ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Vanguard Names New Top Dog
This week, Vanguard announced that F. William McNabb III will be stepping down as chief executive officer at the end of the year. He will be replaced by Chief Investment Officer Mortimer “Tim” Buckley as of January 1, 2018, but will stay on as chairman of the board.

The announced move comes as a result of a vote by Vanguard’s board of directors, which also immediately promoted Buckley to president of the fund giant and added him as a director. Greg Davis, who is Vanguard’s global head of fixed income, will succeed Buckley as CIO, with oversight of the firm’s equity index, quantitative equity and fixed income groups. In turn, John Hollyer, CFA, who has held a number of bond and money market management roles at Vanguard since 1989 and is currently head of risk management, will take Davis’s place as global head of fixed income.

Buckley is a good candidate for the CEO role (just the fourth person to hold that title since the firm’s founding in 1975). He’s been a member of Vanguard’s senior leadership team since 2001 and was appointed chief investment officer in 2013. He joined Vanguard in 1991 as an assistant to firm founder and then-Chairman John C. Bogle.

This is a new chapter in Vanguard’s history, but at the same time, we don’t think investors will notice much, if any, change following the handover at the start of 2018.

Voting Opportunity for Vanguard Fund Shareholders
While Vanguard investors didn’t get a chance to have their voice heard in the leadership changes covered above, the firm filed some plans with the Securities and Exchange Commission that will require shareholder approval to implement.

In short, Vanguard will give shareholders in all U.S.-based funds the opportunity to vote on a handful of policy proposals, two of which were submitted by shareholders (one would task fund managers with avoiding companies that have contributed to genocide or crimes against humanity, and the other with a review of how the firm handles proxy votes on climate-change-related issues). There will also be votes to approve several new trustees for the funds, McNabb and Buckley among them.

Vanguard plans to tally mail-in and in-person votes at a shareholder meeting on November 15 in Scottsdale, Arizona. The firm will send out information on the issues and trustee candidates once they receive SEC approval—if you invest in Vanguard funds and you’re interested in having your voice heard, look for the ballot in the coming months. (Note that it is Adviser Investments' policy to leave the decision on proxy votes to our clients. We do not vote on their behalf.)

Fidelity Manager Reshuffle
Fidelity recently announced that effective June 30, Kip Johann-Berkel would assume co-manager duties at the $1.8 billion Small Cap Stock fund alongside lead manager Lionel Harris. On June 30, 2018, Harris plans to step down and leave Johann-Berkel with sole management responsibilities.

Prior to the promotion, Johann-Berkel served as a research analyst focused on U.S. small-cap consumer stocks. Harris will remain at Fidelity in a new role.

We give high marks to the transition process at Fidelity here, allowing Harris to spend a year on the fund showing Johann-Berkel the ropes before handing over the keys.

Elsewhere at the Boston-based fund giant, Fidelity named Asher Anolic co-manager of Growth Discovery, Advisor Equity Growth, Advisor Series Equity Growth and VIP Growth Portfolio. He will assume sole leadership on an interim basis on those funds when current manager Jason Weiner takes a sabbatical from January 1, 2018, through mid-June 2018.

In a business as competitive as mutual fund management, burnout is hardly uncommon, and we're pleased to see that Fidelity continues to offer its managers the flexibility to take the leaves of absence that can help them recharge and bring new perspective upon returning.

Anolic will also remain a manager at Select Pharmaceuticals, where he was joined by new co-manager Karim Suwwan de Felipe effective June 30. Both Anolic and Suwwan de Felipe will continue their research analyst roles covering global pharmaceuticals.

Finally, on June 6, Kevin Walenta became manager of Mid Cap Value and Advisor Mid Cap Value, succeeding Court Dignan, who has left the firm. Walenta will continue to manage Select Environment and Alternative Energy, a Fidelity sector fund, and remain an equity research analyst for the utilities sector.

Walenta's philosophy focuses on value investing, looking for lower price-to-earnings ratios and higher free-cash-flow yields, superior return-on-equity, strong balance sheets and lower future growth expectations. It's typically a good sign of Fidelity's confidence in a stock picker when it promotes a sector manager to a larger growth fund, so Walenta's tenure bears watching.

Fidelity Revamps Income Replacement Funds
Fidelity has repurposed 11 of its Income Replacement funds. Six funds now are part of the "Managed Retirement" series, while the other five are now dubbed "Simplicity RMD" funds.

Fidelity launched the Income Replacement funds for investors seeking monthly payments (a voluntary feature) that would keep up with inflation over time through a pre-determined end date (the year that was in each fund's name). If investors chose to receive the monthly payments, the funds' objective was to gradually draw down their account, paying out assets in a stream of income with the final payment coming at the end of their target fund year.

So what differentiates the rebranded funds? While the funds are keeping the target year convention, Fidelity now offers one from each series with target years of 2005, 2015 and 2020 (there's also a Managed Retirement 2025 fund) as well as an income version of each. In the process, the firm has reworked the objectives significantly enough that holdover Income Replacement investors should make sure the funds still align with their needs, if you haven't already.

The Managed Retirement funds are intended for investors that reached (or will be turning) age 70 in or around the year in the fund's name. They aim to provide regular payments through Fidelity's automatic withdrawals service, though shareholders may also invest in the funds without participating in the payout plan.

The series invests in a mix of other Fidelity actively managed and index funds, gradually shifting to a more conservative allocation until they match Managed Retirement Income's: 17% domestic stock, 7% international stock, 46% bond funds and 30% short-term bond and money market funds. This ultimate allocation takes place approximately 10–20 years after the target year, when the respective Managed Retirement target year fund will be merged into Managed Retirement Income. The series of funds is closed to new investors.

The Simplicity RMD funds are aimed at investors that turned or will turn age 70½ in or around the each fund's respective target year. At that age, investors in traditional retirement savings accounts are subject to the IRS's required minimum distribution rules (hence the "RMD" in the funds' names). Note that Roth plans are not subject to RMD rules.

With these funds, investors receive regular payments through Fidelity's RMD withdrawals plan. As with the Managed Retirement funds, investors can opt out of the payout plan, and the funds invest in other Fidelity funds on a glide path toward the allocations of Simplicity RMD Income, which will eventually absorb the other funds. (Like Managed Retirement Income, the target allocations are the same 17%/7%/46%/30% breakdown between U.S. stocks, international stocks, bond funds and short-term bond and money markets, respectively.) The Simplicity RMD funds require a minimum initial investment of $2,500.

The appeal of these funds is the fact that they are a one-stop option for investors who would prefer to have their portfolio's allocation managed for them over time and have the drawdown or RMD process automated (it should be noted that Fidelity offers automatic withdrawal and RMD services to account holders on their platform—you don't need to own one of these funds to take advantage of them). And there is definitely a good motivation for investors to establish a plan to take RMDs in retirement accounts—those who fail to take them on schedule face steep IRS penalties (50% of the missed RMD is forfeited to taxes)—something we manage for many of our clients. But plenty of investors also don't know how to spend down their accounts to make them last without over- or underspending, risking running out of money too soon or living more frugally than necessary and leaving more than they intended behind, something the Managed Retirement series attempts to solve.

Products like these can certainly be useful—and perhaps even life-changing—for investors with neither the know-how nor means to self-manage or hire a professional investment manager to advise and guide them through the RMD and drawdown phase of their financial lifecycle. But these are also one-size-fits-all investments that use only a single factor to determine your portfolio allocation for the rest of your life—in this case it's an age at which you may want or need to begin taking withdrawals. Risk comfort, goals and personal situations are not really accounted for with an investment like this. We think we can do better for our clients by building them custom portfolios from the ground up and managing them based on regular conversations regarding evolving needs, goals and life stages, up to and through retirement.

About Adviser Investments
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recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

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

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