

# InBrief

Global Investment Management

## Fidelity Management & Research Co.

## Value Fund

### Review Date

June 2012

### Current Rating

**Sell**

### Previous Rating

No Change

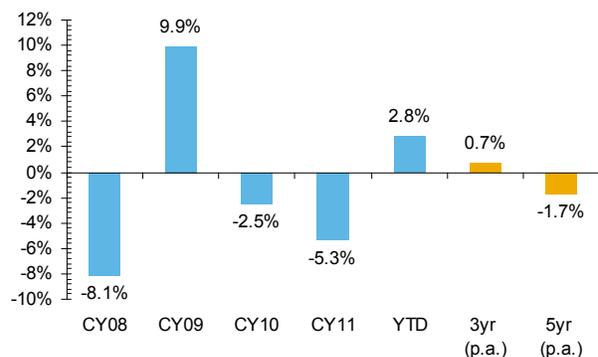
### Overall Rating

We recommend a Sell rating for this strategy and encourage clients to seek alternative investment opportunities in the mid cap value space. The historical performance difficulties of the strategy are largely being addressed through the transition of a new management team and structure. However, we do not have conviction that these changes will lead to consistent alpha generation. The lack of conviction is primarily based on our opinion of staff, particularly portfolio manager Matt Friedman, who we believe to be an average investor and inexperienced in portfolio management, as well as dedicated to too many strategies at the firm.

### Component Ratings

	Rating	Previous Rating
<b>Overall</b>	<b>Sell</b>	No Change
Business	2	No Change
Staff	2	No Change
Process	2	No Change
Risk	2	No Change
ODD	Pass	No Change
Performance	1	No Change
T&C	2	No Change

### Relative Performance to March 2012



Composite performance (USD) is net of fees relative to the Russell MidCap Value Index. CY = calendar year. Source: eVestment Alliance

### Firm Summary

<b>Head Office Location</b>	Boston, MA	<b>Parent Name</b>	N/A
<b>Firm AUM</b>	\$1.6 trillion	<b>Investment Staff</b>	518
<b>Equity AUM</b>	\$780.4 billion	<b>Equity Staff</b>	315

### Portfolio Strategy Characteristics

<b>Team Location</b>	Boston, MA	<b>Team Head</b>	M. Friedman
<b>Strategy Inception</b>	January 1991	<b>Strategy Size</b>	\$6.8 billion
<b>Number of Holdings</b>	200-350	<b>Annual Turnover</b>	~50-150%
<b>Benchmark</b>	Russell MidCap Value Index		
<b>Performance Objective</b>	To outperform the benchmark by 300 basis points		
<b>Risk Tolerance Target</b>	Unconstrained		



Note: AUM and Staff numbers as of 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 \$1.6 trillion in assets under administration). There has been some turnover at the parent organizational level during the past 24 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 last four years.</p>
<b>Investment Staff</b>	2	<p>In 2010, Richard Fentin, who had served as the strategy’s portfolio manager for 14 years, announced his retirement and transitioned his portfolio management responsibilities to Matthew Friedman mid-year. Mr. Friedman, who has served as both a sector analyst and portfolio manager for various equity strategies at the firm, is supported by a team of four research analysts, six sector portfolio managers, and a dedicated quantitative team. The team is organized into a hybrid structure, which allots 50% of the portfolio management to Mr. Friedman (who also oversees the cash management and risk management of the portfolio) and the remaining 50% to the sector portfolio managers, who essentially have full reign over their respective approaches to research and stock selection. The quantitative team works in tandem with Mr. Friedman with regards to the structure of the portfolio (which has deviated from being driven by sector bets to being sector neutral) and monitoring adherence to the fund’s newly revised investment parameters.</p> <p>We believe that the presence of new investment personnel is positive given the performance difficulties of the fund. However, we also remain cautious with regards to the scope of Mr. Friedman’s responsibilities and the hybrid structure of the team. In addition to his management of the Value Fund, Mr. Friedman also serves as co-portfolio manager for the Large Cap Value strategy, a sector portfolio manager for the Value Fund, and a sector analyst for the firm’s All Sector Equity sub-portfolios. Given his commitment to various strategies, coupled with short track records on 14 different strategies since 2003, we question his time allocation to the Value Fund and his ability to manage the strategy effectively and generate alpha. We also question the value added of the hybrid structure, which was implemented nine months ago with the inception of the new team, and whether it bodes well from the standpoint of idea generation, portfolio construction, and performance.</p>

Rating Sheet		
Factor	Rating	Comments
<b>Investment Process</b>	2	The team invests in stocks trading below their intrinsic value and aims to construct a diversified portfolio that can outperform the Russell Mid Cap Value index by 300 basis points annually. The research approach is fundamental in nature and similar between Mr. Friedman and the sector portfolio managers. The sector neutral approach to stock selection, which is a divergence from the predecessor's tendency to generate alpha through major sector bets, is also similar among portfolio managers. We view the managers' efforts to temper the historical volatility of the strategy through sector neutrality positively. However, we find the fundamental research effort to lack distinction compared to the fund's peers. We also question the added value of the hybrid structure given that Mr. Friedman's portfolio has 70% overlap with the sector portfolios.
<b>Risk Management</b>	2	The team adheres to a regimented set of investment parameters as it relates to sector, industry, and non-US weights in the portfolio. In addition, the team employs the use of the BARRA risk tool to examine factor risks at the aggregate portfolio level.
<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>	1	The fund has historically struggled to generate excess returns versus the benchmark. The performance has not improved since the inception of the new team, providing us with even less confidence, given our uncertainties about staff structure and investment talent.
<b>Terms &amp; Conditions</b>	2	Fees are satisfactory versus that of its peers. The client service experience has been less than ideal as access to key investment personnel can be limited.
<b>Overall Rating</b>	<b>Sell</b>	We maintain a sell rating for this strategy and encourage clients to seek alternative investment opportunities in the mid cap value space. While the historical performance difficulties of the strategy are largely being addressed through the transition of a new management team, we lack confidence in the structure and skill of the new team and its ability to generate excess returns for clients consistently. The lack of conviction is primarily based on our opinion of staff, particularly portfolio manager Matt Friedman, who we believe to be an average investor and inexperienced in portfolio management, as well as dedicated to too many strategies at the firm.

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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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