

RussellResearch

Fidelity Investments / Pyramis Global Advisors

INTERNATIONAL GROWTH

Equity | Global ex US | Growth | -

CONTENTS

Opinion

Manager Update

Fidelity Investments / Pyramis Global Advisors

PRODUCT: INTERNATIONAL GROWTH

ASSET CLASS
Equity

GEOGRAPHIC EMPHASIS
Global ex US

STYLE
Growth

SUBSTYLE
-

OVERALL EVALUATION



We recommend that mutual clients actively evaluate replacement managers.

Updated By: Ellen Chae
Target Excess Return:
Target Tracking Error: 400 to 400 bp
Time Period: 3-5 years
Russell-Assigned Benchmark: MSCI EAFE-Growth Index

DISCUSSION

This rank applies to both the International Growth product with regional allocation and a regional neutral option. The International Growth product is based on stock selection by regional portfolio managers in Europe, Japan and Asia ex Japan. Our rank of this product is contingent upon management of the major regional portfolios by Stephen Oler and Peter Hadden, or Cedric de la Chaise in Europe, Eileen Dibb in Japan and John Lo in Asia ex Japan.

This product is expected to exhibit a moderate growth bias over time, although this emphasis may vary at times and by region. As the main source of alpha in this product is stock selection, we do not expect it to be subject to sudden large performance swings.

INVESTMENT STAFF

The International Growth product is managed by a team of portfolio managers each managing a regional sleeve of the portfolio. The departure of James Rutherford by the end of 2006 is a negative development, and we do not view the co-portfolio managers Stephen Oler and Peter Hadden as suitable replacements. We view the replacement of Kirk Neureiter, portfolio manager of the Japan portfolio, with Eileen Dibb in mid 2008 as neutral. Eileen comes off well but it is too early to determine if she has differentiated insight or skill. At this point, we would rank her as average relative to peers.

Portfolio managers mainly choose from the analysts' top ranked stocks in constructing regional portfolios from which the international product is built. We have a positive view of Fidelity's research teams and the quality of ideas that they present to the portfolio managers.



FIDELITY INVESTMENTS / PYRAMIS GLOBAL ADVISORS**ORGANIZATIONAL ENVIRONMENT** ① ② ③ ④ ⑤

The portfolio management team has seen noticeable turnover, including the departures of James Rutherford at the end of 2006, Karen Firestone in 2005, Yoko Tilley in 2004 and Jeff Kung and Marco Buonconi in 2003. The departure of Kirk Neureiter from the team adds to the instability in the midst of the many organizational changes that are occurring from the creation of Pyramis.

Pyramis has relocated its headquarters from Boston to Rhode Island. The transition seems to have gone smoothly as it had been anticipated for some time. However, in the longer term the commuting burden could be challenging to recruiting and retaining talent.

Both Pyramis, the institutional arm of Fidelity, and FMR, the retail business, are in the process of expanding their Non-US research teams by establishing local offices in Europe and Asia. This is an attempt to further differentiate the two firms and lessen the dependence on research from Fidelity International (FIL). Although we welcome the progression towards a more independent Pyramis, we acknowledge the increased complexity while the research team is being established. .

SECURITY SELECTION ① ② ③ ④ ⑤

Fidelity's analysts provide a certain level of alpha through their stock recommendations, but frequent turnover and different levels of experience among them creates some noise. The portfolio managers provide an important oversight function of these recommendations, directing research, questioning research results and sampling amongst their best ideas. We see the overlay of portfolio managers' views on to research as a key component of Fidelity's alpha proposition. Our initial impression of Hadden and Oler as Rutherford's replacements is that security selection will not be differential from the average European manager. While we have had a positive opinion of Cedric De la Chaise in previous meetings we are now concerned that the loss of Rutherford and the more than doubling of the assets Cedric manages will not afford him the same ability to add value.

COUNTRY SELECTION ① ② ③ ④ ⑤

The Asset Allocation Committee headed by Mike Strong determines regional allocations on a quarterly basis. We believe the primary input into the process—the bottom up work of the analysts which, when aggregated, helps Fidelity determine country and regional growth prospects. Other inputs such as supply/demand factors, liquidity flows across asset classes and international markets, and technical indicators also make sense. Overall, the process is sensible and well thought out. However, Fidelity aims to seek only modest incremental value from regional/ country bets by constraining them to +/- 5% of benchmark weights as it strongly believes that it can add most value from stock selection. This component of the process is currently under review by Fidelity and will be a point of discussion in future meetings.



FIDELITY INVESTMENTS / PYRAMIS GLOBAL ADVISORS**RESEARCH** ① ② ③ ④ ⑤

Fidelity's research resources provide a competitive advantage – the firm has almost 300 research analysts located throughout the major geographic regions. Relative to peer managers, the depth and breadth the firm's primary research effort is impressive, employing frequent contacts with management, competitors, suppliers, and customers. The firm also has a robust technology infrastructure to effectively communicate all relevant research information among the research investment management professionals. However, the rotation of analysts' roles and regular promotion of analysts to portfolio manager adds an element of instability.

The structural changes now being implemented in the US and Europe, is an attempt to allow capacity for more growth. The International Growth portfolio managers continue to have wide access to the pool of analysts and we are comfortable that it provides the necessary support. However, Oler, Hadden and Dibb will remain located in Boston which will create challenges for effective communication with the locally based analysts.

The European research team in London has experienced another reorganization following the dismantling of the separate research teams. In the near term we believe this will somewhat diminish the quality and the productivity of research. We are cognizant of the short term disruption as these organizational changes take place and portfolio managers build relationships with new analysts.

The firm is planning on building a research facility in India where the more technical, data intensive company analysis will be performed to free up the rest of the analysts' time for idea generation.

ASSET ALLOCATION ① ② ③ ④ ⑤

This category is not ranked, as Fidelity does not believe that it can add value through market timing. Portfolios are fully invested.

SELL DECISION ① ② ③ ④ ⑤

Portfolio managers will sell stocks on the basis of degradation in fundamentals (i.e. the long term growth prospects of a company have diminished), technical factors used for timing decisions (lagging momentum), valuation reasons, and changes in Fidelity analyst ranks. We generally believe the portfolio managers have the appropriate level of objectivity to sell stocks dispassionately but they are not above peers in this respect.

PORTFOLIO CONSTRUCTION ① ② ③ ④ ⑤

Each portfolio manager is given considerable discretion in portfolio construction, though they have been encouraged in recent years to make more use of the analysts' top ranked stocks. We believe this focuses the portfolio managers' efforts more on the analysts' best ideas.

Fidelity employs some simple portfolio construction disciplines to limit the size of bets taken regarding regions, sectors, and stocks that represent sizeable index weights. This could result in poorly ranked stocks being included in portfolios to limit tracking error. However, in practice this happens only with the largest capitalization stocks, and only when they are not in the bottom quintile of the analyst ranks.

Fidelity has recently encouraged its portfolio managers to increase the level of active bets taken in the larger capitalization benchmark stocks, emphasizing those names with the highest conviction. Although we believe the product's modest risk profile will remain, we will continue to monitor how this may impact portfolio characteristics.



FIDELITY INVESTMENTS / PYRAMIS GLOBAL ADVISORS

All regions conduct periodic peer reviews where the portfolio managers' performance patterns, portfolio characteristics, and stock holdings are scrutinized. We feel this process provides useful feedback for the professionals.

CURRENCY MANAGEMENT ① ② ③ ④ ⑤

This category is unranked, as Fidelity does not actively manage currencies. Currency movements are not expected to contribute or detract from returns in any significant way as regional and country weights are kept fairly close to benchmark levels.

IMPLEMENTATION ① ② ③ ④ ⑤

Fidelity manages a very large asset base. As such, it must maintain superior trading technologies to mitigate predatory trading from competitors, as well as to effectively manage its own trade flows. The firm has experience in doing so given the size of its U.S. retail business, and continues to invest significant resources in technology to improve the efficiency of its trading and portfolio management capabilities. The proprietary "Inview" and "Overview" systems allow on-line access to Fidelity's global research resources. This enables portfolio managers to manage multiple mandates more efficiently.

Fidelity's strength in implementation benefits from compensation structures that focus on making analysts and portfolio managers accountable for their decisions and the impact they have on portfolios. Analysts have high incentives to distribute their high conviction information quickly and effectively to portfolio managers. This is typically done through aggressive use of computer systems, voice mail and face-to-face dialogues. We have concerns about the efficacy of communication between the regionally based analysts and the Boston based European and Japan portfolio managers.

We consider the asset burden a potential threat to this product's continued success.



FIDELITY INVESTMENTS / PYRAMIS GLOBAL ADVISORS**Important Legal Information**

This material is confidential and proprietary, not to be shared, reproduced, transferred or distributed in any form to any party without prior written permission from Russell Investments. This material is confidential and is intended only for the recipient. This is delivered on an "as is" basis without warranty. It is not an offer, solicitation, or recommendation to purchase any security or the services of any organization unless otherwise noted. The opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. The material is based on information that Russell considers to be reliable, but neither Russell nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Russell Investments, including its subsidiaries and affiliates, may have past, current or future commercial relationships with investment management firms it researches and evaluates and as a result you should be aware that Russell may have a conflict of interest that could affect the objectivity of this report. For example, managers may use Russell analytical or index products. They may also serve as managers in Russell's funds or participate in commission recapture, transition management or other services offered by a Russell broker/dealer. These other relationships are not a factor in Russell's ranking process, and we believe we have adequate controls to protect the integrity of the research process. Through these other relationships, Russell solicits additional data about investment management firms, which data is not shared with Russell's manager research analysts in order to maintain the independence of Russell's manager research activities. Russell's manager research analysts are generally unaware of any business relationships that may exist between a particular investment manager and Russell or a Russell affiliate except as may be known from public sources or as may be discovered in the course of Russell's manager research and due diligence activities. In order to isolate the manager research activities from possible conflicts of interest, information acquired in other areas or affiliates is not shared with the research department. As a result, the information in this report is not a complete representation of all data known to Russell about an investment management firm that, if known to the manager research analysts, could affect their opinions or the objectivity of this report.



Confidential Proprietary Information of Russell Investments not to be distributed to third party without express written consent of Russell Investments. This material is subject to the "Important Legal Information" disclosure contained on the final page of this report. That disclosure must be considered as part of this report.



Fidelity Investments / Pyramis Global Advisors

PRODUCTS REVIEWED

PRODUCT	ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
International Growth	Equity	Global ex US	Growth	-

MANAGER UPDATE

On February 2nd, 2009, Russell Associates met with portfolio manager Michael Strong in our offices to discuss the International Growth strategy. As a result of this meeting, we are maintaining the “Review” rank on this product.

Michael Strong continues to be highly engaged in the oversight and monitoring of the regionally based portfolios in the International Growth strategy. He has good stock level knowledge despite not being the decision maker on stock selection and can be a good devil’s advocate in challenging the regional portfolio managers. We also like the broad perspective he brings as a counterforce to an overly regionally focused bottoms up view, as well as his willingness to use his capital allocation discretion to add and reduce risk in the portfolio.

During the meeting, we also confirmed Pyramis’ commitment to building out its international research capabilities despite the difficult economic environment. Pyramis analysts are expected to distinguish themselves from FIL and FMR analysts by being more experienced and by being on a career analyst path, which we view favorably. The firm currently has 10 analysts in London and Hong Kong and will be adding 7 more. Over time, we expect Michael to rely more on the sector focused Pyramis analysts for idea generation and look to the broader base of FIL and FMR analysts for their broader maintenance related coverage.

We view this commitment to strengthening the international research effort as being positive. Continued stability on the investment team, confirmation of differentiated skill among the new Pyramis analysts and increased confidence in the underlying regional portfolio managers would improve our view of this strategy.

Performance

The International Growth strategy performed approximately in-line with the MSCI EAFE Growth index in 4Q2008, placing the manager in the 28th percentile among growth oriented managers for the quarter and 26th for the full year 2008. The strategy had placed in the bottom quartile among its peers in 2007 when growth and momentum factors paid off. These returns are in line with our expectations for a broad based, low deviation from benchmark strategy.

FIDELITY INVESTMENTS / PYRAMIS GLOBAL ADVISORS**Important Legal Information**

This material is confidential and proprietary, not to be shared, reproduced, transferred or distributed in any form to any party without prior written permission from Russell Investments. This material is confidential and is intended only for the recipient. This is delivered on an "as is" basis without warranty. It is not an offer, solicitation, or recommendation to purchase any security or the services of any organization unless otherwise noted. The opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. The material is based on information that Russell considers to be reliable, but neither Russell nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Russell Investments, including its subsidiaries and affiliates, may have past, current or future commercial relationships with investment management firms it researches and evaluates and as a result you should be aware that Russell may have a conflict of interest that could affect the objectivity of this report. For example, managers may use Russell analytical or index products. They may also serve as managers in Russell's funds or participate in commission recapture, transition management or other services offered by a Russell broker/dealer. These other relationships are not a factor in Russell's ranking process, and we believe we have adequate controls to protect the integrity of the research process. Through these other relationships, Russell solicits additional data about investment management firms, which data is not shared with Russell's manager research analysts in order to maintain the independence of Russell's manager research activities. Russell's manager research analysts are generally unaware of any business relationships that may exist between a particular investment manager and Russell or a Russell affiliate except as may be known from public sources or as may be discovered in the course of Russell's manager research and due diligence activities. In order to isolate the manager research activities from possible conflicts of interest, information acquired in other areas or affiliates is not shared with the research department. As a result, the information in this report is not a complete representation of all data known to Russell about an investment management firm that, if known to the manager research analysts, could affect their opinions or the objectivity of this report.