



**Fidelity Management & Research Co.**

**Blue Chip Value Fund**

Review Date	Current Rating	Previous Rating
August 2012	<b>Sell</b>	New Rating

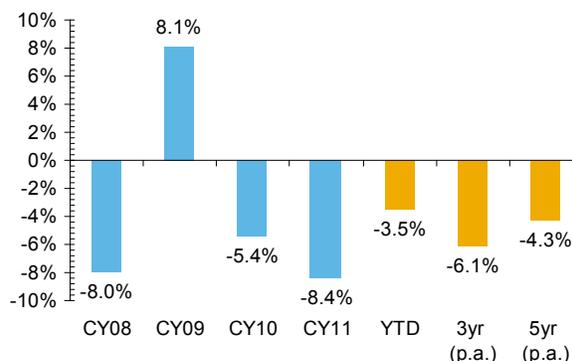
**Overall Rating**

Our rating of the Fidelity Blue Chip Value Fund is Sell. The fund has experienced three different portfolio managers since inception of the fund (2003) with limited success in adding value for clients. We are concerned by the lack of portfolio manager stability on this fund. Further, several changes have taken place with respect to the investment process which may decrease risk as well as excess return potential for this strategy. The motivation behind these changes is not entirely clear. We believe superior large cap value alternatives exist for clients.

**Component Ratings**

	Rating	Previous Rating
<b>Overall</b>	<b>Sell</b>	New Rating
Business	2	New Rating
Staff	1	New Rating
Process	2	New Rating
Risk	2	New Rating
ODD	Pass	New Rating
Performance	1	New Rating
T&C	2	New Rating

**Relative Performance to June 2012**



Fund performance (USD) is net of fees relative to the Russell 1000 Value 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>	518
<b>Equity AUM</b>	\$708.4 billion	<b>Equity Staff</b>	315

**Portfolio Strategy Characteristics**

<b>Team Location</b>	Miami, FL	<b>Team Head</b>	Michael Chren
<b>Strategy Inception</b>	June 2003	<b>Strategy Size</b>	\$242 million
<b>Number of Holdings</b>	60-80	<b>Annual Turnover</b>	50%-100%
<b>Benchmark</b>	Russell 1000 Value Index		
<b>Performance Objective</b>	Outperform the benchmark over a market cycle		
<b>Risk Tolerance Target</b>	3%-7%		

Note: Firm/Equity AUM and Staff numbers as of March 2012. Strategy AUM as of June 2012.

## Investment Manager Evaluation

Rating Sheet		
Factor	Rating	Comments
<b>Business</b>	2	<p>Boston-based Fidelity Management &amp; 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).</p>
<b>Investment Staff</b>	1	<p>Michael Chren took over management of the strategy in November 2010. He is the third portfolio manager on this fund since its inception in 2003. Mr. Chren is based in Miami, FL as opposed to Boston, MA, where the majority of Fidelity analysts and portfolio managers are based. Further, he is supported by three dedicated investment analysts that are also based in Miami. This arrangement is somewhat unique relative to other portfolio managers at Fidelity who primarily utilize Fidelity’s centralized research group. Mr. Chren also has access to the Fidelity analysts in the centralized research group.</p> <p>Our rating in this category is primarily based on the lack of stability with respect to portfolio managers responsible for this product. Further, we have some concern within Fidelity that successful portfolio managers are often promoted to larger funds within the organization leading to increased portfolio manager turnover with respect to smaller fund offerings.</p>
<b>Investment Process</b>	2	<p>The investment process utilized for this approach is standard relative to other large cap value offerings. Mr. Chren relies on quantitative screens that focus primarily on standardized valuation and quality characteristics in an effort to identify promising opportunities. Fundamental research is focused on identifying companies trading at a discount to intrinsic value as well as companies that exhibit positive future change dynamics.</p> <p>Several changes have taken place with respect to the investment process. The fund’s non-US stock weighting declined from approximately 18% to 8% over the June 30, 2011 – June 30, 2012 time period. It appears that Fidelity is committed to having less than 10% of the fund invested in non-US holdings going forward. Further, during 2012 Mr. Chren introduced a formalized sell discipline rule into the investment process. If a stock underperforms the Russell 1000 Value Index by 25% from purchase, Mr. Chren will automatically sell at least half of the individual stock position. The motivation behind these changes is not entirely clear. This may lead to less risk but also less expected return potential within the fund.</p>

Rating Sheet		
Factor	Rating	Comments
<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, the Chief Investment Officer reviews the strategy from a risk perspective with the portfolio manager on a quarterly basis.</p> <p>It appears that Mr. Chren largely evaluates risk within the portfolio through the team's fundamental stock specific research work. We find that this approach is standard relative to peers.</p>
<b>Operational Due Diligence</b>	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>
<b>Performance Analysis</b>	1	<p>The fund has continued to struggle relative to the Russell 1000 Value Index and peer managers since Mr. Chren took over management of this strategy. We recognize that Mr. Chren's track record on this fund has been short. However, the combined track record of all three portfolio managers since inception has been disappointing relative to the benchmark and peers. We lack confidence in the ability of this investment team and process to consistently add value for clients.</p>
<b>Terms &amp; Conditions</b>	2	<p>The expense ratio for the mutual fund (FBCVX) is competitive relative to peers. Our client service experience has been average. It can be difficult to get access to key decision makers at Fidelity which may prohibit thorough due diligence on respective funds.</p>
<b>Overall Rating</b>	<b>Sell</b>	<p>Our rating of the Fidelity Blue Chip Value Fund is Sell. The fund has experienced three different portfolio managers since inception of the fund (2003) with limited success in adding value for clients. We are concerned by the lack of portfolio manager stability on this fund. Further, several changes have taken place with respect to the investment process which may decrease risk as well as excess return potential for this strategy. The motivation behind these changes is not entirely clear. We believe superior large cap value alternatives exist for clients.</p>

## Manager Updates and Monitoring

**Major Developments** There are no major developments to report at this time.

**Key Monitoring Points**

**Portfolio Manager Turnover**

There have been three portfolio managers on this fund since its inception in 2003. We would prefer to see greater consistency with respect to the management of the fund and will closely monitor Mr. Chren's responsibilities and duties within Fidelity.

**Performance**

Mr. Chren has struggled to add value relative to both the Russell 1000 Value Index and peers since he took over management of the fund. We recognize that his tenure on this product has been short. However, we are disappointed by the track record since inception for this fund.

## 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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