

Eggs and baskets – why diversification matters

3 November 2016

Tom Stevenson
Investment Director

The value of investments can go down as well as up so you may get back less than you invest. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a recommendation for any investment. This document may not be reproduced or circulated without prior permission. No statements or representations made in this document are legally binding on Fidelity or the recipient.

1: Investing is inherently unpredictable

Forecasting is extremely difficult and frequently wrong

March 11, 2008

Bear Stearns at \$60

Caller: 'Should I be worried about Bear Stearns?'

Cramer: 'NO! NO! NO! Bear Stearns is fine ... Don't move your money from Bear. That's just being silly.'

March 16, 2008

Bear Stearns sold to JPM for \$10/share



Source: CNBC, The New York Times.

Past performance is not a reliable indicator of what might happen in the future.

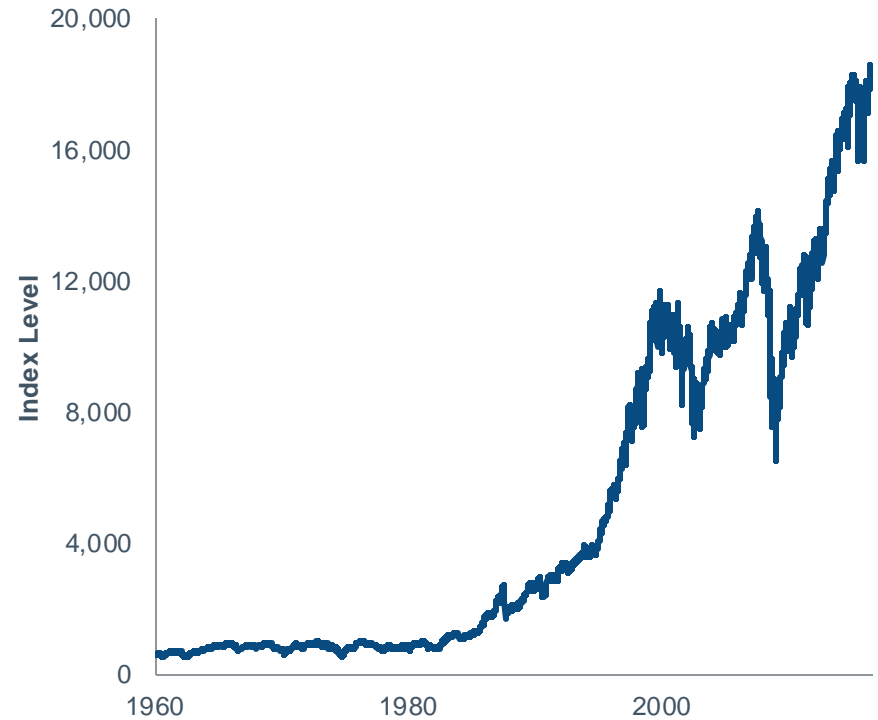
1: Investing is inherently unpredictable

Instead of trying to *predict*, be *prepared*

‘In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.’

-Warren Buffett

Dow Jones Industrial Average



| % (as at 19 Oct) | 2011 - 2012 | 2012 - 2013 | 2013 - 2014 | 2014 - 2015 | 2015 - 2016 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| Dow Jones | 17.8 | 17.2 | 9.4 | 12.0 | 36.7 |

Source: Bloomberg & Datastream, October 2016

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

1: Investing is inherently unpredictable

Annual returns for each asset class

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 32% | 10% | 28% | 51% | 39% | 35% | 42% | 40% | 12% | 81% | 21% | 10% | 28% | 34% | 17% | 7% |
| 14% | 6% | 19% | 43% | 29% | 26% | 34% | 36% | 6% | 76% | 21% | 7% | 23% | 26% | 16% | 1% |
| 13% | 4% | 19% | 40% | 26% | 21% | 33% | 16% | -6% | 67% | 21% | 7% | 20% | 26% | 7% | 1% |
| 6% | 3% | 15% | 40% | 24% | 21% | 33% | 15% | -8% | 40% | 18% | 4% | 19% | 8% | 4% | 1% |
| 4% | 2% | 13% | 34% | 19% | 15% | 16% | 12% | -12% | 39% | 14% | 3% | 19% | 4% | 3% | -1% |
| 3% | -1% | 4% | 31% | 15% | 10% | 13% | 10% | -29% | 32% | 14% | 2% | 17% | 3% | 3% | -2% |
| 2% | -3% | 2% | 27% | 13% | 10% | 10% | 7% | -30% | 30% | 14% | 1% | 14% | 1% | 1% | -2% |
| -6% | -3% | -1% | 22% | 13% | 5% | 7% | 6% | -38% | 23% | 12% | -6% | 11% | 0% | 0% | -3% |
| -8% | -4% | -3% | 21% | 12% | 5% | 7% | 6% | -40% | 19% | 6% | -11% | 9% | -3% | 0% | -4% |
| -9% | -11% | -4% | 17% | 10% | 1% | 6% | 6% | -48% | 12% | 5% | -13% | 9% | -4% | -2% | -4% |
| -28% | -19% | -10% | 15% | 10% | -1% | 6% | 3% | -48% | 10% | 5% | -14% | 2% | -5% | -2% | -8% |
| -30% | -20% | -20% | 15% | 10% | -3% | 5% | -5% | -53% | 2% | 4% | -15% | 1% | -5% | -4% | -13% |
| -31% | -29% | -23% | 4% | 5% | -6% | 2% | -8% | -55% | 2% | 1% | -18% | -1% | -8% | -17% | -26% |

| | | | | |
|-------------------|-------------------|-------------|-------------------|-------------|
| Japanese Equities | European Equities | EM Equities | Asia Pac Equities | US Equities |
| Real Estate | Commodities | HY Bonds | EM Debt | Corp Bonds |
| Inflation-Linked | Govt Bonds | Cash | | |

Source: Fidelity International. Source: Datastream, Total Returns in USD, Commodities: Bloomberg- Commodity TR - RETURN IND. (OFCL), Corp Bonds: BOFA ML GLB BROAD CORP (\$) - TOT RETURN IND; Govt Bonds: BOFA ML GLOBAL GOVT INDEX (\$) - TOT RETURN IND; HY Bonds: BOFA ML GLB HY (\$) - TOT RETURN IND; Japanese Equities: MSCI JAPAN US\$ - TOT RETURN IND; Asia Pac Equities: MSCI AC ASIA PAC EX JP \$ - TOT RETURN IND; European Equities: MSCI EUROPE US\$ - TOT RETURN IND; EM Equities: MSCI EM US\$ - TOT RETURN IND; US Equities: S&P 500 COMPOSITE - TOT RETURN IND; Cash: BOFA ML EURO LIBOR 3M CM (\$) - TOT RETURN IND; Real Estate: FTSE EPRA/NAREIT DEVELOPED \$ - TOT RETURN IND, EM Debt: JPM EMBI Global Diversified Total Return Index; Inflation-Linked: BofAML Global Government Inflation Linked (\$) - Total Return Index. Volatility = one year standard deviation (weekly, annualised). For illustrative purposes only. Past performance is not indicative of future returns.

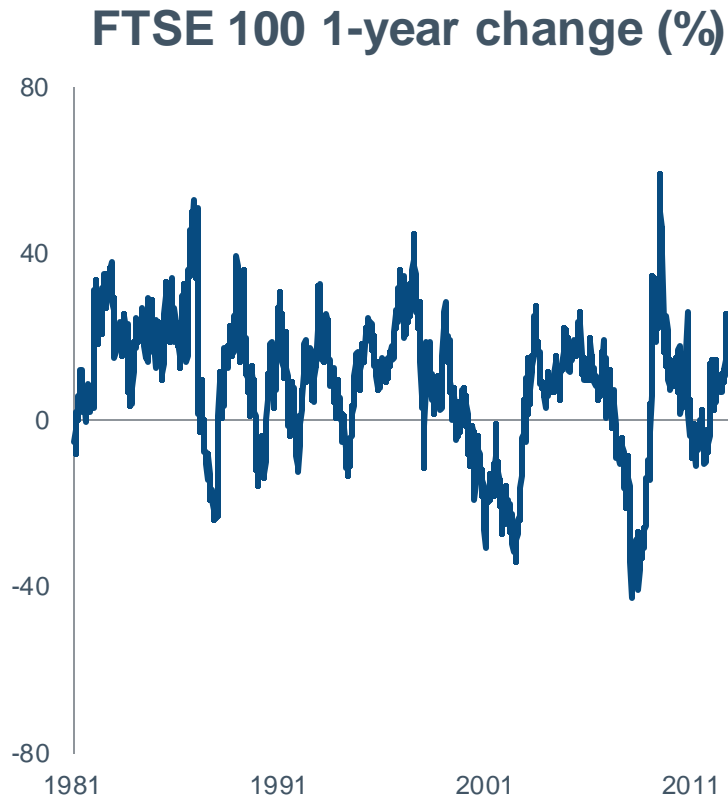
Past performance is not a reliable indicator of what might happen in the future.



1: Investing is inherently unpredictable

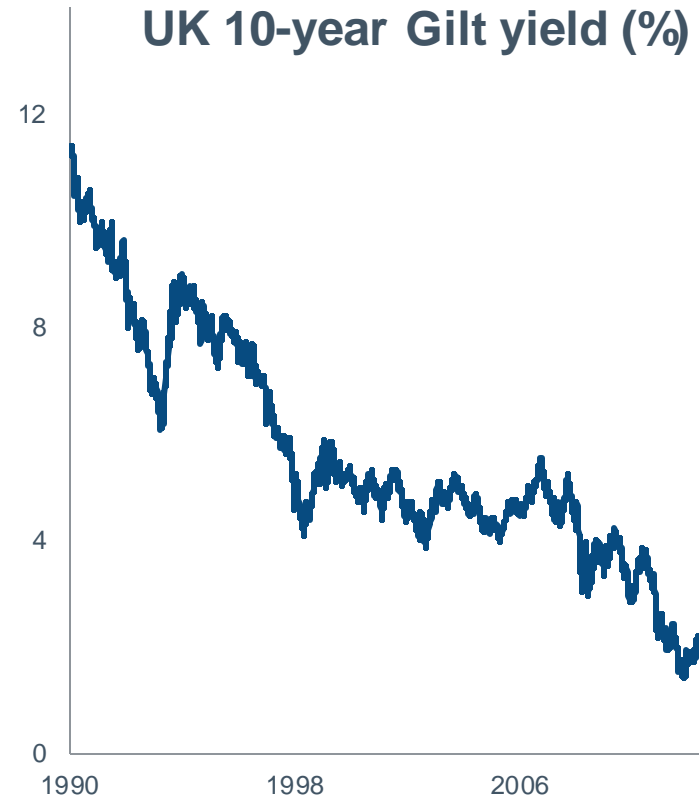
In the short-term, history is no guide to the future. How do we...

Manage volatility



Source: Datastream, October 2016

Maintain income



Source: Bloomberg, October 2016

Past performance is not a reliable indicator of what might happen in the future.

1: Investing is inherently unpredictable

Instead of trying to *predict*, be *prepared*

Diversification smooths returns

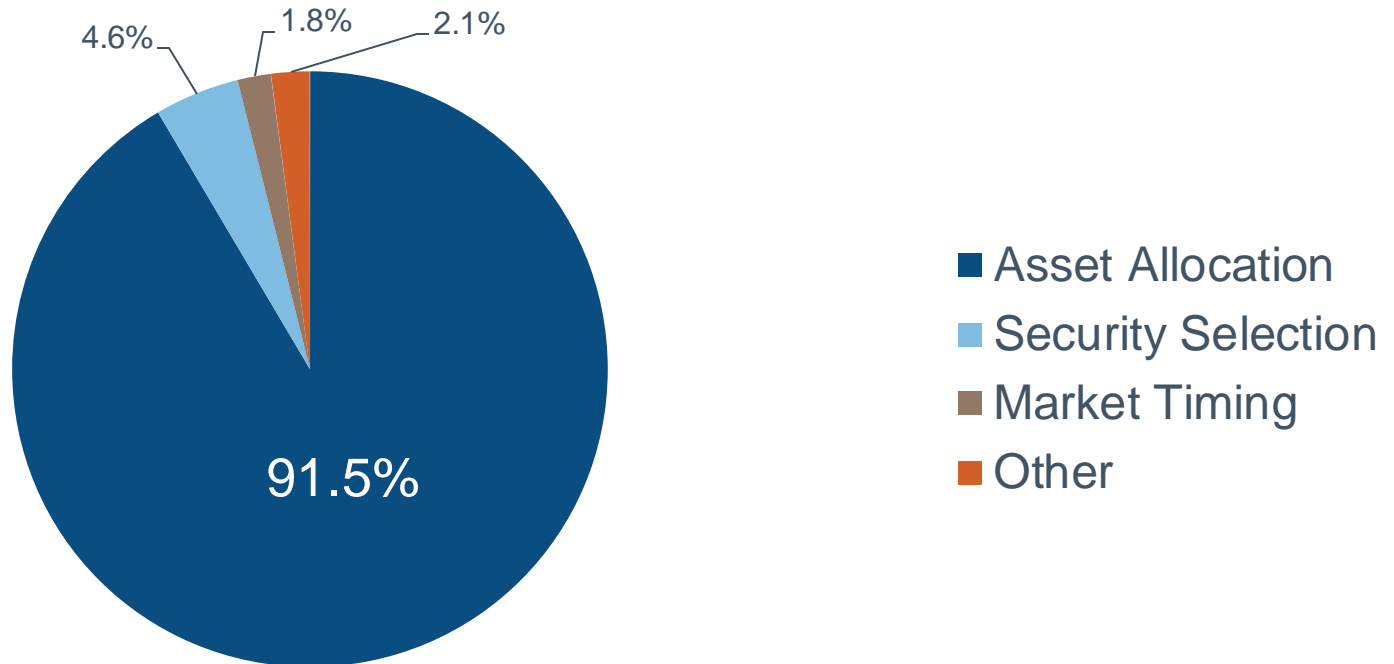


Source: DawlishWarren.Info

2: The importance of asset allocation

Asset allocation accounts for 91.5% of the variability in portfolio returns

What explains the variability of returns?

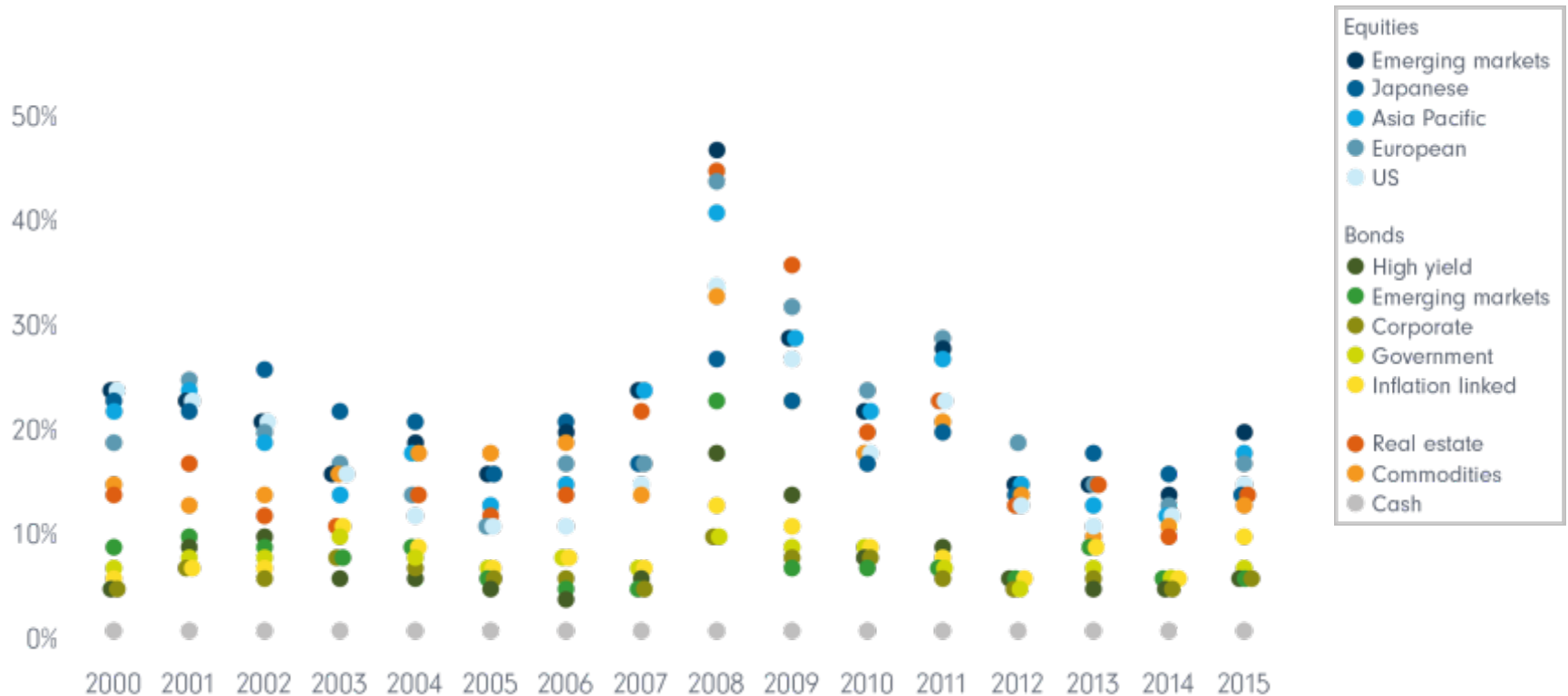


Source: Brinson, Hood, Beebower. 'Determinants of Portfolio Performance'. *Financial Analysts Journal* (May-June 1991).

2: The importance of asset allocation

Volatility waxes and wanes

Asset class volatility, 2000 - 2015



Source: Fidelity International, Datastream, July 2016

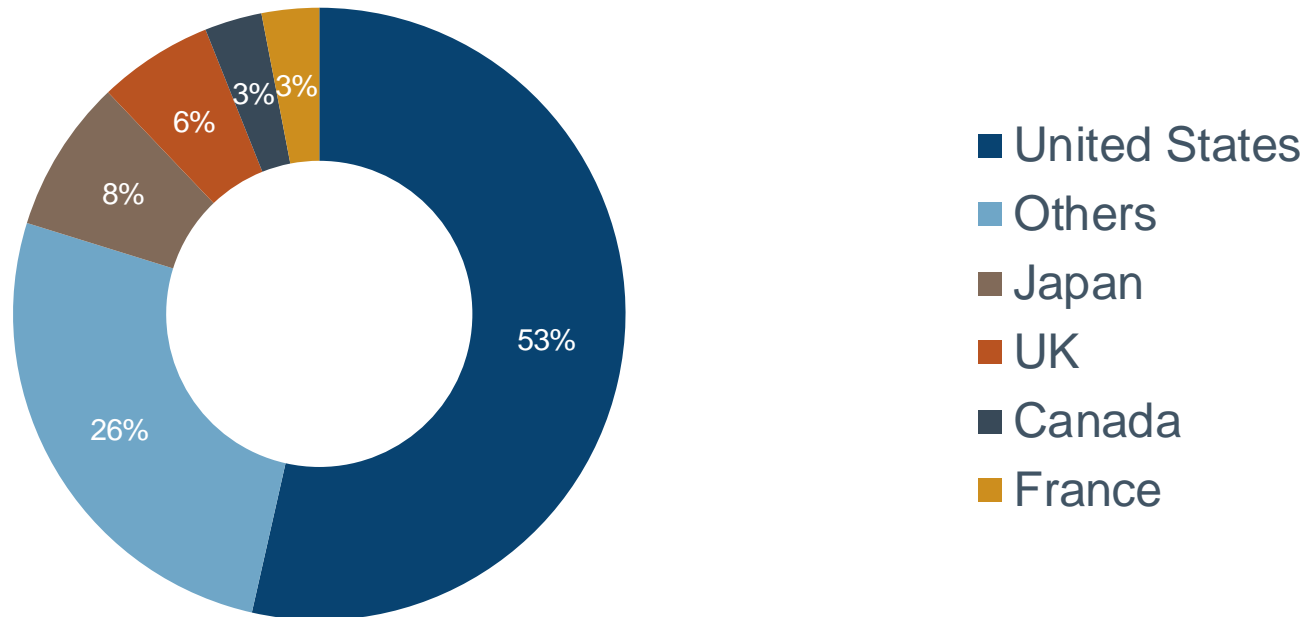
Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

3: Types of Diversification

By geography

The UK represents only 6% of global equity markets

Country Weights of the MSCI ACWI All Cap Index



Source: MSCI ACWI All Cap Index (USD) factsheet, [msci.com/resources](https://www.msci.com/resources), June 2016

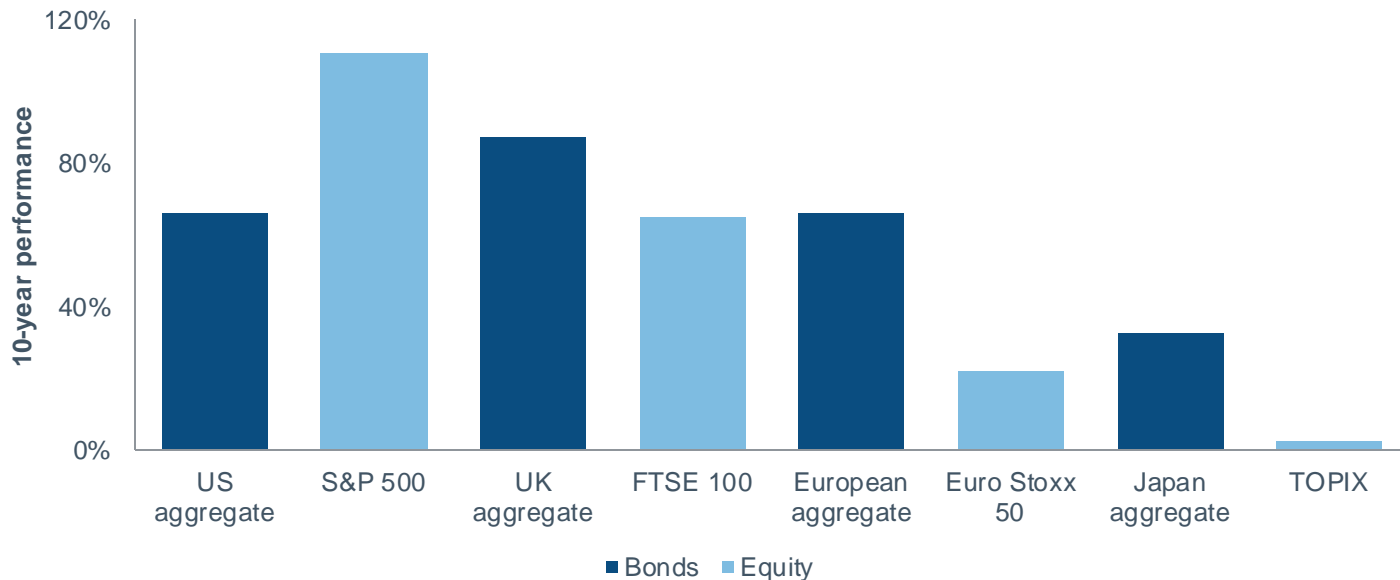
Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

3: Types of Diversification

By asset class

Stocks don't always outperform bonds

Equities vs. bonds: regional differences



Source: Bloomberg, October 2016. See Appendix 1 for five-year performance figures.

Please be aware that the price of bonds is influenced by movements in interest rates, changes in the credit rating of bond issuers, and other factors such as inflation and market dynamics. In general, as interest rates rise the price of a bond will fall. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers.

3: Types of Diversification

By factor



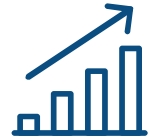
Value

Buy cheap companies



Quality

Buy profitable companies



Momentum

Buy the trend



Size

Buy smaller companies

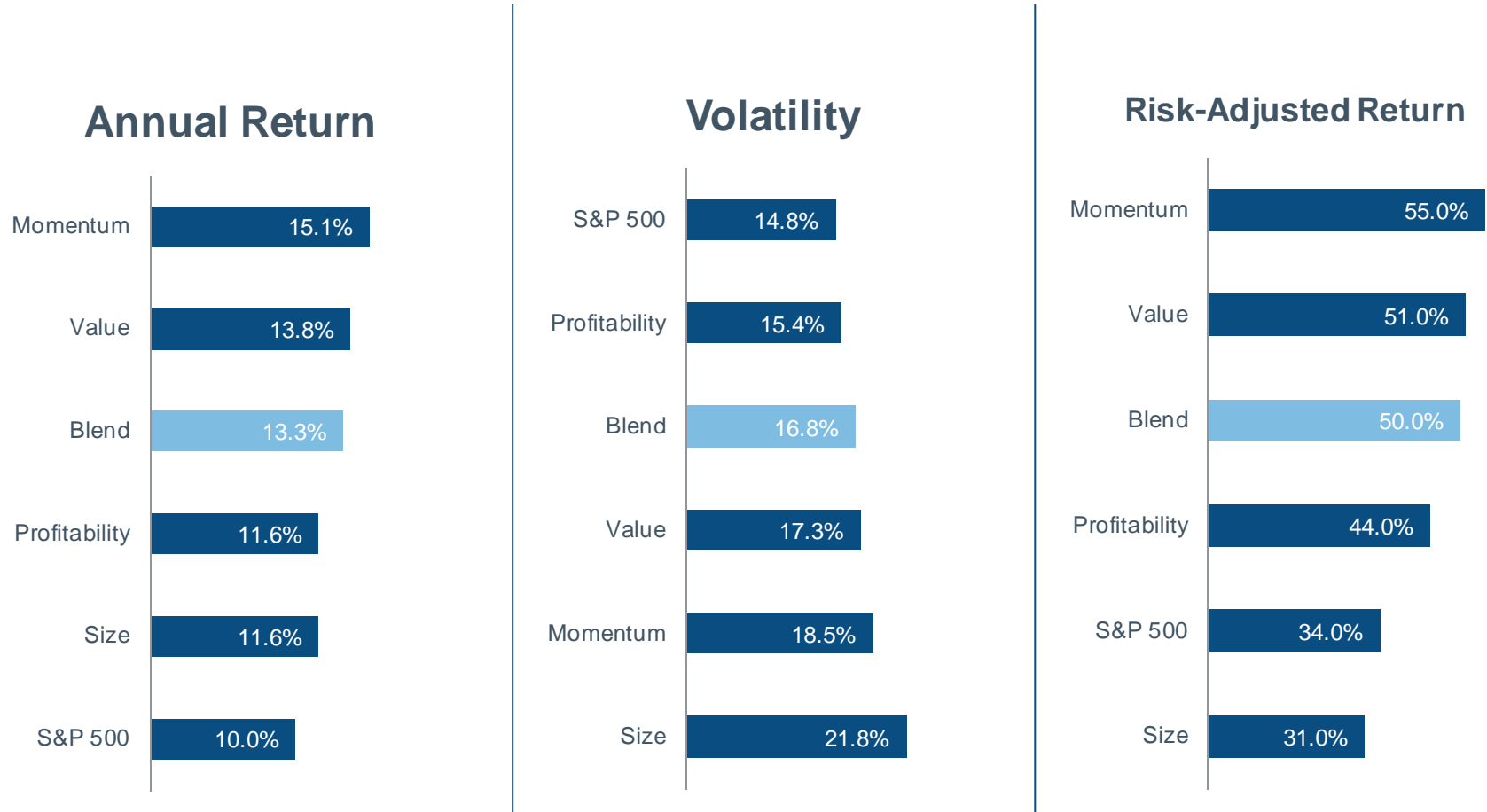


Low Volatility

Buy defensive companies

3: Types of Diversification

A multi-factor approach beat the broader market on a risk-adjusted basis from 1963-2015



Source: Bloomberg Gadfly, May 2016. Volatility is measured by Standard Deviation. Risk-Adjusted Return is measured by the Sharpe Ratio. A blend is an equal weighting of the top 20% of value, size, profitability, and momentum.

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

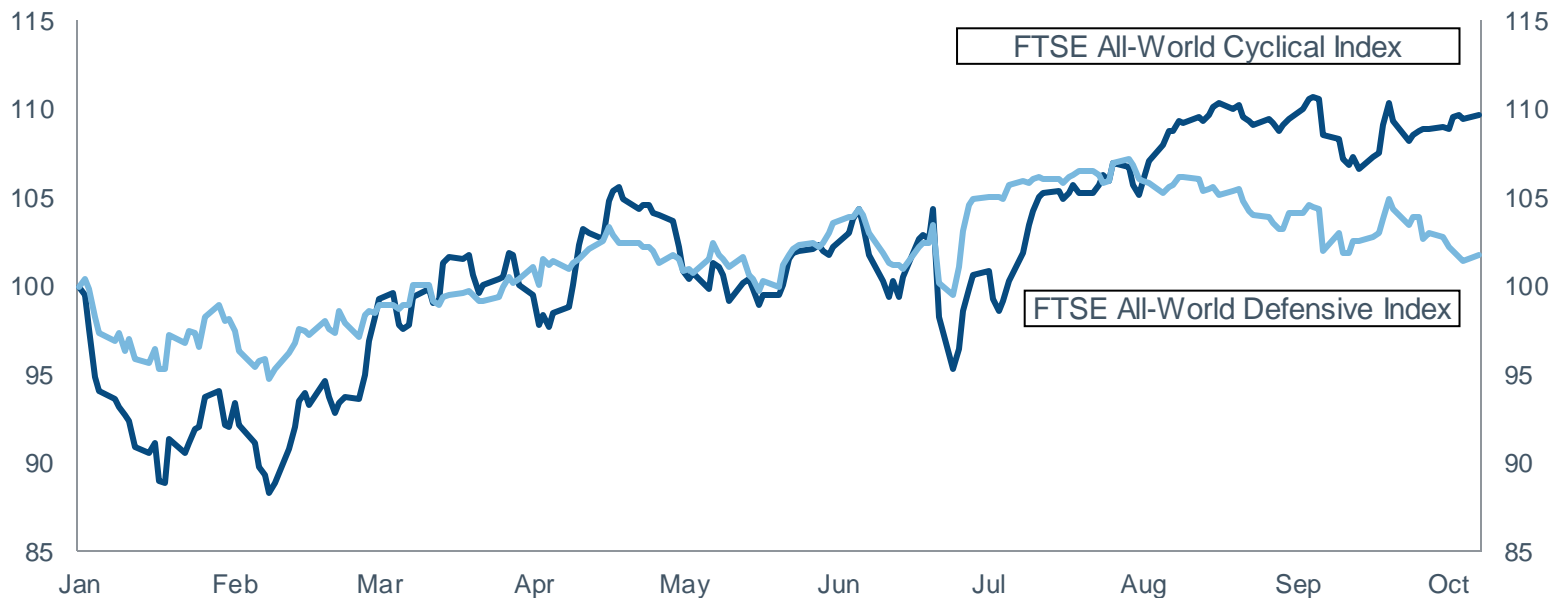


3: Types of Diversification

By sector

Cyclicals overtook defensives this summer

Jan 1st 2016 = 100



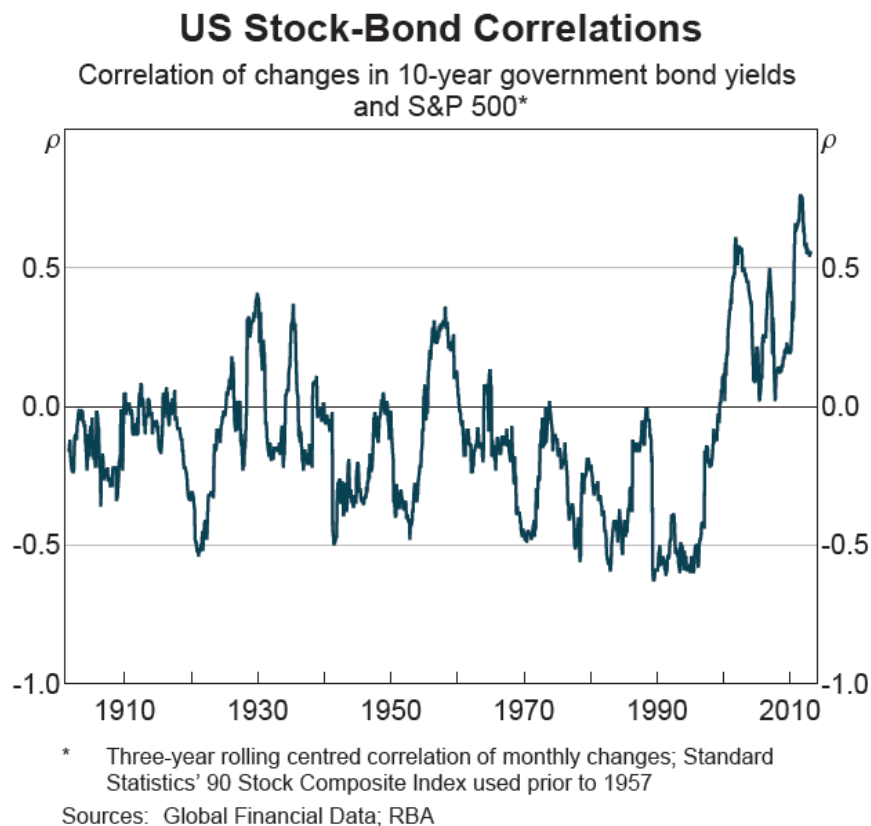
Source: Bloomberg, October 2016.

| % (as at 19 th Oct) | 2011 - 2012 | 2012 - 2013 | 2013 - 2014 | 2014 - 2015 | 2015 - 2016 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| FTSE All-World Cyclical Index | 8.1 | 19.2 | -7.2 | -6.7 | 4.2 |
| FTSE All-World Defensive Index | 15.1 | 18.2 | 8.9 | 9.3 | -1.6 |

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

4: Bonds should not be your *only* diversification tool

Performance of stocks and bonds increasingly similar since 2000



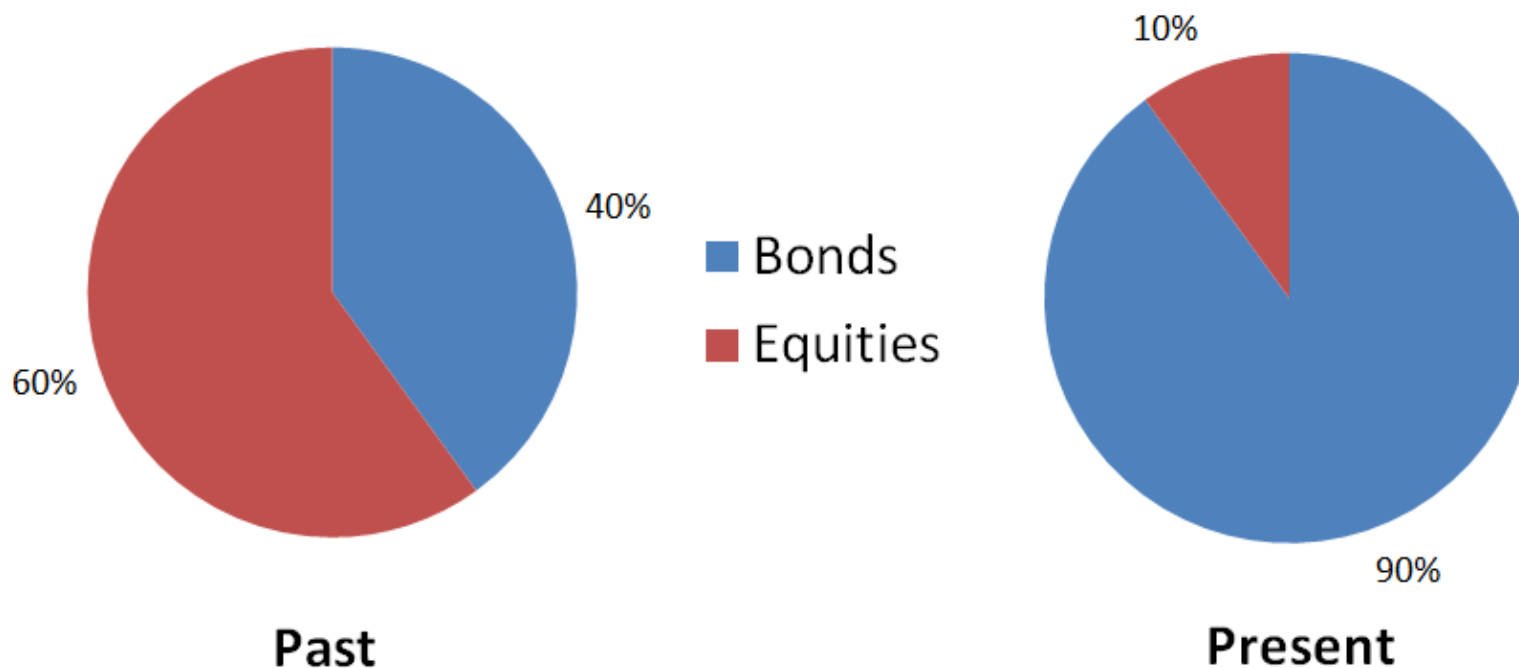
Source: Reserve Bank of Australia, September 2014

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

4: Bonds should not be your *only* diversification tool

In a low-yield world, bonds are a poor diversifier

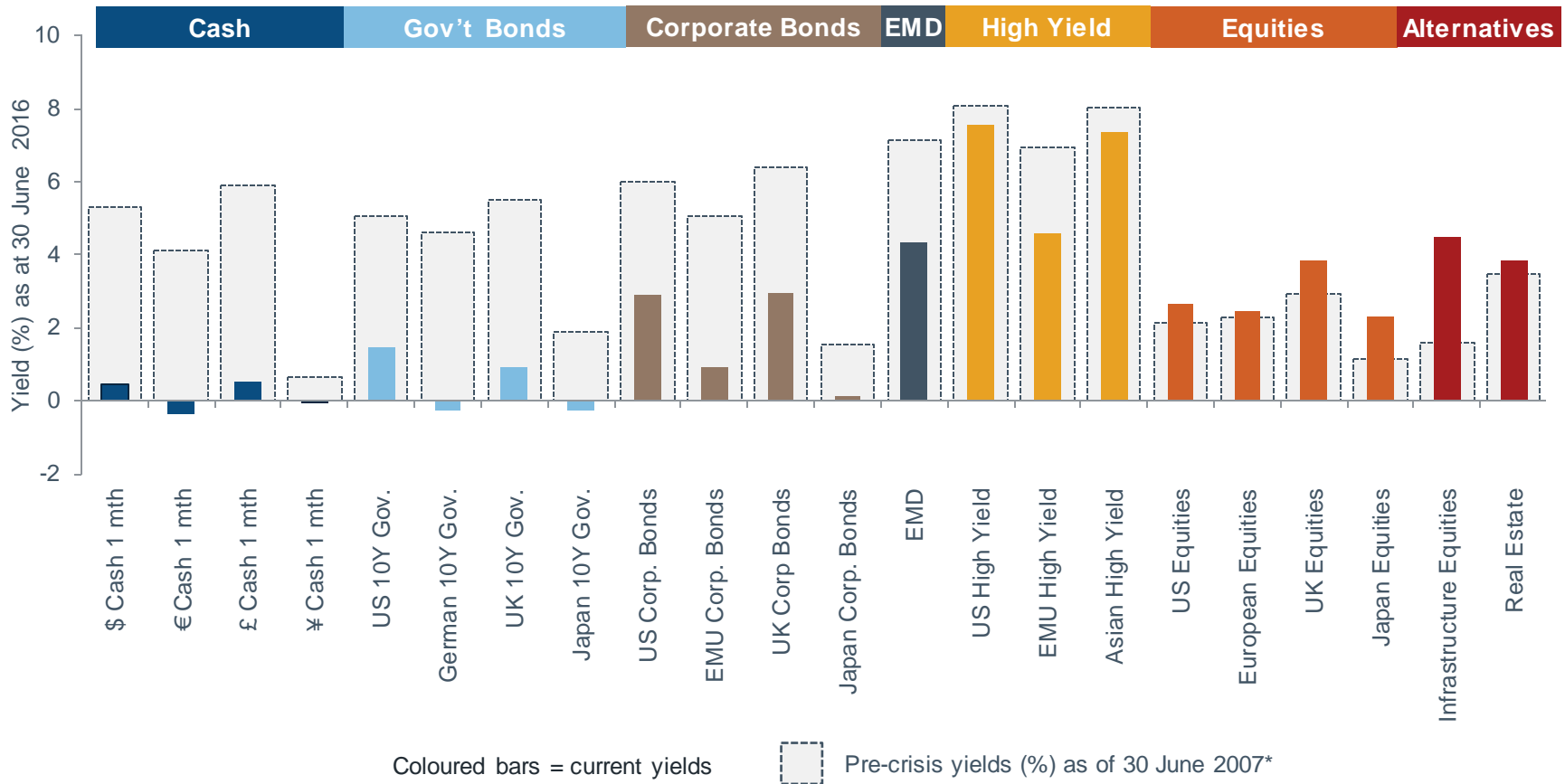
Bond allocation needed to withstand a 10% stock market decline



Source: Fidelity International

5. Alternative Investments

Attractive yields from infrastructure and real estate



Source: Datastream and Bloomberg, BofA Merrill Lynch Bond Indices - Redemption Yields, MSCI Equity Indices - Dividend Yields (to 30 June 2016), S&P Global Infrastructure Index - Dividend Yields (from 30 June 2008* to 30 June 2016), FTSE EPRA/NAREIT Developed Real Estate Index - Dividend Yields (to 30 June 2016).

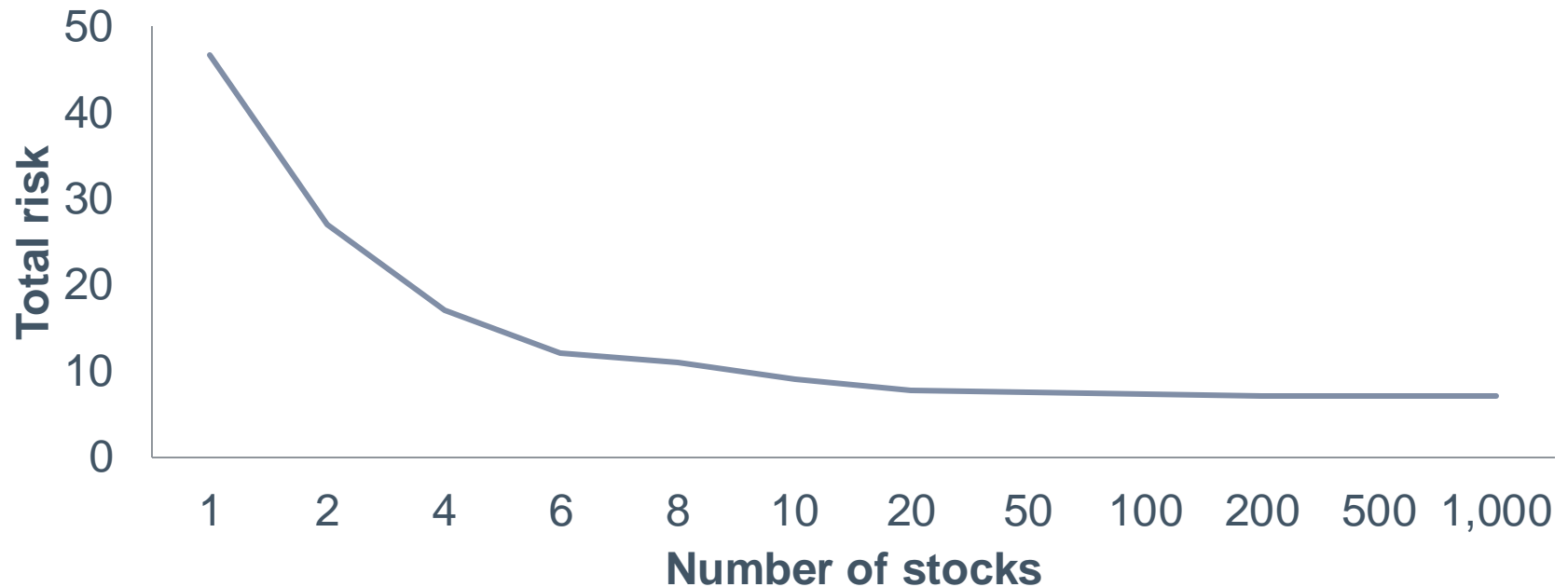
Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment. Investments in small and emerging markets can be more volatile than those in other overseas markets.



6. Can you be too diversified?

50 is the optimal number of stocks to own

Owning more than 50 stocks provides negligible risk reduction

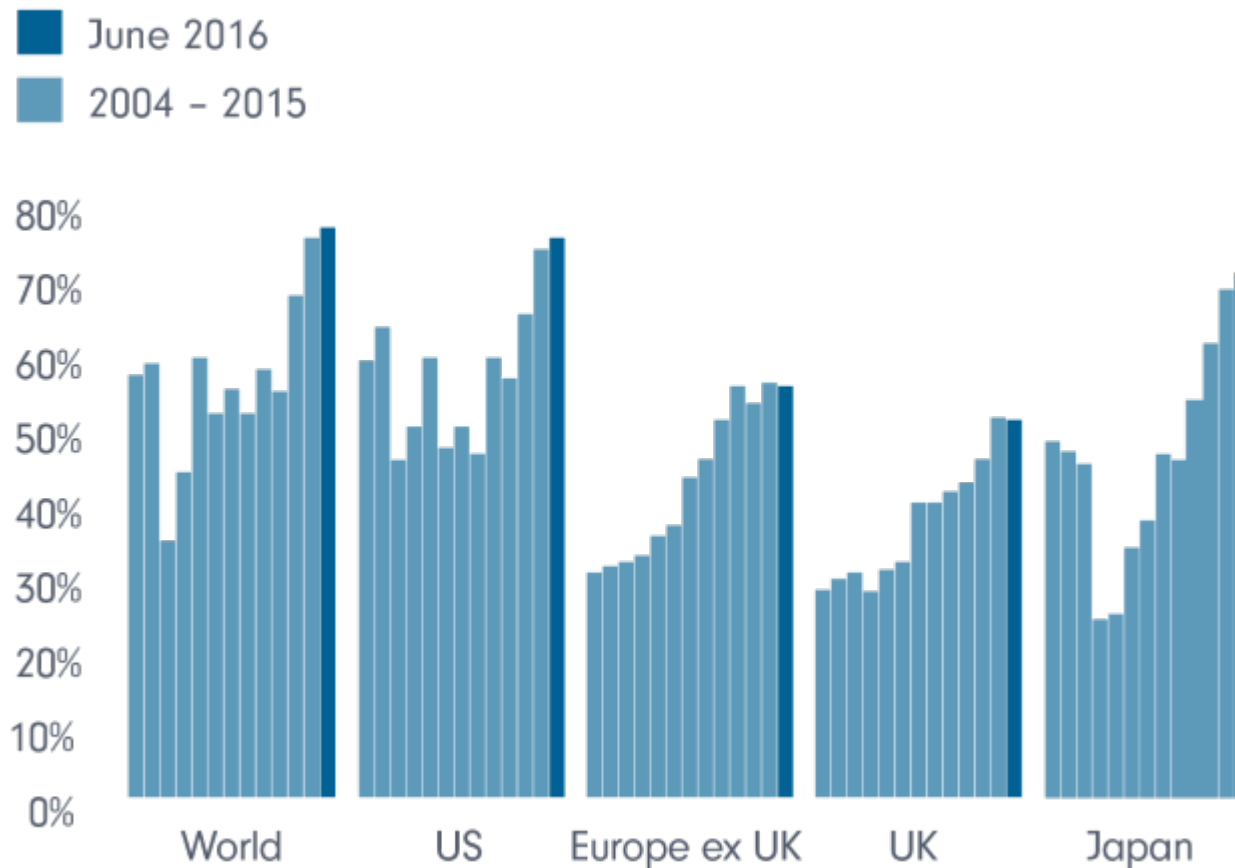


Source: Elton and Gruber, 'Risk Reduction and Portfolio Size: An Analytical Solution'. *The Journal of Business*, Vol. 50 No. 4 (Oct 1977).

6. Can you be too diversified?

Beware of herding – look under the bonnet of the funds you own

Proportion of equity market variance explained by macroeconomic factors (%)



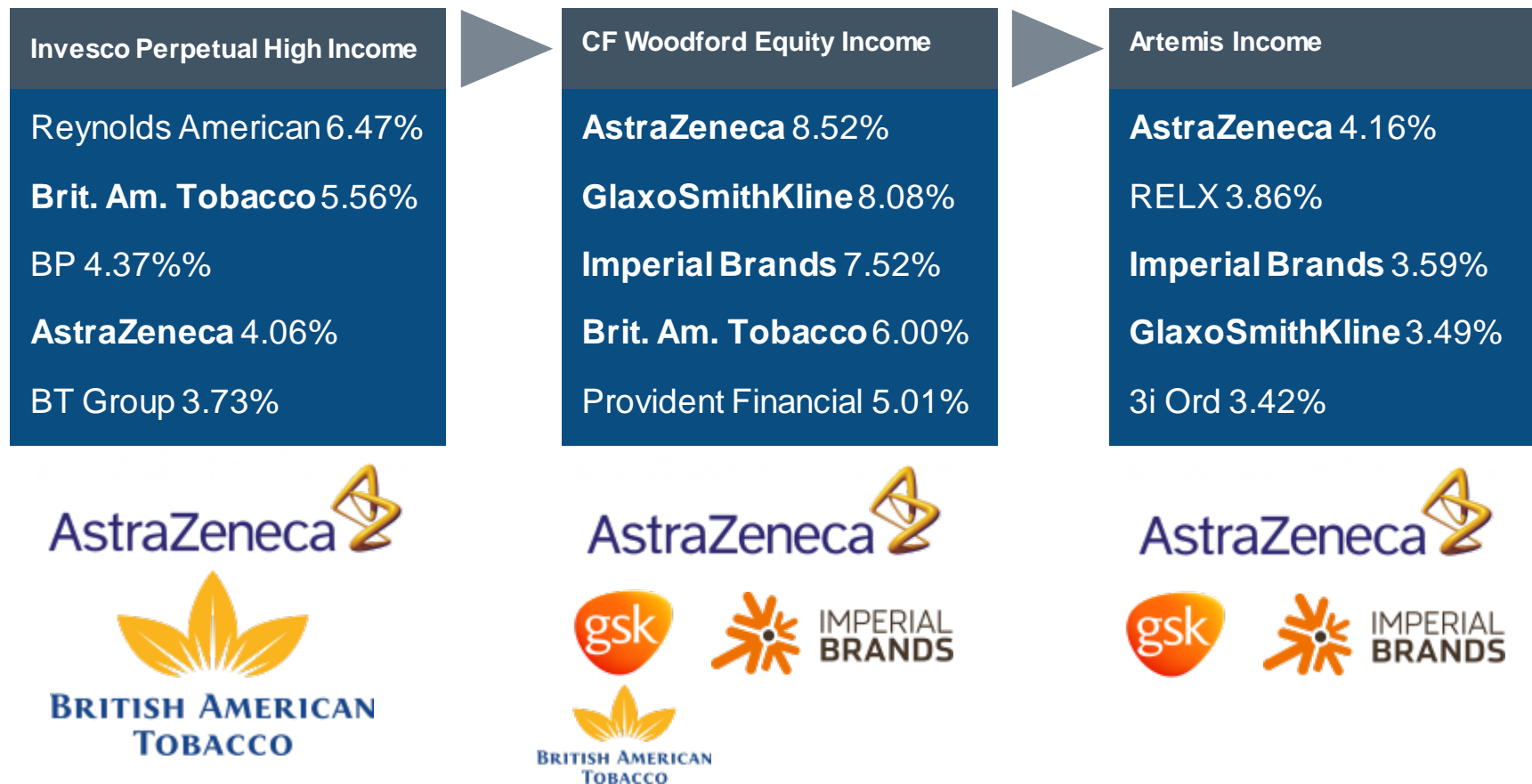
Source: Citigroup, August 2016.

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

6. Can you be too diversified?

Beware of herding – look under the bonnet of the funds you own

Overlap in top 5 holdings of 3 largest UK Equity Income funds ranked Gold/Silver/Bronze



Source: Morningstar, October 2016. Screened for UK Equity Income Funds with Morningstar Gold/Silver/Bronze ratings. Analysed overlap of the five largest holdings of the three largest funds (ranked by Total Assets).

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

7. Multi asset funds

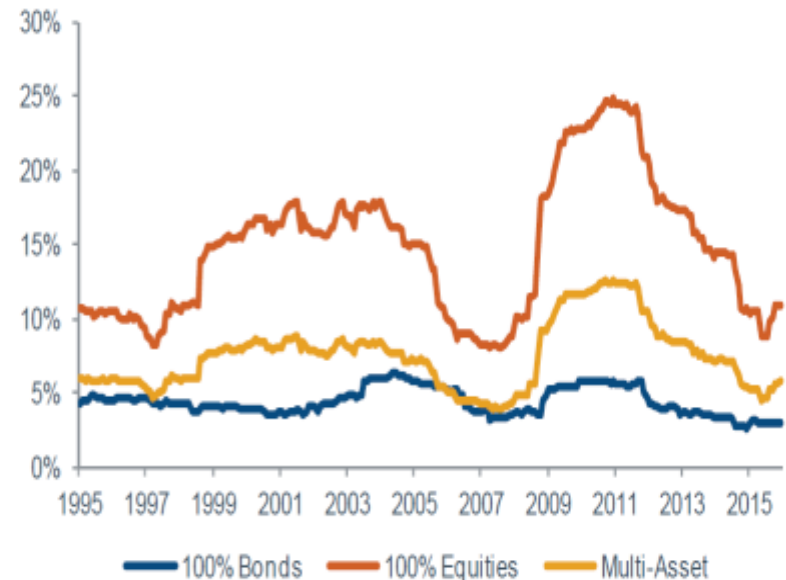
A single, cost effective fund provides optimal diversification

Charts 1 & 2. Combining asset classes offers a smoother journey

Returns



Volatility



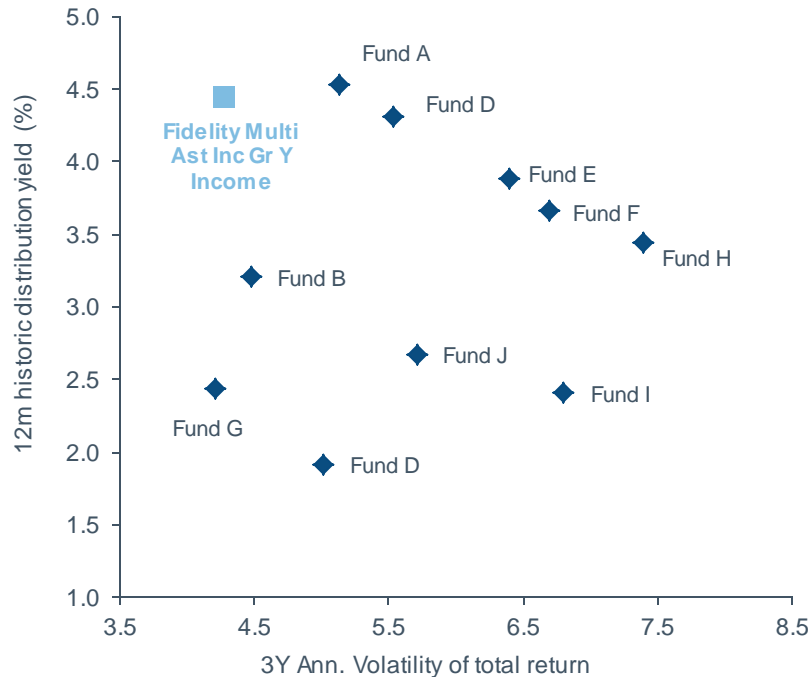
Source: Fidelity International, December 2015. Example is USD based. Multi asset blend defined as 10% cash, 50% equity, 40% bonds. Indices used for; Cash: one month LIBOR, Bonds: Barclays Global Agg. Total Return Index Value Hedged USD, Equity: MSCI AC WORLD

Past performance is not a reliable indicator of what might happen in the future.

High income, low volatility

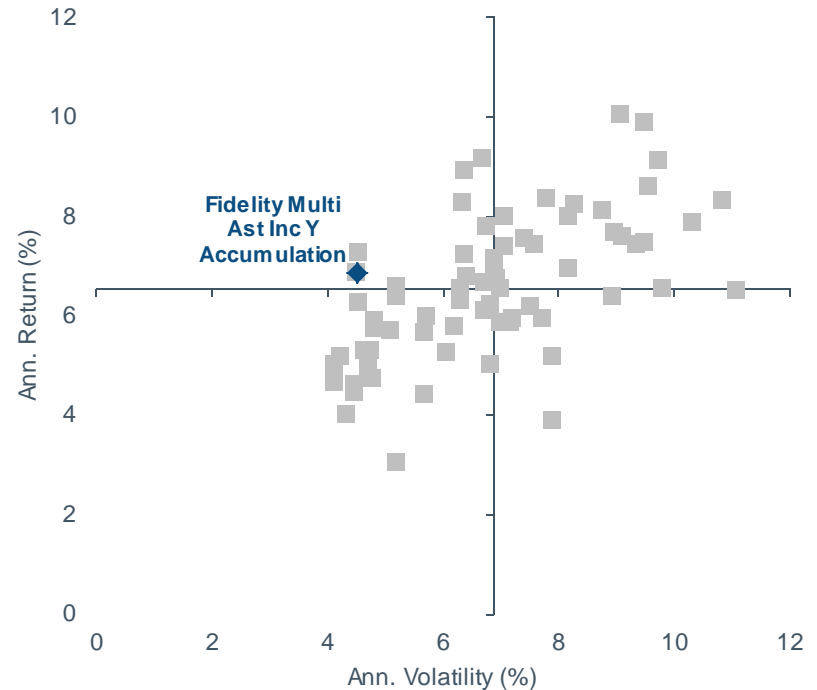
Fidelity Multi Asset Income Fund

Yield/volatility for the 10 best selling income funds in the UK¹



Delivers attractive income with low volatility

5-year risk/return vs. mixed asset income funds from other sectors



Top quartile for risk adjusted returns

Source: Morningstar Direct. Basis: bid-bid, income reinvested in GBP, net of fees to 31 July 2016. The share classes shown are the clean priced income paying share classes. Fidelity Multi Asset Income Gross paying share class is also shown to illustrate that the gross of tax share class is available for customers investing in ISAs/SIPPs. Yield reflects amount in £ per unit paid to clients over the last 12 months divided by the month end fund price.

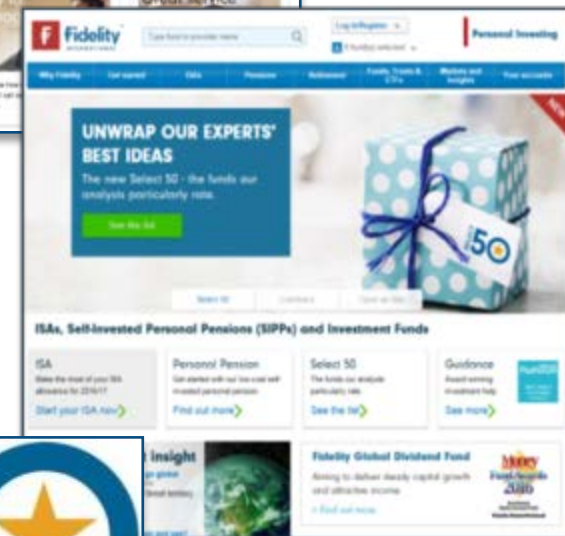
²Morningstar Direct. Basis: bid-bid, income reinvested in GBP, net of fees to 31 July 2016. IA Primary Share Class shown Universes defined as follows: funds in the IA Mixed Investment 0–35% shares, Mixed Investment 20–60% shares, Mixed Investment 40–85% shares and Flexible Investment sectors where 'income' or 'distribution' was in the fund name. Funds in the IA Unclassified sector with a multi-asset income remit were also included.

Past performance is not a reliable indicator of what might happen in the future.

Fidelity Personal Investing

Making good investing easy

- **Choice** – Access to more than 2,800 investments from over 100 fund management houses
- **Expertise** - Market leading research from one of the world's largest investment houses
- **Guidance** – Award winning guidance and support
- **Heritage** – A leading UK investment platform provider with 300,000 personal investing clients



Source: Fidelity International, as at 30 June 2016.

Fidelity Wealth

A personal service crafted around you



- Your own Relationship Manager to provide a personalised service



- Low service fee of 0.20% with no fee on assets over £1 million. Ongoing fund charges still apply



- Complimentary Quarterly Portfolio Report analysing your holdings



- Invites to exclusive events that give you the latest insights from leading experts



- The same benefits for your family members

Tom Stevenson @tomstevenson63

www.fidelity.co.uk/investor/markets-insights.page

Daily Investment Insight

And now for Brexit's silver lining

TOM STEVENSON, FIDELITY PERSONAL INVESTING, 17 OCTOBER 2016



Money, so they say, falls on the biggest pile.

Last week's spat between Unilever and Tesco demonstrated the danger of paying the price. The poorer you are, the greater the proportion of your income is spent on food and the harder hit you will be by sterling's fall and the rise in inflation.

Fund Manager Interviews



Quarterly Investment Outlook & Webcast



MoneyTalk Series: Markets and your Money



Appendix 1

| % (as at 3 rd Oct) | 2011 - 2012 | 2012 - 2013 | 2013 - 2014 | 2014 - 2015 | 2015 - 2016 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| US Aggregate | 5.4 | -2.2 | 4.6 | 3.0 | 5.4 |
| S&P 500 | 32.0 | 15.7 | 17.2 | -0.8 | 10.8 |
| UK Aggregate | 9.6 | -1.2 | 6.4 | 7.8 | 13.2 |
| FTSE 100 | 14.8 | 10.7 | 1.2 | -6.1 | 13.9 |
| European Aggregate | 8.0 | 3.9 | 9.9 | 3.0 | 5.9 |
| Euro Stoxx 50 | 16.6 | 16.4 | 8.0 | -1.4 | -2.9 |
| Japan Aggregate | 2.3 | 2.1 | 1.8 | 2.5 | 5.5 |
| TOPIX | -2.6 | 61.4 | 9.3 | 12.7 | -7.9 |

Source: Bloomberg, October 2016. US Aggregate – BofA Merrill Lynch US Corporate & Government Index. European Aggregate – Bloomberg Barclays EuroAgg Total Return Index Value Unhedged EUR. Japan Aggregate – Japan Broad Market Index.

Past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment. Please be aware that the price of bonds is influenced by movements in interest rates, changes in the credit rating of bond issuers, and other factors such as inflation and market dynamics. In general, as interest rates rise the price of a bond will fall. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers.