Managing portfolio volatility through sector investing

TODAY'S AGENDA

- Why Sectors Matter
- Diversifying Single-Stock Exposure
- Fidelity's Sector Resources: Education, Products, Tools
- Q&A

What Is a Sector?

All global stocks can be classified into one of ten sectors

CONSUMER DISCRETIONARY	ENERGY	FINANCIAL SERVICES	INDUSTRIALS	INFORMATION TECHNOLOGY
WHAT TO WEAR	**GETTING AROUND**	**THE AMERICAN DREAM**	**FROM THE GROUND UP**	**THE NEXT GENERATION**
Consumer companies that are sensitive to economic cycles, such as automakers, retailors, apparel makers, the media, and restaurants.	Companies that produce, refine, or market energy.	Financial services, such as banking, lending, brokers, and insurance.	Business that distribute durable goods or provide transportation or commercial services.	Goods and services, including hardware, software, semi-conductors, and consulting services.
McDonald's Ford	Exxon Mobile Chevron	Citi Morgan Stanley	Lockheed Martin CAT	Apple IBM

As Investors, We Can Use Sectors to Help Drive our Portfolio Performance

MATERIALS	CONSUMER STAPLES	HEALTH CARE	TELECOM SERVICES	UTILITIES
ADD A DREAM KITCHEN	**DAILY ROUTINE**	**I FEEL GOOD**	**STAY CONNECTED**	**LIGHTS ON**
Corporations that supply synthetic materials, such as chemicals and plastics, or raw materials such as metals or timber.	Consumer industries that are less sensitive to the economy, such as food and beverages, supermarkets, and household products.	Goods and services provided by pharmaceutical firms, hospital management firms, HMOs, and medical products.	Providers of telephone, wireless, and data services.	Companies that produce and deliver electric power, natural gas, or water.
Dow Dupont	Procter & Gamble Coca-Cola	Johnson & Johnson Pfizer	AT&T Verizon	Duke Energy American Electric Power

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Why Sectors Matter

Why Do Sectors Matter?

Significant Driver of Returns

Clear Patterns of Risk/ Volatility

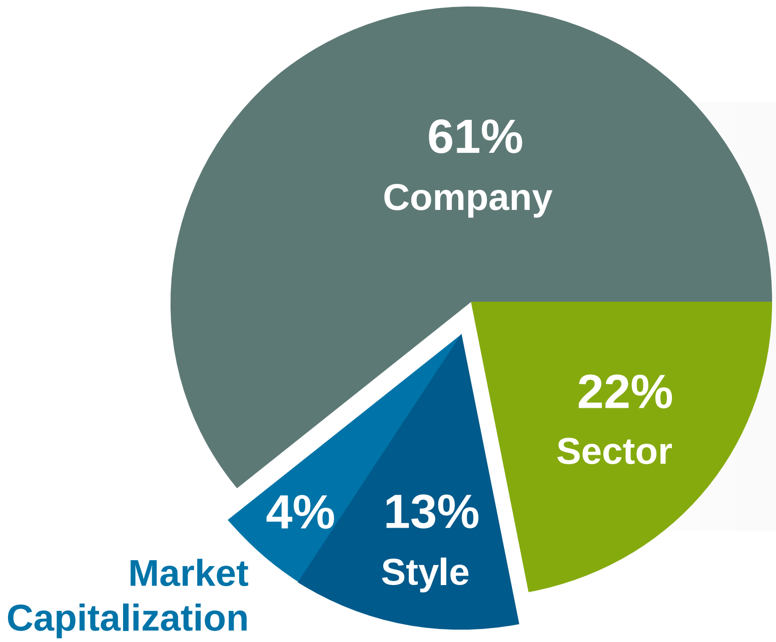
Low Correlations

Stable Classifications (Sectors Remain Sectors)

Sector Exposure Has Been a Significant Driver of Returns

Investors often ignore key performance drivers when constructing portfolios

AVERAGE SOURCE OF RETURNS FOR U.S. STOCKS
1/1/90–12/31/15



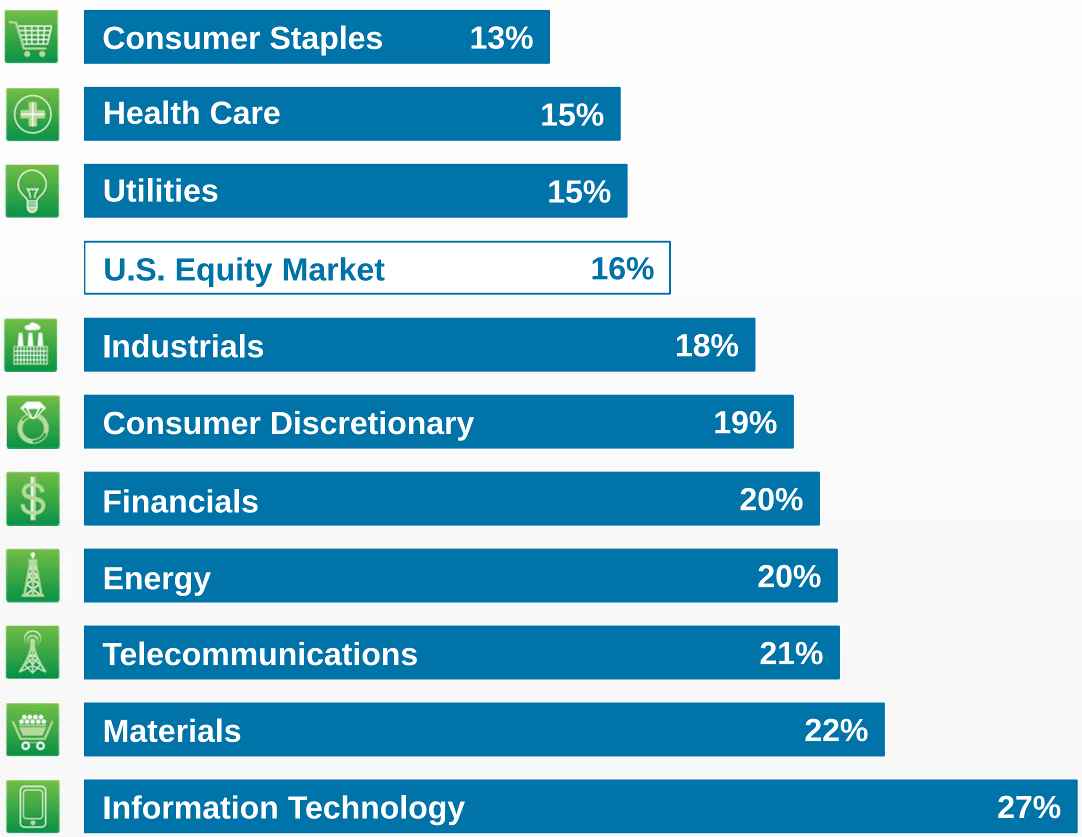
22% of performance driven by **sector** exposure

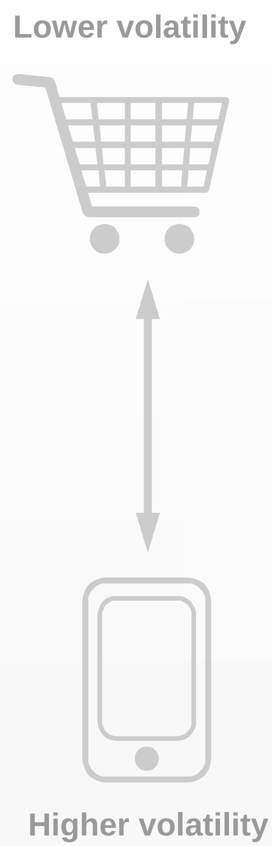
83% of performance driven by **sector** and **company** factors

Source: Fidelity Investments as of 12/31/2015, based on rolling 12-month analysis of variance (ANOVA), which uses statistical models to attribute the variance of a variable (stock returns in the Russell 3000®) to certain factors (sector, style, and market cap). The residual is attributed to other company-specific factors. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund.

Why Do Sectors Matter?

Clearer Patterns of Volatility





Sector volatility is represented by the standard deviation of the top 3,000 U.S. stocks as measured by market capitalization, and as defined by the GICS, from 1996-2015. Standard deviation measures the historical volatility of a fund. The greater the standard deviation, the greater the fund's volatility. Data as of 12/31/2015. Covers 1996-2015 Source: Haver.

Correlations Have Been Lower among Sectors than Style Boxes

PERFORMANCE CORRELATIONS OF U.S. SECTOR MONTHLY RETURNS (1996–2015)

	Energy	Materials	Industrials	Cons. Disc.	Cons. Staples	Health Care	Financials	Info. Tech.	Telecom	Utilities
Energy	1.00									
Materials	0.72	1.00								
Industrials	0.62	0.78	1.00							
Cons. Disc.	0.49	0.71	0.88	1.00						
Cons. Staples	0.36	0.51	0.63	0.60	1.00					
Health Care	0.37	0.43	0.60	0.57	0.64	1.00				
Financials	0.51	0.65	0.83	0.80	0.68	0.61	1.00			
Info. Tech.	0.41	0.52	0.69	0.75	0.35	0.53	0.52	1.00		
Telecom	0.33	0.43	0.55	0.62	0.45	0.46	0.49	0.63	1.00	
Utilities	0.52	0.38	0.43	0.33	0.41	0.42	0.43	0.17	0.28	1.00

PERFORMANCE CORRELATIONS OF U.S. STYLE BOX MONTHLY RETURNS (1996–2015)

	Small-Cap Growth	Small-Cap Value	Mid-Cap Growth	Mid-Cap Value	Large-Cap Growth	Large-Cap Value
Small-Cap Growth	1.00					
Small-Cap Value	0.84	1.00				
Mid-Cap Growth	0.94	0.76	1.00			
Mid-Cap Value	0.73	0.91	0.74	1.00		
Large-Cap Growth	0.77	0.65	0.87	0.73	1.00	
Large-Cap Value	0.64	0.78	0.70	0.91	0.80	1.00

Source: Morningstar Encorr, as of 12/31/15.
U.S. equity market is represented by the top 3,000 U.S. stocks as measured by market capitalization and sectors are defined by the GICS. Style box categories are represented by the following indices: large cap growth: Russell Top 200 Growth; large cap value: Russell Top 200 Value; mid cap growth: Russell Midcap Growth; mid cap value: Russell MidcapValue; small cap growth: Russell 2000 Growth; and small cap value: Russell 2000 Value. Past performance is no guarantee of future results. It is not possible to invest directly in an index. • All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund. • Correlation coefficient is the interdependence of two random variables that range in value from −1 to +1, indicating perfect negative correlation at −1, absence of correlation at 0, and perfect positive correlation at +1. Standard deviation measures the historical volatility of a fund. The greater the standard deviation, the greater the fund's volatility.

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Why Do Sectors Matter?

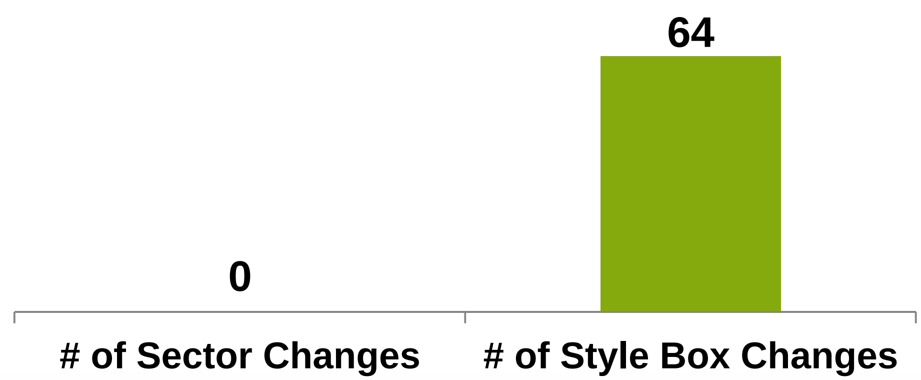
Intuitive, stable classifications means investors know what they own

ExxonMobil

Growth or value?

Which sector?

Average Month-to-Month Classification Changes For S&P 500 Constituents



Information presented is for informational purposes only and is not investment advice or an offer of any particular security. This information must not be relied upon in making any investment decision. Fidelity cannot be held responsible for any type of loss incurred by applying any of the information presented. These views must not be relied upon as an indication of trading intent of any Fidelity fund. Specific securities mentioned are for illustrative purposes only and must not be considered an investment recommendation or advice. Source: Fidelity Investments, Morningstar Direct as of 12/31/2015; time period from January 2015 through December 2015 Only Includes firms in S&P 500 for full calendar year.

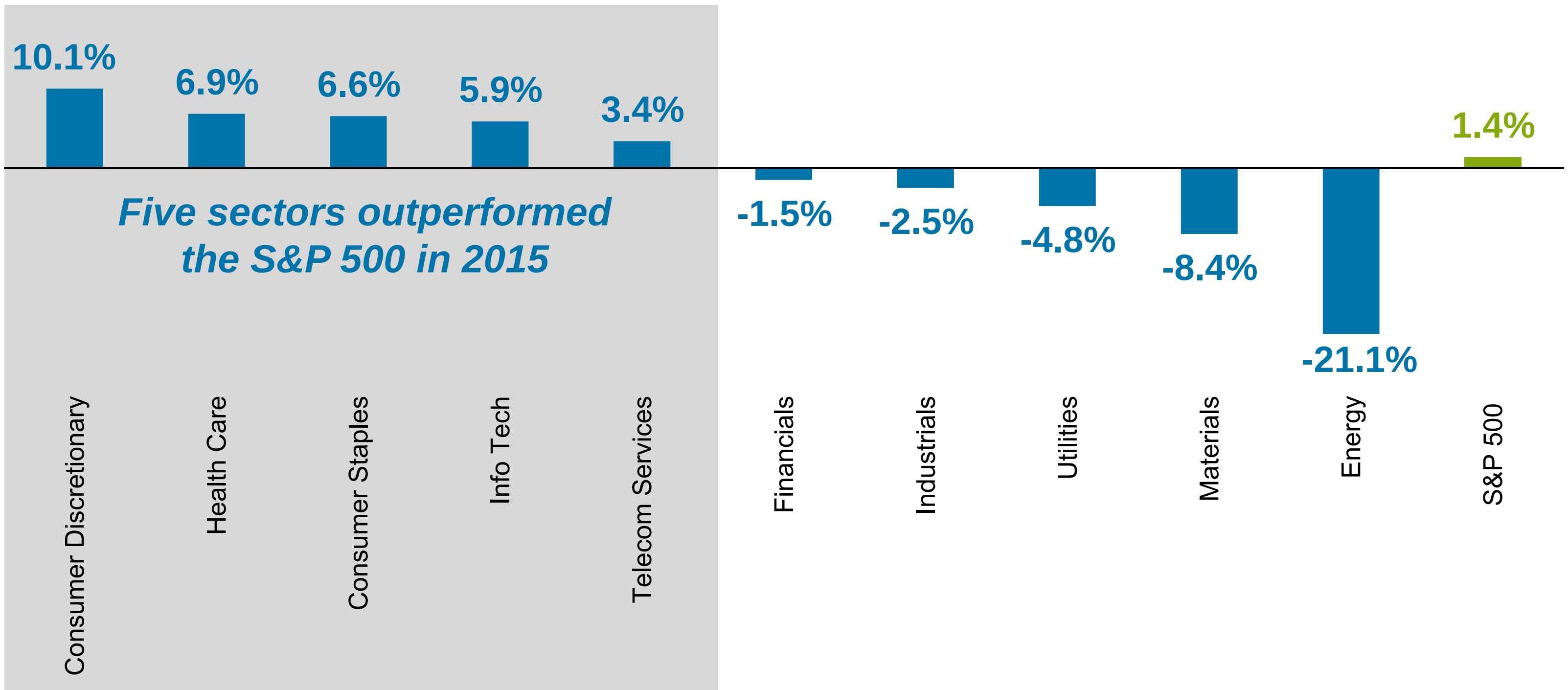
Diversifying Single-Stock Exposure

Opportunistic Sector Investing

Growth/Returns

Investing in sectors offers the potential for above-market returns

2015 TOTAL RETURN

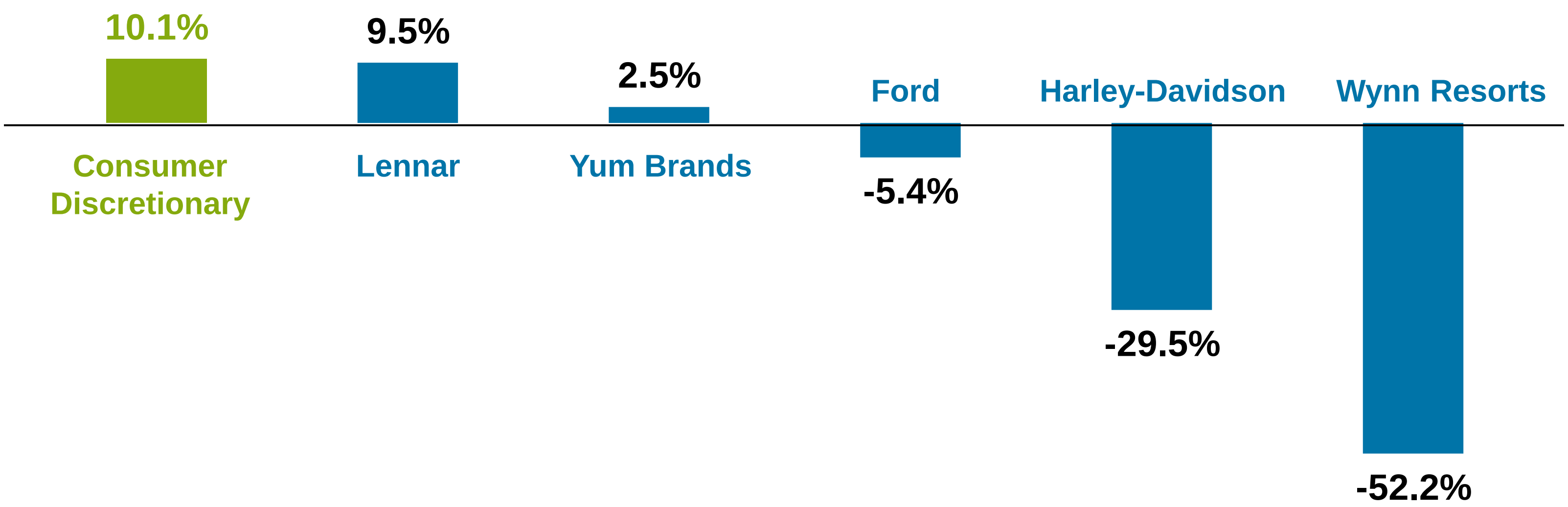


Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies. Past performance is no guarantee of future results. You cannot invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in more diversified baskets of securities. Sector returns represented by S&P 500 sectors.

Source: Morningstar, Fidelity Investments (AART), as of 12/31/2015.

Diversifying Single-Stock Exposure
Single Stock Alternative

CONSUMER DISCRETIONARY LAGGARDS 2015

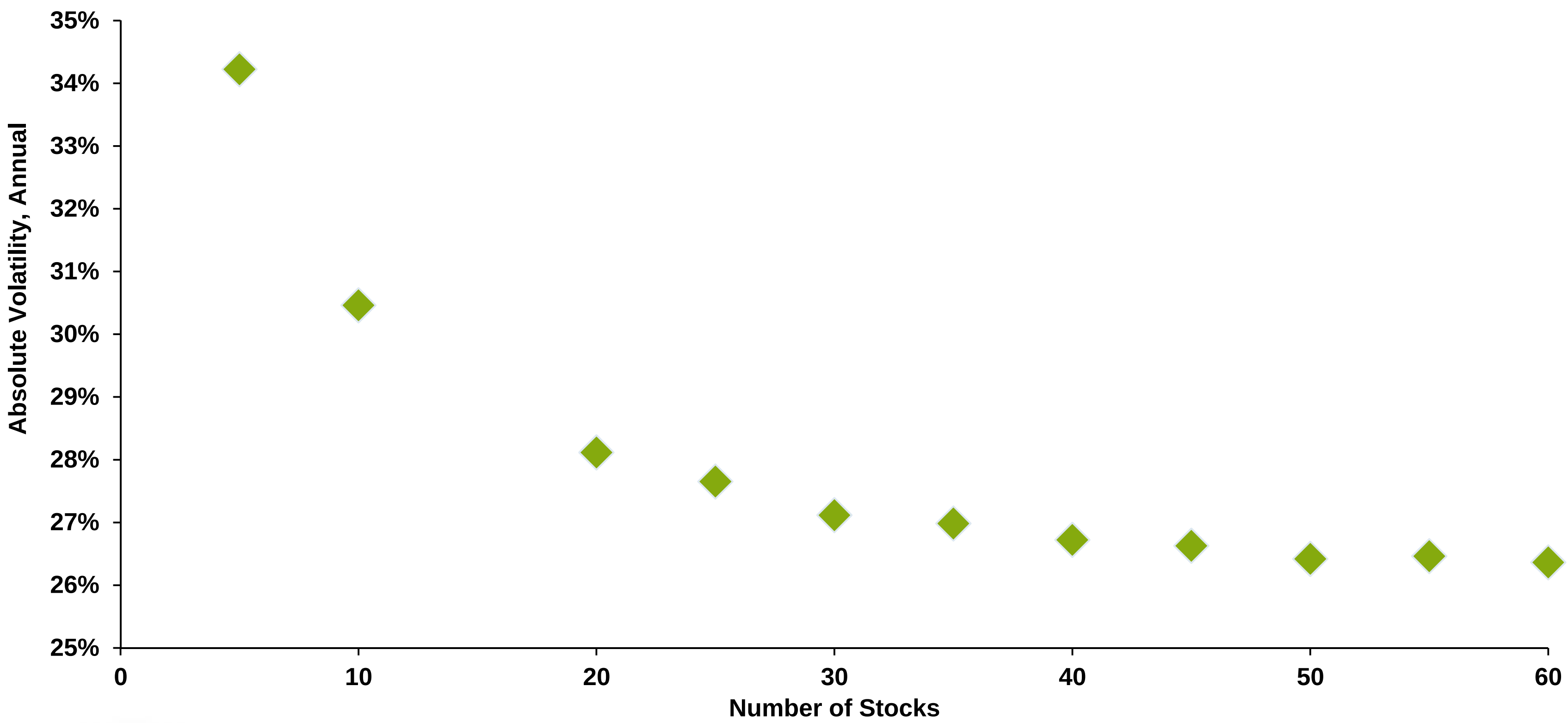


Source: Factset as of 12/31/2015.
Information presented is for informational purposes only and is not investment advice or an offer of any particular security. This information must not be relied upon in making any investment decision. Fidelity cannot be held responsible for any type of loss incurred by applying any of the information presented. These views must not be relied upon as an indication of trading intent of any Fidelity fund. Specific securities mentioned are for illustrative purposes only and must not be considered an investment recommendation or advice.

Diversifying Single-Stock Exposure

Volatility can be significantly reduced by diversifying stock exposure among 30 or more holdings

ABSOLUTE VOLATILITY OF PORTFOLIO VS. NUMBER OF STOCKS, 1995–2015

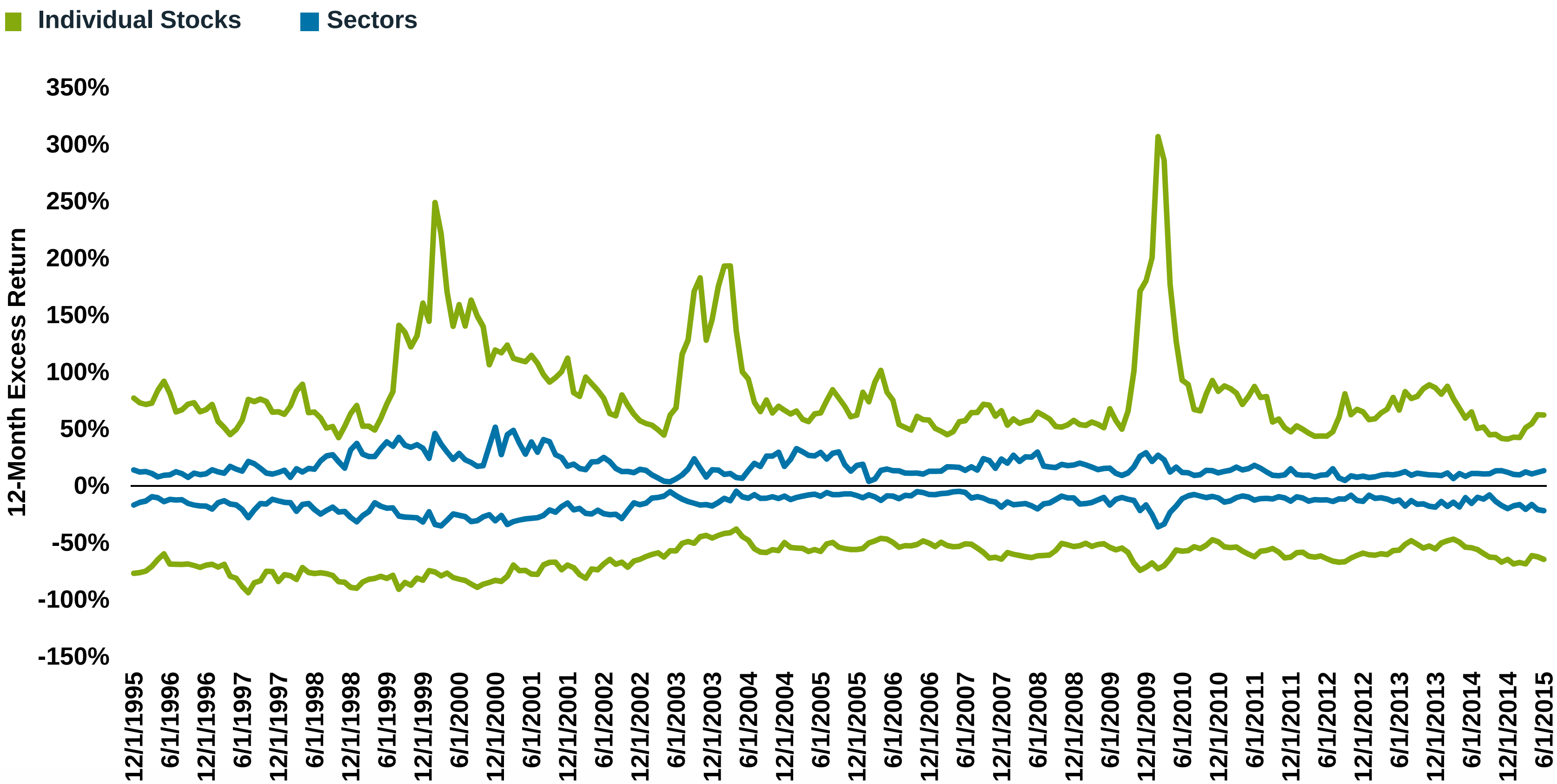


Simulations based on random drawings of stocks from the Russell 3000 Index. Each data point represents 5,000 simulations per year. Source: FactSet, Fidelity Investments, as of Jun. 30, 2015. Volatility based on annualized standard deviations of monthly stock returns (past 12 months).

Diversifying Single-Stock Exposure

Historically, individual stocks have had significantly more downside risk than sectors

BEST AND WORST ONE-YEAR EXCESS RETURNS: INDIVIDUAL STOCKS VS. SECTORS, 1995–2015



Excess returns are investment returns from a security or portfolio that exceed a benchmark or index with a similar level of risk. Single-stock results based on Russell 3000 Index, 5th and 95th percentile returns used to demonstrate ranges. Sector results based on Russell 3000 Index. Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

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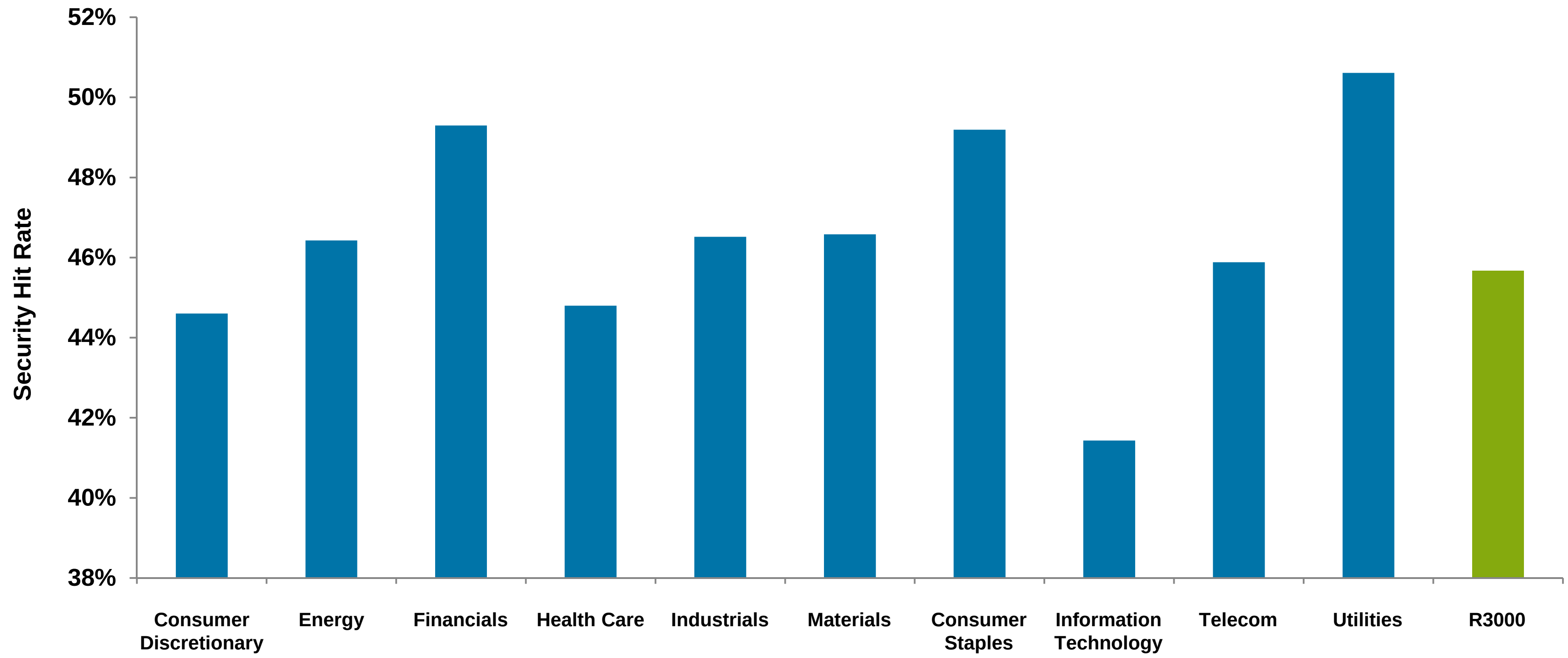
Diversifying Single-Stock Exposure

During the past decade, the likelihood of outperforming a sector by randomly picking individual stocks was lower than 50% in nine out of 10 sectors

SECURITY HIT RATE FOR 12-MO. RETURNS AGAINST EACH SECTOR, 1995–2015



Hit rate: percentage of a portfolio's investments that earns returns in excess of a benchmark; a higher hit rate suggests greater selection skill. Results based on the Russell 3000 Index. Sector returns calculated as market-cap weighted returns of stocks in each Russell 3000 sector. Security hit rates are calculated by dividing the number of stocks in each sector that beat the sector's return by the total number of stocks in that sector.
Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

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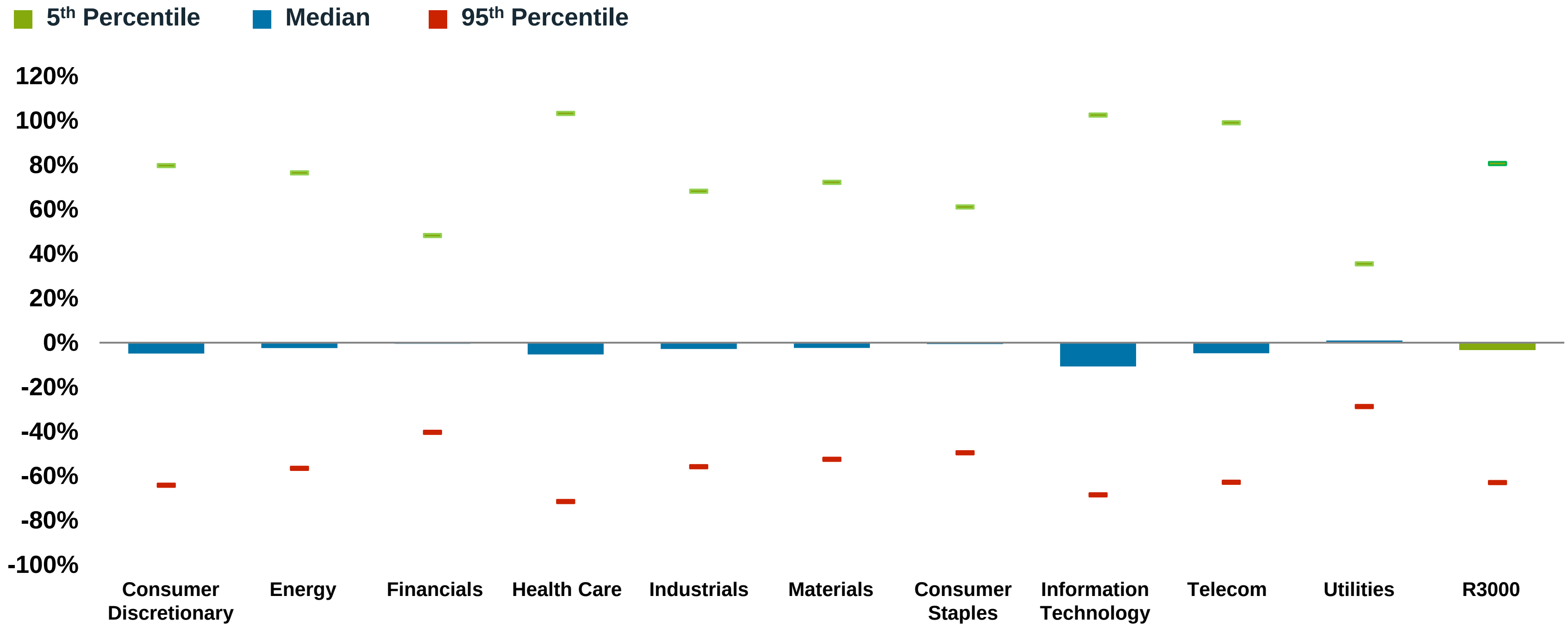
Diversifying Single-Stock Exposure

Investing in sectors produced better results than investing in the median-performing stock in each sector

12-MO. PERFORMANCE OF INDIVIDUAL STOCKS IN EACH SECTOR, VS. THE SECTOR'S OVERALL RETURN, 1995–2015

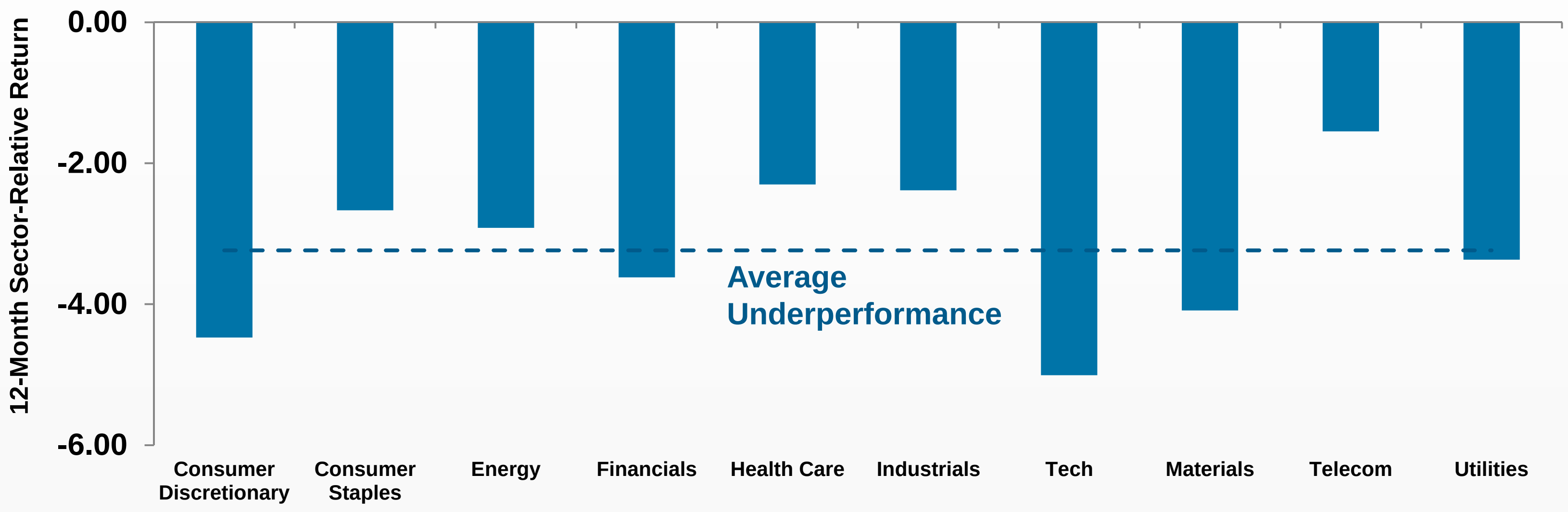


Sector relative returns are calculated by subtracting from each stock's return the return of its relevant sector. Sector returns calculated as market-cap weighted returns of stocks in each Russell 3000 sector.
Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

Diversifying Single-Stock Exposure

Not owning the 10% of best-performing stocks in a given sector can lead to significant underperformance, highlighting the benefit of investing in a sector vs. an individual stock to gain exposure to a particular market segment.

AVERAGE ANNUAL RETURN RELATIVE TO SECTOR, EXCLUDING STOCKS IN THE TOP 10% OF PERFORMANCE, 1985–2014



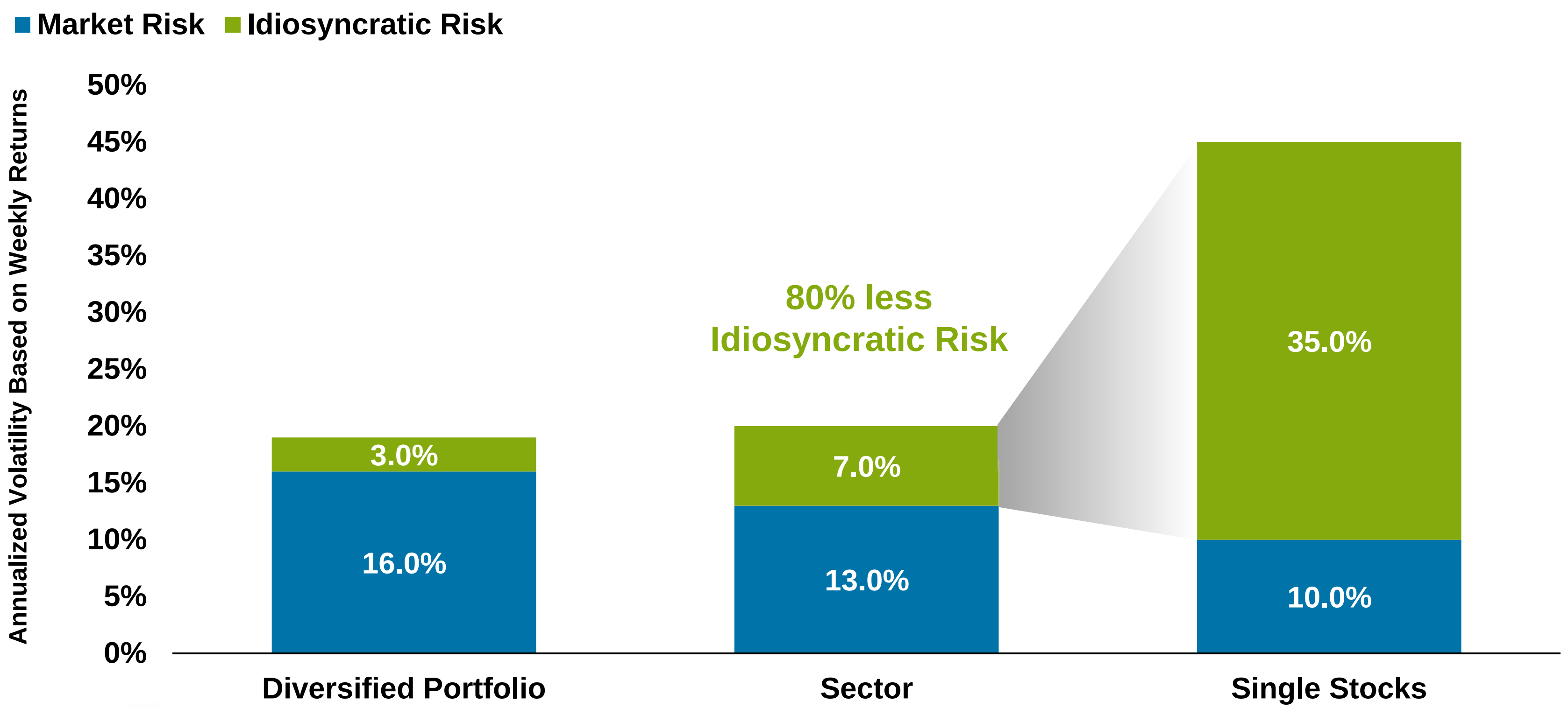
Results based on the Russell 3000 Index. Sector relative returns are calculated by subtracting from each stock's return the return of its relevant sector. Sector returns calculated as market-cap weighted returns of stocks in each Russell 3000 sector. Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

Managing Risk

Managing Risk

An investor's risk profile changes significantly when moving from owning individual stocks to a sector and to a diversified portfolio

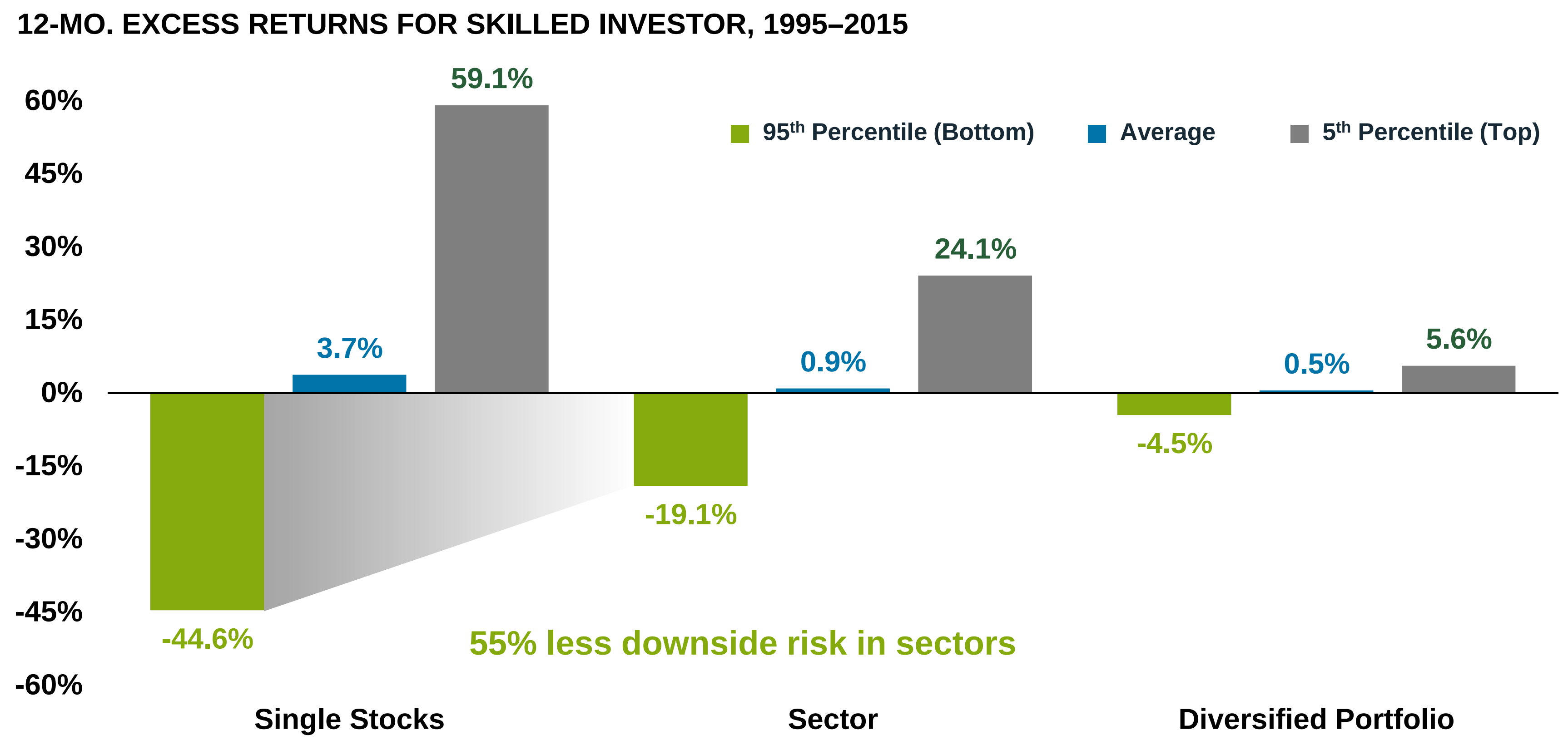
AGGREGATE VOLATILITY BREAKDOWN: SINGLE STOCKS VS. SECTOR VS. DIVERSIFIED PORTFOLIO, 1995–2015



Volatility based on annualized standard deviations of weekly stock returns (past 52 week). Risk decomposition is based on analysis of 52-week returns (annualized). Sector volatility based on cap-weighted average returns of all GICS sectors. Single-stock volatility based on the average return of all stocks in the Russell 3000 Index (R3). Diversified portfolio volatility based on returns of 5,000 simulated 150-stock portfolios drawn randomly from the R3 per year. Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

Managing Risk

Downside risk is significantly higher when investing in individual stocks vs. sectors



Analysis based on average excess returns of 5,000 simulated portfolios per year, with a 53% hit rate versus the S&P 500. 53% hit rate selected for demonstrative purposes to represent skilled selection; other hit rates may produce different results. Single stock: portfolios of one stock.
Sector: portfolios of all stocks within one GICS sector, weighted by relative market cap.
Diversified portfolio: portfolios of 150 stocks drawn randomly from the S&P 500 per year.
Source: FactSet, Fidelity Investments, as of Jun. 30, 2015.

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Did You Know?

Fidelity pioneered the sector investing category in the early 1980s

FIDELITY ADVANTAGES

- **30+ years of sector experience:** Fidelity launched sector mutual funds in 1981
- **Global team** of 200+ equity research analysts organized by sector
- **Largest lineup** of actively managed sector and industry mutual funds —44 in all
- Some of the **lowest-priced sector ETFs** available
- **Powerful sector resources:** thought leadership, education, research and tools

Fidelity's Sector Product Offering

44 Actively Managed Sector Mutual Funds, 11 Sector VIP Funds and 11 Passively Managed Sector ETFs

Sector	Products
Consumer Discretionary	1 ETF 6 Mutual Funds
Energy	1 ETF 4 Mutual Funds
Financial Services	2 ETFs 8 Mutual Funds
Industrials	1 ETF 6 Mutual Funds
Information Technology	1 ETF 6 Mutual Funds
Materials	1 ETF 4 Mutual Funds
Consumer Staples	1 ETF 1 Mutual Fund
Health Care	1 ETF 5 Mutual Funds
Telecom Services	1 ETF 2 Mutual Funds
Utilities	1 ETF 2 Mutual Funds

Call to Action

Review your portfolio for single stock positions, considering concentration and gains/losses on the holdings

Consider the reasons you own those single names and the time you commit to managing those stocks

Engage Fidelity to see if a sector-based approach might make sense for you portfolio objectives

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Thank You

CLICK	**Fidelity.com/sector-investing** to view products, tools, and resources on sector investing
CALL	**800-343-3548** to speak to one of our knowledgeable representatives
VISIT	**A Fidelity Investor Center** for a consultation with one of our investment professionals

Glossary

The Global Industry Classification Standard—GICS is a standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's. The GICS hierarchy begins with 10 sectors and is followed by 24 industry groups, 67 industries, and 147 sub-industries. Each stock that is classified will have a coding at all four of these levels.

The Russell 2000 Growth Index is a market capitalization-weighted index designed to measure the performance of the small-cap growth segment of the U.S. equity market. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth rates.

The Russell 2000 Value Index is a market capitalization-weighted index designed to measure the performance of the small-cap value segment of the U.S. equity market. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth rates.

The Russell 3000 Index is a market capitalization–weighted index designed to measure the performance of the 3,000 largest companies in the U.S. equity market.

The Russell Midcap Growth Index is a market capitalization–weighted index designed to measure the performance of the mid-cap growth segment of the U.S. equity market. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell Midcap Value Index is a market capitalization–weighted index designed to measure the performance of the mid-cap value segment of the U.S. equity market. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Top 200 Index is a market capitalization-weighted index of the largest 200 companies in the Russell 3000. The index is reconstituted annually to account for new members and growing companies.

The S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Important Information

Views expressed are as of the date indicated and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the speaker or author, as applicable, and not necessarily those of Fidelity Investments.

Diversification does not ensure a profit or guarantee against loss.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency-exchange rate, economic, and political risks, all of which are magnified in emerging markets. Exchange-traded products (ETPs) that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus. ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case of exchange-traded notes). Each ETP has a unique risk profile, which is detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies. Nondiversified sector funds may have additional volatility because they can invest a significant portion of assets in securities of a small number of individual issuers.

Because FMR concentrates the funds' investments in a particular industry, the funds' performance could depend heavily on the performance of that industry and could be more volatile than the performance of less concentrated funds and the market as a whole.

The funds are considered nondiversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund; thus changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a more diversified fund.

Important Information

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular, or, if available, a summary prospectus containing this information. Read it carefully.

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