FIXED INCOME PERSPECTIVES

March 2007

Our philosophy for successful fixed income management is to identify and capture many lowly-correlated sources of alpha within each portfolio. The driving force for investment ideas is our own credit and quantitative research. This discipline requires a collective approach from our team of specialist analysts and managers, in order that the best ideas are shared and the most valuable strategies are subsequently implemented.

Fidelity International Fixed Income Strategy

The Fidelity Fixed Income team meets regularly to discuss current and future drivers of bond and money markets, and resultant investment strategies for the Fidelity fund range. The PERSPECTIVES report summarises these discussions and outlines Fidelity's view on the fixed income environment.

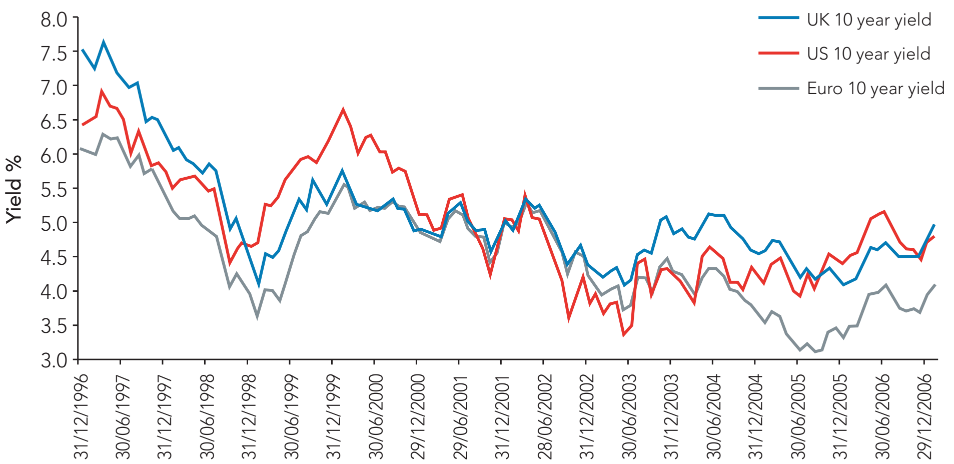
HIGHLIGHTS — PAGE

Fidelity INTERNATIONAL

Interest rates and inter-market allocation

Bond yields are relatively low compared to long term averages, corporate spreads are narrow and volatility remains persistently low, as illustrated by Chart 1.

CHART 1: 10 Year Government Bond Yields



Source: Bloomberg 07.02.07. 10 year generic government bond yields

" TWO FURTHER RATE INCREASES EXPECTED IN BOTH UK AND EUROPE"

There was a dramatic upward shift in market expectations for UK interest rates following the surprise 25 basis point increase to 5.25% in January 2007. The focus of the Monetary Policy Committee (MPC) remains firmly on the strength of short-term economic data, and the current view of the MPC is that inflation risk is heightened. The futures market indicates expectations of either one or two more rate hikes by mid-2007, which could take rates as high as 5.75%. We believe that rates will rise broadly in line with the forwards, although there is a risk that the MPC will tighten more aggressively than expected. Our strategy is therefore to be neutral to marginally underweight Sterling market duration.

European economies continue to grow at a robust pace relative to recent history, with growth for the Eurozone potentially above 2.5% for 2006. Corporate surveys are optimistic about future business conditions but there are concerns surrounding the potential real wage negotiation increases and the board members of the European Central Bank (ECB) remain hawkish. Base rates were raised to 3.50% in December and the market is pricing in another two increases to 4.00% by mid-2007 in order to combat inflationary pressures. These expectations should be broadly met although we believe that there remain risks of upside surprises on growth and higher wage settlements which would prompt the ECB to tighten policy more aggressively. Our strategy is therefore to be underweight duration in Euros.

" ECONOMIC DATA IN THE US HAS SET AN INCREASINGLY POSITIVE TONE..."

Economic data in the US has set an increasingly positive tone since December, with a rebound in retail sales and durable goods orders and stronger purchasing manager survey results. There are also signs that the worst could be over for the housing and manufacturing sectors. Interest rates in the US have remained on hold at 5.25% since June 2006 and the market's expectations of multiple interest rate cuts for 2007 have been scaled back against a stronger economic backdrop. That said, the market still expects one cut by the end of the year. We concur that rates should remain on hold for a protracted period but believe that hopes of a cut before year-end are still optimistic, therefore favouring an underweight duration position in the US.

The Bank of Japan (BoJ) kept rates on hold at 0.25% in January, despite its stated ambition of achieving a more "normalised" monetary policy. Recent Japanese economic data has disappointed the market and, with the potential for further unsatisfactory economic data, the likelihood of inflation dipping into negative territory and the upcoming elections, the BoJ may find it difficult to justify raising rates as fast as the market expects (a 0.25% rate rise is priced in by June with three more 0.25% rises by the end of 2008). The Japanese government bond market may well continue to trade in a range and, at present, we have no significant duration bias. However, Japan is an attractive market on a hedged basis out of US Dollars, Euros and, to a lesser extent, Sterling holdings.

All official interest rates sourced by Fidelity and current as at 07.02.07

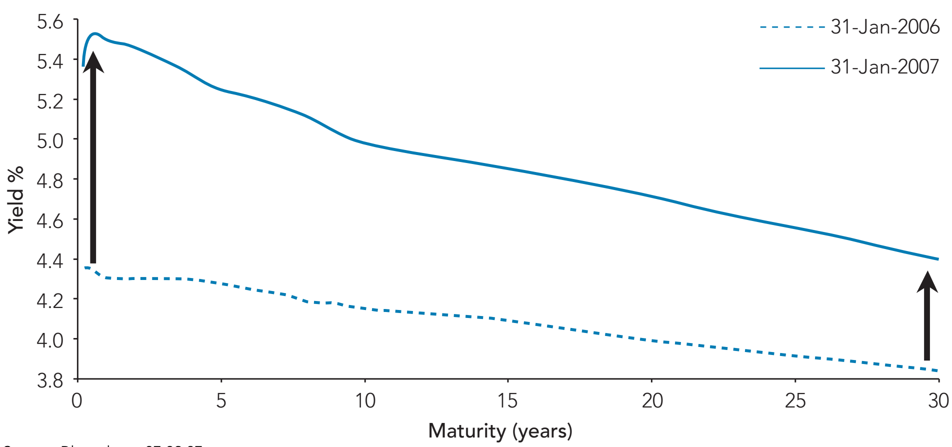
Yield curves

The Sterling bond market has experienced huge demand from pension funds for long-dated paper. This demand stems from a need to reduce risk and match liabilities which has effectively kept yields on long-dated gilts low, whereas short-dated bond yields have risen following base rate hikes and the expectation of further hikes to come. The net effect has been an increase in the level of inversion of the curve, as seen in Chart 2.

In the near-term, the Sterling curve shape will be driven by expectations for the direction of base rates, possibly inverting further. However, as the market starts to discount a peak in rates and focus turns to the expensive nature of long gilts, the curve should start to steepen. We therefore look to time our entry into curve steepening positions in Sterling.

" THE STERLING YIELD CURVE MAY INVERT FURTHER"

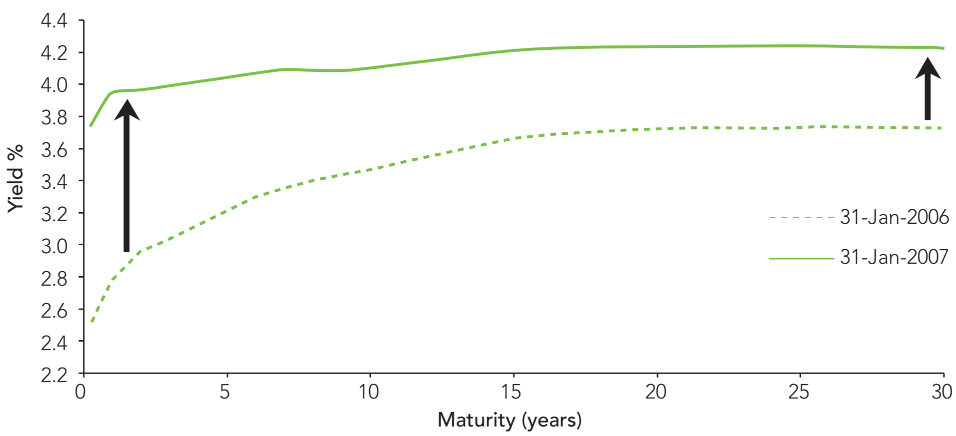
CHART 2: Sterling Yield Curve



Source: Bloomberg 07.02.07

The US yield curve appears very flat historically and should begin to steepen as the market looks forward to rate cuts towards the end of 2007. The Euro curve is also very flat with base rate rises keeping short-dated bond yields high, as illustrated in Chart 3. Our strategy favours steepening yield curves in both the US and Euro government bond markets, but with relatively low conviction at present.

CHART 3: Euro Benchmark Yield Curve



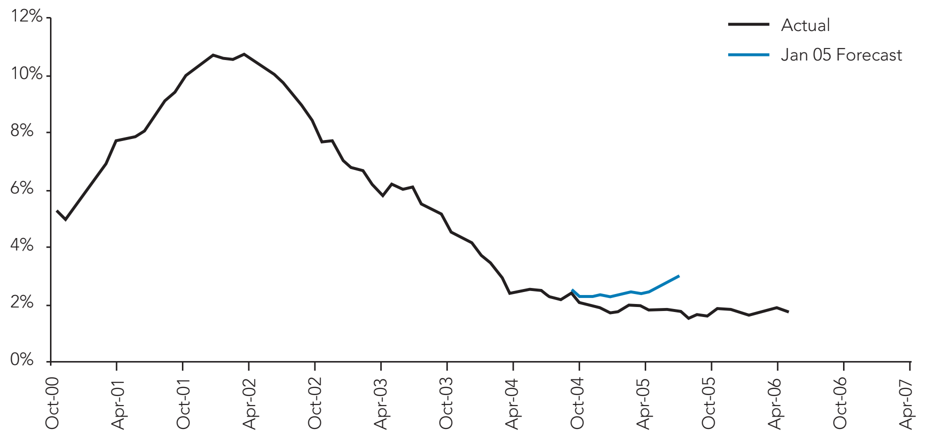
Source: Bloomberg 07.02.07

Credit allocation

The economic environment across Europe has been strong for three years and, broadly speaking, corporate balance sheets and cash flows are very healthy. These solid credit fundamentals have led to very low default rates for corporate bonds. Chart 4 shows default rates in Europe as measured by the rating agency Moody's and illustrates how the credit cycle has been stretched out and the expected rise in defaults delayed.

"...SOLID CREDIT FUNDAMENTALS HAVE LED TO VERY LOW DEFAULT RATES"

CHART 4: European Default Rates



Source: Moody's, December 2006

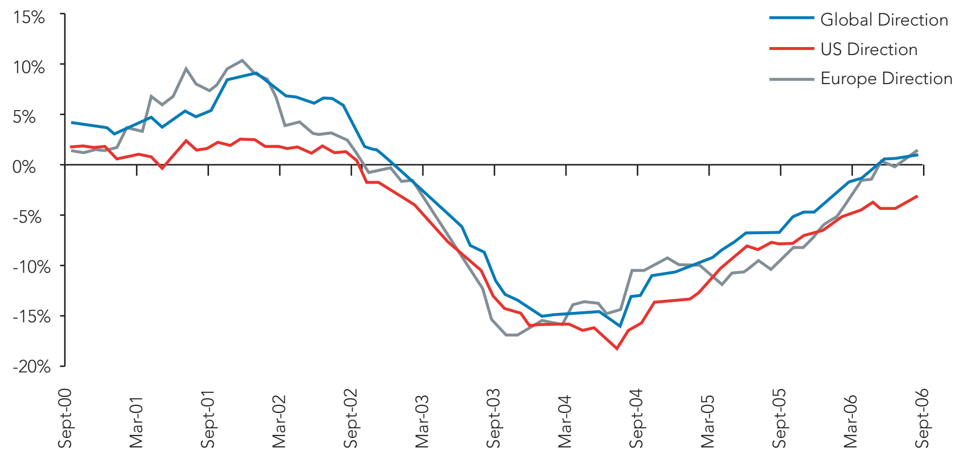
The view of Fidelity's team of credit analysts is that the outlook for credit is well supported on several fronts:

- The macroeconomic environment is benign
- The corporate backdrop is healthy
- Equity valuations are well-supported
- There is strong demand for credit

More than one of these pillars would need to be removed for credit to be seriously impacted in 2007. However, the economic picture looks unlikely to improve significantly and isolated pockets of weakness could eventuate, which would impact individual issuers. Fidelity believes that there is a risk of some fundamental deterioration in late 2007 or early 2008. The number of rating upgrades compared to downgrades from Moody's has reduced, although still positive (see Chart 5). This could suggest increased defaults in the medium-term, albeit only on a moderate basis.

"THERE IS A RISK OF CREDIT DETERIORATION IN LATE 2007 OR EARLY 2008."

CHART 5: Balance of Moody's Rating Upgrades/Downgrades



Source: Moody's, December 2006

" CORPORATE CREDIT REMAINS ATTRACTIVE RELATIVE TO GOVERNMENT BONDS."

Much of the positive business environment seems to be discounted by tight corporate spreads, making it difficult to see how fundamentals can improve enough to generate attractive capital returns on their own over the medium term. However, the higher yields available on credit compared to government bonds are still attractive as investors remain hungry for premium yields in a generally low-yield environment.

In summary, we remain positive on the outlook for credit and are overweight credit risk. However we believe it is important to remain selective of the names we own to mitigate against idiosyncratic risk. Our strategy is to be more heavily overweight credit risk in the US and Euro than in the UK. Portfolios also include selective investments in Japanese and Eastern European credit.

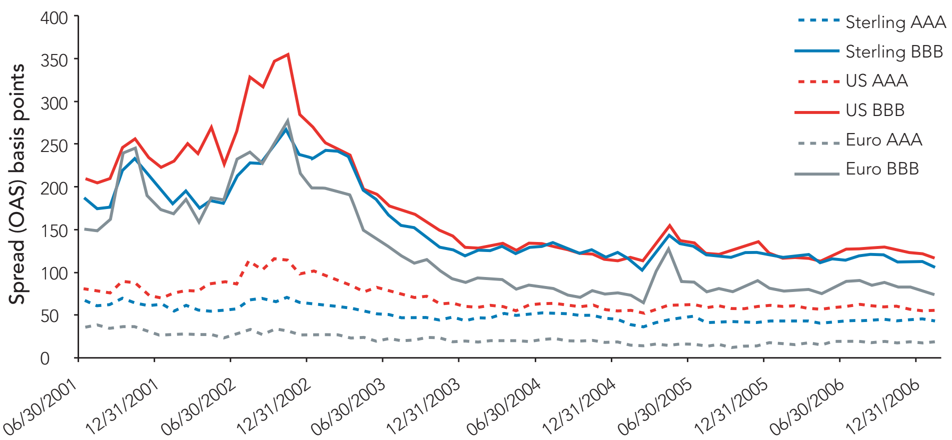
Tactical allocation

Overweight sectors include asset-backed securities and telecoms. ABS are very secure, tend to offer higher yields than equivalent government or corporate bonds and have lower volatility. We believe they are less susceptible to event risk and offer strong diversification benefits due to low correlation with corporate bonds. Telecoms are viewed as attractive and good value as we believe the risk of M&A activity has been overstated by the market.

Underweight sectors include supranationals, industrials and consumer-related names. High levels of consumer indebtedness are seen as a major risk, especially in the UK and we are wary of the fundamental outlook for consumer company bonds.

" WE FAVOUR SELECTIVE LOWER RATED CORPORATE BONDS"

CHART 6: Credit Spreads



Source: Bloomberg 07.02.07. Merrill Lynch credit quality indices

We favour selective lower-rated corporate bonds based on the higher yields available, and as such the BBB-rated sector tends to be overweight at the expense of AAA and AA.

" ...HIGH YIELD AND EMERGING MARKETS DEMONSTRATE A NUMBER OF POSITIVE TRENDS..."

High yield and emerging markets

High yield and emerging markets debt continue to perform strongly and spreads over government bonds are relatively narrow.

High yield valuations are supported by a benign macro environment, strong corporate fundamentals, reasonable equity market valuations and low equity volatility. There is still much liquidity in the system and high yield will almost certainly remain a destination for much of this. Emerging markets should remain solid, demonstrating a number of positive trends including the accumulation of currency reserves and general improvements in credit profiles. Emerging debt also provides broader portfolios with important diversification benefits. As a result, we retain positions in selected high yield and emerging debt names.

At a glance

	31/10/06	31/1/07
Bond Yields		
5-Year US Govt Bond Yield	4.56	4.80
5-Year Euro Govt Bond Yield	3.68	4.04
5-Year £ Govt Bond Yield	4.82	5.26
5-Year Yen Govt Bond Yield	1.19	1.19
Corporate Bond Spreads		
US- AAA	60	56
US- BBB	126	117
Euro- AAA	18	18
Euro- BBB	83	73
UK- AAA	44	44
UK- BBB	113	105
Japan- AAA	13	12
Japan- BBB	35	38
3 Month Forward Rates		
US	5.37	5.36
EURO	3.57	3.78
UK	5.19	5.59
JAPAN	0.44	0.52

Source: Bloomberg 07.02.07