

InBrief

Global Investment Management

Fidelity Management & Research Co.

Overseas Fund

Review Date

Current Rating

Previous Rating

May 2011

Sell

New Rating

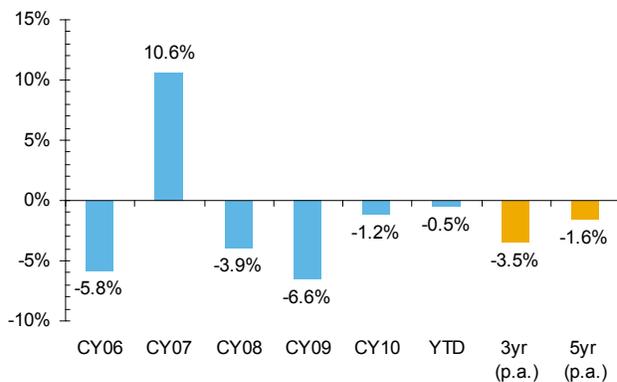
Overall Rating

The Fidelity Overseas Fund employs a bottom-up, fundamental, research-driven approach which results in a diversified portfolio of 100 to 150 stocks. Portfolio manager Ian Hart leverages both of Fidelity's analysts pools (FMR & FIL) to generate and analyze investment ideas. The strategy has chronically underperformed its benchmark and we have concerns at the organizational and strategy levels related to Fidelity's ongoing changes to its analyst base as well as its historically higher turnover among portfolio managers. We initiate a Sell rating for this Fund.

Component Ratings

	Rating	Previous Rating
Overall	Sell	New Rating
ODD	C. Pass	New Rating
Business	2	New Rating
Staff	1	New Rating
Process	2	New Rating
Risk	2	New Rating
Performance	1	New Rating
T&C	2	New Rating

Relative Performance to March 2011



Composite performance (USD) is after fees relative to MSCI EAFE Index. CY = calendar year. Source: eVestment Alliance

Firm Summary

Head Office Location	Boston, MA	Parent Name	Fidelity Investments
Firm AUM	\$1.6 trillion	Investment Staff	670
Equity AUM	N/A	Equity Staff	N/A

Portfolio Strategy Characteristics

Team Location	Boston, MA	Team Head	Ian Hart
Strategy Inception	January 1991	Strategy Size	\$5.5 billion
Number of Holdings	100 – 150	Annual Turnover	111%
Benchmark	MSCI EAFE Index		
Performance Objective	Outperform the benchmark over a full market cycle		
Risk Tolerance Target	Unconstrained		

Note: AUM and Staff numbers as at March 2011

Investment Manager Evaluation

Rating Sheet		
Factor	Rating	Comments
Business	2	<p>Boston-based Fidelity Management and Research (“FMR”) continues to be one of the largest investment management firms in the world with over \$1.6 trillion in assets under management. The firm is 51% employee-owned and 49% owned by the Johnson family, which is heavily involved in the management of the firm. Asset management is not the firm’s sole line of business. The firm is split between the retail asset management groups (FMR and Fidelity International Limited), the institutional asset management group (Pyramis) and the administrative group (with approximately \$1.7 trillion in assets under administration). There has been some turnover at the parent organizational level during the past 18 months. In March 2010, Roger Lawson resigned as President of Fidelity Investments. The firm has also initiated a pending separation between its retail groups within the past four years.</p>
Investment Staff	1	<p>Ian Hart has managed the Fidelity Overseas Fund since 2006. Since that time, the fund’s performance has been poor. We do not have a high degree of confidence in Mr. Hart’s abilities. Approximately four years ago, Fidelity began to build a dedicated non-U.S. regional equity research group within FMR. Prior to this change, international equity managers at FMR relied on the research of Fidelity International Limited (“FIL”) analysts to support their portfolios. Mr. Hart continues to rely significantly on FIL analysts as well as FMR analysts and has indicated that he will continue to do so as long as they are available to him. While this may have been beneficial in the short term, we would prefer to see a move towards utilizing the FMR analysts in anticipation of FIL’s complete separation in 2015. FMR has continued hiring analysts in London, Hong Kong, and Tokyo. The size of the FMR research group currently remains smaller than the FIL research team with less coverage capacity. By 2015, Fidelity expects to eliminate communication between FMR portfolio managers and FIL research.</p> <p>Bruce Herring joined FMR in 2010 as CIO. He has implemented several positive changes since his arrival, such as, promoting tenure and focus among the non-U.S. equity team by slowing the sector rotation of analysts and implementing a thorough annual review of investment staff.</p>
Investment Process	2	<p>The strategy relies on both pools of Fidelity research analysts (FIL & FMR) to generate ideas and construct a diversified portfolio composed of 100 to 150 stocks. Additionally, Ian Hart looks to personally generate one fourth to one third of all investment ideas incorporated within the portfolio, working closely with the analyst responsible for each company on the fundamental research. Similar to other Fidelity portfolios, the investment process emphasizes the potential for added value through the portfolio manager’s decision making and interaction with the analysts. We would prefer to see the portfolio more focused on the best ideas of the research analysts. Additionally, we would like to see Mr. Hart’s reduce his reliance on FIL analysts in the coming years.</p>

Rating Sheet		
Factor	Rating	Comments
Risk Management	2	Risk management is primarily a function of benchmark aware constraints. Additional quantitative risk monitoring tools are available to all international portfolio managers. Mr. Hart appears to utilize these resources in the management of this portfolio.
Operational Due Diligence	Conditional Pass	Fidelity has its own proprietary OMS and compliance systems, as well as a large compliance department. Appropriate compliance policies and procedures have been put in place. FMR discloses only limited information in terms of regulatory exams and findings. The firm also does not comment on Code of Ethics/Personal Trading Policy violations. Although there do not appear to be any obvious operational or compliance deficiencies, Fidelity's limited transparency creates difficulty in evaluation. The AonHewitt Operational Due Diligence team plans to schedule a more thorough on-site evaluation with Fidelity in the next six to nine months.
Performance Analysis	1	Investment performance over the trailing three- and five-year periods (ending March 31, 2011) has been disappointing. Longer-term trailing performance has added little value since inception. Performance since Mr. Hart has been at the helm has been lackluster.
Terms & Conditions	2	With an expense ratio of 0.85%, the fund ranks near the least expensive third of all international equity mutual funds in terms of expenses. Client service and transparency, while reasonable in most past circumstances, can be inadequate at times.
Overall Rating	Sell	The Fidelity Overseas Fund employs a bottom-up, fundamental, research-driven approach which results in a diversified portfolio of 100 to 150 stocks. Portfolio manager Ian Hart leverages both of Fidelity's analysts pools (FMR & FIL) to generate and analyze investment ideas. The strategy has chronically underperformed its benchmark and we have concerns at the organizational and strategy levels related to Fidelity's ongoing changes to its analyst base as well as its historically higher turnover among portfolio managers. We initiate a Sell rating for this Fund.

Manager Updates and Monitoring

Major Developments There are no major developments to report.

Key Monitoring Points

Equity Research Resources

FMR's non-U.S. equity portfolio managers have historically relied entirely on FIL equity research to support their portfolios. With the creation of the FMR non-U.S. equity research platform, these portfolio managers are in the process of transitioning their reliance to a newer analyst staff. We are cautious regarding the transition from FIL research to FMR research. We will continue to monitor the regional research teams for improved capacity and investment professional turnover.

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

- 1 = Weak
- 2 = Average
- 3 = Above Average
- 4 = Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.

Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.

Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

- Buy** = We recommend purchase of this investment product
- Hold** = We recommend client investments in this product are maintained
- Sell** = We recommend termination of client investments in this product
- In Review** = The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

Disclaimer

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