

InBrief

Global Investment Management

Fidelity Management & Research Co.

Stock Selector All Cap

Review Date

August 2012

Current Rating

Sell

Previous Rating

New Rating

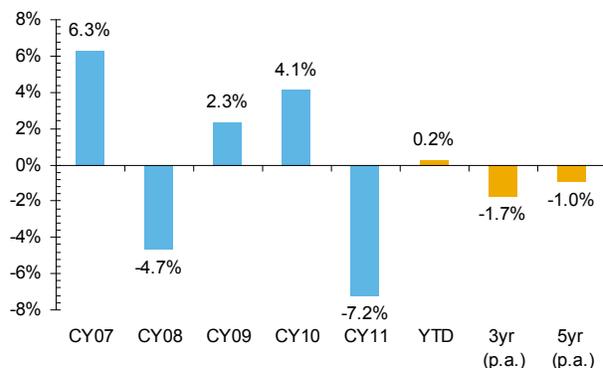
Overall Rating

We recommend a Sell rating for the Fidelity Stock Selector All Cap Fund. While we understand the premise behind the structural change of the fund to a sleeve structure, we also believe the change is ineffective with regards to its alpha generation potential. In addition, the risk of rotation at the portfolio manager level is high and could impact the fund's ability to be consistently constructed over the long-term.

Component Ratings

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

Relative Performance to June 2012



Composite performance (USD) is net of fees relative to S&P 500 Index. CY = calendar year. Source: eVestment Alliance

Firm Summary

| | | | |
|----------------------|-------------------|------------------|----------------------|
| Head Office Location | Boston, MA | Parent Name | Fidelity Investments |
| Firm AUM | \$1,620.0 billion | Investment Staff | 518 |
| Equity AUM | \$708.4 billion | Equity Staff | 315 |

Strategy Characteristics

| | | | |
|-----------------------|---|-----------------|---------------|
| Team Location | Boston, MA | Team Head | Team Managed |
| Strategy Inception | October 1990 | Strategy Size | \$7.9 billion |
| Number of Holdings | 900-1100 | Annual Turnover | 26% |
| Benchmark | S&P 500 Index | | |
| Performance Objective | To outperform the benchmark over a market cycle | | |
| Risk Tolerance Target | Unconstrained | | |

Note: AUM and Staff numbers as of March 2012

Investment Manager Evaluation

| Rating Sheet | | |
|-------------------------|--------|---|
| Factor | Rating | Comments |
| Business | 2 | <p>Boston-based Fidelity Management & 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 two 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> |
| Investment Staff | 2 | <p>Prior to 2009, the strategy was managed by one portfolio manager, who guided portfolio construction and risk management efforts for the portfolio. However, in 2009, the firm instituted a structural change to this strategy that would allow clients to have broader access to investment personnel, and subsequently, a more diversified portfolio. The strategy is structured where select analysts manage individual sector sleeves and two senior portfolio managers, Geoff Stein and Christopher Sharpe, oversee the risk management, sector rebalancing, and cash management of the aggregate portfolio. At this time, there are 9 sector sleeve managers for this strategy, all of whom were handpicked from the Fidelity analyst pool based on their level of sector expertise and performance. Other than sector differences, each PM brings a differentiated style orientation to the fund. Since this structure was instituted, there has been only one change at the sector sleeve level through the departure of the consumer staples manager, who transitioned off because of poor performance.</p> <p>We remain cautious about the sustainability of this portfolio management structure over the long-term, given Fidelity’s tendencies to rotate managers off of funds to rectify performance issues, re-calibrate construction approaches, and/or provide up and coming investment talent with opportunities to manage client assets. In addition, we remain unconvinced that this structure truly affords clients with access to the “best ideas” and capabilities of the portfolio managers. The tight risk constraints applied at both the sleeve and aggregate portfolio level diminish the managers’ ability to appropriately size their best convictions, and ultimately, showcase the level of their expertise.</p> |

| Rating Sheet | | |
|----------------------------------|--------|---|
| Factor | Rating | Comments |
| Investment Process | 1 | <p>The aggregate portfolio is designed to have sector weights that align with those of the S&P 500 index and to capitalize on the best range of ideas of each sleeve manager. While each sleeve manager is oriented towards fundamental research and bottom-up stock selection, each sleeve is also highly differentiated from the other as it relates to style, valuation approaches, number of holdings, and time horizon. In addition, each sleeve is managed to its own unique set of risk constraints. The aggregate portfolio ranges from 900-1100 holdings and is rebalanced according to its own set of risk constraints. The sleeve managers meet with the senior portfolio managers regularly to discuss investment opportunities, positioning, and risk management.</p> <p>Given our concerns around the structure of the team and sustainability of the sleeve managers, we have little confidence that the process, at both the sleeve and aggregate level, will be consistently implemented over the long-term. In addition, we believe that the over diversification of the fund, coupled with a sector neutral bent and tight risk controls, lends the strategy to enhanced index like returns. Lack of clarification around the process as to which the sleeves are combined further deepens our concerns around the effectiveness of this fund structure.</p> |
| Risk Management | 2 | <p>In addition to portfolio constraints at both the sleeve and aggregate portfolio level, the fund is subject to numerous risk reviews that are conducted by the senior portfolio managers, the CIO of the funds group to which it belongs, and the firm's risk management group. Despite the number of risk management resources available and the sector neutrality of the fund relative to the benchmark, we do not believe that the measures taken to oversee risk exposure are differentiated versus other managers of similar orientation.</p> |
| Operational Due Diligence | Pass | <p>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 has limited transparency versus their peers.</p> |
| Performance Analysis | 1 | <p>Performance has been average in the time that the sleeve structure has been in place. In addition, the over diversification and sector neutrality of the fund lend it to producing index like returns. Finally, given the tendency for Fidelity to transition investment talent in and out of strategies, we question the length of time afforded to this current roster of managers to build a sustainable track record.</p> |
| Terms & Conditions | 2 | <p>Fees are average for institutional all cap manager. Client service has, at times, been below average as gaining access to key decision makers has been difficult.</p> |

| Rating Sheet | | |
|----------------|--------|--|
| Factor | Rating | Comments |
| Overall Rating | Sell | We recommend a Sell rating for the Fidelity Stock Selector All Cap Fund. While we understand the premise behind the structural change of the fund to a sleeve structure, we also believe the change is ineffective with regards to its alpha generation potential. In addition, the risk of rotation at the portfolio manager level is high and could impact the fund's ability to be consistently constructed over the long-term. |

Manager Updates and Monitoring

Major Developments **Portfolio Structure Change**

In 2009, the strategy was converted to a sleeve structure to allow clients to gain access to a broader group of the firm's investment personnel. The structure includes sector sleeves that are managed by select Fidelity analysts and two senior portfolio managers who oversee the risk management and rebalancing of the portfolio. It is anticipated that this structure will remain in place, given Fidelity's commitment to strategies that are more diversified by portfolio management style.

Key Monitoring Points

Sustainability of Current Fund Management

The firm has a tendency to rotate its investment personnel, primarily as a way to best align investment personnel on strategies. Given this tendency, we would like to monitor the duration of current personnel on the strategy to ensure the fund is benefiting from long-term, consistent process implementation.

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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