

# InTotal

Global Investment Management



## Fidelity Management & Research Co.

## Stock Selector Small Cap Fund

Review Date	Current Rating	Previous Rating
June 2012	Sell	No Change

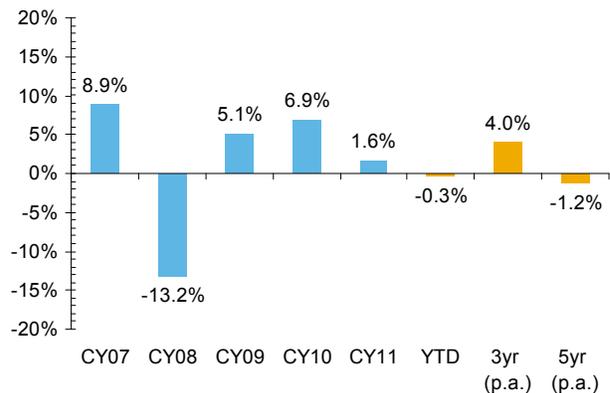
### Overall Rating

Our rating for the Fidelity Stock Selector Small Cap Fund remains "Sell." The lack of stability of the sector sleeve portfolio managers, along with an average research effort and portfolio construction process re-affirms our opinion. There are additional concerns surrounding capacity constraints as assets potentially increase going forward.

### Component Ratings

	Rating	Previous Rating
<b>Overall</b>	Sell	No Change
Business	2	No Change
Staff	2	No Change
Process	2	No Change
Risk	2	No Change
ODD	Pass	No Change
Performance	2	No Change
T&C	3	No Change

### Relative Performance to March 2012



Fund performance (USD) is net of fees relative to Russell 2000 Index. CY = calendar year. Source: eVestment Alliance

### Firm Summary

<b>Head Office Location</b>	Boston, MA	<b>Parent Name</b>	Fidelity Investments
<b>Firm AUM</b>	\$1,620.0 billion	<b>Investment Staff</b>	758
<b>Equity AUM</b>	\$775.5 billion	<b>Equity Staff</b>	428

### Portfolio Strategy Characteristics

<b>Team Location</b>	Boston, MA	<b>Team Head</b>	Portfolio Management Sleeve Approach
<b>Strategy Inception</b>	July 1993	<b>Strategy Size</b>	\$1.5 billion
<b>Number of Holdings</b>	125-200	<b>Annual Turnover</b>	73%
<b>Benchmark</b>	Russell 2000 Index		
<b>Performance Objective</b>	Outperform over a market cycle		
<b>Risk Tolerance Target</b>	Estimated Tracking Error: 3.0%-5.0%		

Note: AUM and Staff numbers as at March 2012

## Investment Manager Evaluation

Rating Sheet		
Factor	Rating	Comments
<b>Business</b>	2	<p>Boston-based Fidelity Management and Research Co. (“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 percent employee owned and 49 percent 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 Global Advisors) 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 few years. 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 last four years.</p>
<b>Investment Staff</b>	2	<p>The portfolio management team includes Rich Thompson, Pat Venanzi, Shadman Riaz, Anmol Mehra, Morgan Peck, Rayna Lesser Hannaway, and Eirene Kontopoulos. The Fidelity Stock Selector Small Cap team employs a portfolio management sleeve approach. The purpose of the structure was to eliminate the conflict for individuals who were serving dual roles as portfolio managers and analysts. The selection process for the sector portfolio manager position is based on an assessment of individual research as well input from portfolio managers. However, many of the sector sleeve portfolio managers have limited experience in a portfolio management role.</p> <p>We are also concerned by the level of turnover among sector sleeve portfolio managers. Charles Myers who was a co-manager on the financial sector is no longer working on the product given his other responsibilities at Fidelity. He was part of the sector portfolio management team from November 2009 to December 2011. Anmol Mehra and Eirene Kontopoulos were both added as sector sleeve portfolio managers during 2012.</p>
<b>Investment Process</b>	2	<p>The Fidelity Stock Selector Small Cap fund is a sector-neutral small cap core strategy that implements a dedicated sector sleeve approach, which is managed by multiple portfolio managers. The stock selection approach is tailored to the investment approach of each respective portfolio manager.</p> <p>There are no specifications surrounding the investment process at the sector specific level, which can lead to various approaches to portfolio construction. We do not believe there is anything compelling being done within the overall process.</p>
<b>Risk Management</b>	2	<p>Fidelity has a quantitative risk management team that is responsible for running risk reports on the strategy on a monthly basis or as requested by the portfolio manager. Further, Fidelity’s Chief Investment Officer reviews the strategy from a risk perspective with the portfolio managers on a quarterly basis. The sector portfolio managers will also manage risk within the portfolio by adhering to the constraints in place to construct the portfolio.</p>

Rating Sheet		
Factor	Rating	Comments
<b>Operational Due Diligence</b>	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. Fidelity 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.
<b>Performance Analysis</b>	2	The sector sleeve approach was implemented in late 2009. Early results have been somewhat positive as the strategy has added value relative to the benchmark since the transition. Our rating of a 2 reflects our lowered conviction that the team can continue to add value going forward based on multiple changes that have occurred within sector sleeve portfolio managers over the past year.
<b>Terms &amp; Conditions</b>	3	At 0.85 percent, the expense ratio for Fidelity Stock Selector Small Cap Fund (FDSCX) is slightly lower than both its peer group average and peer group median, but higher than the dollar-weighted average and dollar-weighted median. Fidelity's client service has been satisfactory.
<b>Overall Rating</b>	<b>Sell</b>	Our rating for the Fidelity Stock Selector Small Cap Fund remains "Sell." The lack of stability of the sector sleeve portfolio managers, along with an average research effort and portfolio construction process re-affirms our opinion. There are additional concerns surrounding capacity constraints as assets potentially increase going forward.

## Manager Updates and Monitoring

### **Major Developments**    **Portfolio Management Changes**

We are concerned by the level of turnover among sector sleeve portfolio managers. Charles Myers who was a co-manager on the financial sector is no longer working on the product given his other responsibilities at Fidelity. He was part of the sector portfolio management team from November 2009 to December 2011. Anmol Mehra and Eirene Kontopoulos were both added as sector sleeve portfolio managers during 2012.

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### **Key Monitoring Points**

There are no key monitoring points to report.

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## 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
- Buy (Closed)** = We recommend purchase of this investment product, however it is closed to new investors
- 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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