ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Fidelity Stays Active in August
August may be thought of as the slowest month of the year for investors, but Fidelity stayed busy behind the scenes during the dog days of summer. Here's a roundup of some recent news coming out of the Boston fund titan.

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Investment Policy Tweaked on Low-Priced Stock
On August 31, Fidelity's Board of Trustees announced that it had approved a change to Low-Priced Stock's investment policies, essentially expanding the definition of "low-priced." The change will go into effect November 7.

Since its 1989 inception, the fund has been run by Joel Tillinghast, who has stuck to the mandate of only buying "low-priced" stocks. Currently, Fidelity defines "low-priced" as any stock trading at or below $35 per share at the time of purchase. When the policy change occurs later this fall, the definition will be expanded to also include stocks with an earnings yield at or above the median for the Russell 2000 index (the fund's benchmark, an index of the 2,000 smallest stocks by market capitalization—i.e. the company's value measured by the price and number of its shares—included in the broad Russell 3000 index), in addition to the $35-and-under universe.

"Low-priced" meant any stock with a share price below $15 per share when the fund was started in 1989. That limit has been increased twice since then as markets have appreciated, most recently to the $35 threshold in 1997. Under its mandate, the fund can hold on to stock that appreciates above the purchase-price limitation.

It's a fairly unique approach to stock picking. The thinking goes that lower-priced stocks tend to be under-analyzed by institutional investors, theoretically making the low-priced portion of the market less efficient, which could present more opportunities for active managers. Another of Low-Priced Stock's distinctive qualities: So long as it stays within the restrictions, Tillinghast is permitted to buy stocks of every shape and size, both domestic and international.

Fidelity describes the decision as a way to provide more flexibility in stock selection, and we'd agree. The move also frees Tillinghast to further strengthen the fund's value tilt. Plus, U.S. markets have climbed over the past 10 years, fewer companies are splitting their stock and private companies are waiting longer to go public than in the past—all factors that have reduced the pool of "low-priced" stocks.

No changes to Low-Priced Stock's investment process or portfolio characteristics are expected at this time.

Expanded Bond Index Fund Lineup
Fidelity has said that it will launch Short-Term Bond Index in October. The passively managed fund will track the Bloomberg Barclays U.S. 1–5 Year Government/Credit Bond index, which is comprised of investment-grade bonds issued by the U.S. government and corporations with maturities between, you guessed it, one to five years.

The fund will give Fidelity's fixed-income investors seeking exposure to the high-quality portion of the short-maturity slice of the bond market an index-fund option. It will be interesting to see how this new offering compares to the firm's actively managed Short-Term Bond fund, which is benchmarked against the Bloomberg Barclays U.S. 1–3 Year Government/Credit Bond index and focuses on a similar area of the market.

Two new share classes—Institutional and Institutional Premium—will be added to three existing Fidelity bond index funds as well: Short-Term Treasury Bond Index, Intermediate Treasury Bond Index and Long-Term Treasury Bond Index. These lower-cost share classes will only be available to institutions or individuals with millions of dollars to invest, but could also appear in retirement plans.

Funds Close to New Investors
As of August 11, Fidelity closed Global Strategies and Global Balanced to new investors. In industry terms, this was a "soft close," meaning that existing shareholders can continue to purchase shares in the funds. Participants in employer retirement plans will also be able to buy shares if the fund was an available option at the close of trading on August 11.

(If you're wondering, a "hard close" would prohibit *anyone* from buying new shares.)

The soft close comes as Fidelity is considering potential, yet-to-be-announced changes to the funds, and determined that it would be in investors' and shareholders' best interest to restrict access to the funds while deliberating. They don't expect to reopen the funds to new investors regardless of what adjustments may be coming.

Consumer-Focused Managerial Changes
Effective August 3, Fidelity moved a number of sector fund managers around.

Katherine Shaw assumed sole management of Select Consumer Discretionary and its Advisor and VIP classes. She succeeds Peter Dixon, who will be leaving Fidelity at year's end. Shaw has also run Select Leisure since August 2013; her experience there observing how consumers are spending their disposable income and tracking the companies that sell to them will inform her decision-making at the broader sector fund.

Rebecca Painter joined Shaw as co-manager of Select Leisure, her first management position at Fidelity, where she's worked since 2013.

Elsewhere at the Boston fund giant, Nicola Stafford took over management of the consumer discretionary sleeve of the Balanced fund, where she is one of 11 managers. Stafford has managed Select Retailing since October 2016. In addition, she co-manages, under John Roth, Mid-Cap Stock. She's worked at Fidelity since 2001.

Finally, Chip Perrone assumed portfolio management responsibilities for the consumer discretionary sleeves of VIP Contrafund and Series All-Sector Equity. He brings 27 years of investment industry experience to his new roles.

All of these moves fit Fidelity's ethos of developing managers by having them earn their chops on sector and industry funds before being considered for roles on larger, diversified funds.

New Name for Dividend ETF
Lastly, Fidelity has filed paperwork with the Securities and Exchange Commission (SEC) to rename Core Dividend ETF to High Dividend ETF. It claims the new name better communicates the fund's existing strategy and position relative to the marketplace.

After getting the SEC's blessing, Fidelity also plans to change the name of the fund's proprietary benchmark from Fidelity Core Dividend Index to Fidelity High Dividend Index. The description of that index would also change to reflect its focus on high-dividend-paying stocks. These changes seem to be more about marketing and setting expectations than anything else.

If approved, the name change for the fund and the index will take place on or around November 10.

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