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Fidelity unlikely to scrap star system

But adding a team approach reduces fund volatility — and possibly harassment claims



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By **John Waggoner** 

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Fidelity Investments has been moving toward a team-managed approach for more than a decade, and it's a move advisers applaud — even if they are doubtful that the Boston-based fund giant will ever ditch its star system entirely.



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According to a report in the Wall Street Journal, Fidelity is thinking of moving toward a more group-based, collaborative approach from its current system, which emphasizes individual managers. The move was prompted by claims of sexual harassment and other undesirable workplace behaviors in the stock-picking unit, the Journal said.

A team approach would give analysts a portion of a portfolio to manage, the Journal story said, putting them on somewhat more of an equal footing with Fidelity's notoriously independent-minded fund managers.

The approach met with approval from some advisers.

"I have always stayed away from funds that have 'star' managers," Kashif A. Ahmed,

president at American Private Wealth, wrote in an email. "Like flies and mosquitoes attracted to light in the dark, foolish investors flock to these funds when the manager is highlighted in the press (or touted by the fund company), and stampede out the door at the slightest hint of something happening to the manager."

A team approach would also benefit Fidelity, said Jim Lowell, editor of Fidelity Investor, a newsletter. "They are solving the obvious issue that one generation of great stock pickers is a decade closer to retirement than they were 10 years ago," he said.



Another advantage for Fidelity: "A team approach reduces the risk of managers departing and their track records walking out the door with them," said Todd Rosenbluth, senior director of ETF and mutual fund research at CFRA. Typically, assets flow out the door with new managers, and Fidelity has already waved goodbye to \$33.9 billion from its active funds over the past 12 months, according to **Morningstar Inc.**

Sudden manager departures can also result in changes being made by a new manager, which could be good or bad, Mr. Rosenbluth said.

Mr. Ahmed agreed. "Funds are too volatile; it is fickle money," he said, "And that affects long-term investors like me. I like to hold funds that quietly get on with their business. Leave being famous and publicity-hungry to the Kardashians."

When Peter Lynch was the star manager of Fidelity Magellan, the company's top managers did indeed have star power, and Fidelity actively courted that with its advertising. "You couldn't go through an airport terminal without seeing a picture of Peter Lynch," Mr. Lowell said. "I remember having a conversation with [Fidelity chairman emeritus] Ned Johnson 30 years ago, and he worried that that marking to one manager would haunt the firm."

And haunt the company it did. When Mr. Lynch retired in 1990, his replacement, Robert Stansky, couldn't live up to Mr. Lynch's record, which was an incredibly difficult act to follow. The Magellan fund has seen steady outflows over the past decade, despite a good performance by its current managers.



Fidelity CEO **Abigail Johnson**, like her father, spent several years managing money at Fidelity and is probably the driving force behind the increased teamwork at Fidelity over the past decade.

The managers of the biggest Fidelity funds have had teams in place for a while. "Joel Tillinghast at Fidelity Low-Priced Stock Fund works with a team of analysts, who manage a small sleeve of the

fund's portfolio," Mr. Lowell said. "They have been responsible for running collectively 5% of the fund, although Mr. Tillinghast has the final say on buys and sells."

Ms. Johnson probably does have reducing sexual **harassment claims** in mind. In November, she moved her office to the 11th floor of Fidelity's headquarters, the location of the firm's trading area, in part to keep an eye on managers, traders and analysts, according to the **Boston Globe**. And a more collective approach might reduce sexism in the workplace.

But it's not a novel approach for the company, which emphasizes its service and platform more than performance.

"They are doing the right things to make sure that of the consistency of their meritocracy and to ensure that most don't just beat their benchmarks, but their peer groups," Mr. Lowell said.



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