguard, Cardinal Capital Management and Sterling Capital Management, while the third, Frontier Management, has been managing a portion of Morgan

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Growth's assets since 2008. Vanguard has said that the teams will each initially manage a third of Explorer Value's assets.

The new fund will have a rather hefty \$10,000 minimum initial investment and will charge 0.59% a year in expenses. Our first impression of Explorer Value is negatively tinged by Vanguard's chosen management structure. Once more information becomes available, we'll revisit Explorer Value and make a recommendation.

Holiday Cheer

All of us here at Adviser Investments wish you a happy and safe holiday season—you'll be hearing from us next in 2010. Cheers!

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and \$1 billion 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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