INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

July 2014

"Drawing parallels with the past is almost as dangerous as declaring that 'it's different this time'. However, in many investment markets there are striking similarities with previous periods of rising optimism. Improving sentiment carries with it the risk of complacency and the early signs of this are starting to emerge. But a key lesson from the past is that market momentum is persistent. This feels like a moment to go with the flow."

By Tom Stevenson, Investment Director

Fidelity PERSONAL INVESTING

Executive summary

Please note the views in this document should not be seen as investment advice. If you are unsure about the suitability of an investment, you should speak to an adviser.

Asset classes	Current View	3 Month Change	
Equities	✓	▶	Equities remain the preferred asset class in an environment of steady if unspectacular recovery and continuing monetary stimulus.
Bonds	–	▲	Bonds have surprised the sceptics at the start of the year and will benefit from ECB easing and lower for longer rates elsewhere. Secure income is the main attraction, though, not capital gains.
Property	✓	▶	The yields available on commercial property continue to offer investors a decent cushion as and when interest rates rise. Values are rising too.
Commodities	✗	▶	A strong dollar and subdued demand growth should keep a lid on commodity prices, especially metals. Oil looks like it is building some momentum.
Cash	✓	▲	Volatility tends to rise over the summer. That makes this a good time to keep some cash to hand in order to take advantage of any dips in the market.
Equity regions	**Current View**	**3 Month Change**	
US	✓	▶	Valuations are starting to look a little stretched in the US but the fundamentals still favour Uncle Sam and momentum is strong. The parallel with the late 1990s suggests going with the flow.
Japan	✓	▶	A lot hinges on how well the Japanese economy has handled the hike in the sales tax. Japan is moving in the right direction and it remains out of favour. Still attractive on valuation grounds.
UK	–	▶	With Britain likely to lead the interest rate upswing, the UK market is vulnerable to increased risk aversion. But it remains good value with plenty of income opportunities.
Europe	–	▲	The ECB's change of heart on monetary stimulus has rekindled animal spirits in the Eurozone. There is still a mismatch between corporate earnings and markets but best to hang on for the ride.
Emerging Markets (inc. Asia ex Japan)	–	▶	Hard to generalise in such a heterogenous investment class but sentiment is improving after the Taper Tantrum and relative valuation suggests a continued rotation into some Emerging Markets.

Three Month Change: the direction of the arrows indicates any change in the view since the previous Investment Outlook.

For more market data including full 5 year performance figures see page 15 ▶

Important information: Please be aware that past performance is not a guide to what might happen in the future. The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in small and emerging markets can be more volatile than those in other overseas markets. This information does not constitute investment advice and should not be used as the basis for any investment decision nor should it be treated as a recommendation for any investment. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. Fidelity does not give investment advice. If you are unsure about the suitability of an investment, you should speak to an adviser.

Introduction

Welcome to the third in our series of Investment Outlook reports. Markets are always interesting, but the past three months since my last report have been particularly so. On the following pages I have touched on a few of the many interesting investment themes which have emerged in recent weeks and others which are a consistent feature of the markets we invest in.

There are a few small changes of emphasis in this report. This is as I expected when we launched this series at the beginning of the year. While we take a long term view of investment, and encourage you to do the same, nothing stands still in the markets and this is reflected in subtle changes from quarter to quarter in our view.

For example, I am less negative than I have been on bonds and marginally more optimistic about the outlook for some emerging markets. The big preference for the US remains, however, despite quite reasonable challenges from some quarters about the valuation of shares on Wall Street.

As always, I need to make a few things clear at the outset. These are long-term views and while I intend to update them every three months, they should not be judged over such a short time-scale. If you need your money within the next few months it should be held in cash not the investments discussed here.

I am fortunate to be able to tap into the expertise of many bright and talented colleagues at Fidelity, some of whom I mention in the box below (although many others provide ideas and inspiration along the way). Responsibility for the views here rests with me and Fidelity Personal Investing. This is not intended to be an expression of a wider Fidelity house view, nor should it be seen as investment advice that is suitable to your personal circumstances.

I hope you find the ideas stimulate your own thinking about the markets. If so, you will probably want to investigate the ideas highlighted at the end of each section. These are funds chosen from our Select List because their investment approach chimes with the investment views expressed here. Alternatively, you may prefer to explore the full Select List at the back of the report. These are the funds particularly rated by the fund selection experts within our multi-asset team, Fidelity Solutions. If you prefer to leave asset allocation and fund selection to professional managers, you may wish to look at our PathFinder range of managed multi-manager funds. Again these are managed by the investment professionals in Fidelity Solutions.

As usual this report is accompanied by a recording of a live online question and answer session in which I take questions on my market view from Fidelity Personal Investing customers. You can watch a recording of this "webinar" at www.fidelity.co.uk/investmentoutlook.

Acknowledgements
I would like to thank the many knowledgeable and experienced people within the wider Fidelity organisation who have helped me develop the ideas in this Investment Outlook. Although the views expressed here do not represent the shared opinion, or house view, of Fidelity's investment team, the combined expertise of over 350 investment professionals in 13 countries is a very significant resource on which I have been able to lean. In particular, I would like to thank Trevor Greetham, James Bateman and Katie Roberts in Fidelity Solutions; Paras Anand and Richard Lewis, respectively the Heads of European and Global Equities; Alex Treves, Head of Equities in Tokyo; Tim Orchard, Head of Asia ex Japan Equities in Singapore; Matthew Sutherland, Head of Product Management in Hong Kong; Andy Howse and Stuart Rumble, Investment Directors in our London-based Fixed Income team; Alex Homan, Emerging Markets Investment Director; and Neil Cable, who heads Fidelity's Real Estate investment team. Tom Stevenson, Investment Director.

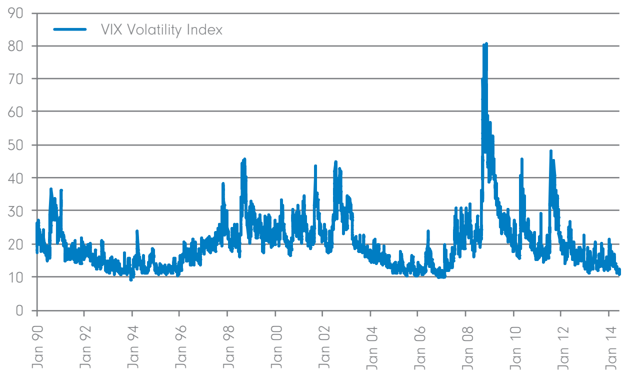
Main investment themes for 2014

The summer months are traditionally difficult in financial markets for reasons which no-one has satisfactorily answered. With equity markets bumping up against new highs in some cases and with bonds having defied the sceptics by outperforming shares over the first half year, many investors will be looking at their portfolios with some trepidation.

As I point out in my assessment of the main asset classes in the following pages, we are starting to see the first signs of excess creeping into a number of markets. This is not surprising five years into a bull market because rising prices tend to breed complacency. I am, however, still fairly relaxed about the outlook because there is little to suggest over-optimism among investors. If anything, the trauma of 2007/8 ensured that many investors missed out on recent gains and there remains plenty of money on the sidelines waiting to be invested as sentiment improves.

The past three months since my last Investment Outlook have seen several interesting investment trends emerge and I wanted to focus on some of these here before getting into the nitty-gritty of asset classes and geographies. Something which has rightly received a fair deal of attention in recent weeks has been the absence of volatility in financial markets. The chart below illustrates this well. It traces the VIX index, which is sometimes known as Wall Street's "fear gauge" but which is technically a measure of the cost of insuring against future swings in the price of equities via options on the Chicago exchange.

Should we worry that no-one is worried?



Source: Bloomberg, 2.1.90 to 13.6.14.

Past performance is not a guide to future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

As the chart shows, volatility can remain subdued for extended periods of time before spiking higher in response to some kind of market or political crisis. Those who worry about the lack of volatility in markets today do so because it looks and feels like the previous periods of complacency that preceded big market events like the Asian currency crises in the late 1990s or the global financial crisis six years ago.

It is not a simple matter to work out what is creating the eerie calm in markets today but it is likely to have something to do with the way in which government and central bank policy has artificially supported – some might say "rigged" – financial markets since the crisis. They worry that suppressing the normal functioning of the market can only end badly.

The counter argument is that investors are right to be complacent. There is less to worry about than a few years ago just as there was in the 1990s. Certainly the message from then is that these conditions can continue for some time and can lead to a big expansion of valuation multiples. I would add that when everyone is worried about something it almost certainly isn't the right thing to be concerned about.

The second big story in investment markets this year has been the refusal of bond markets to lie down. At the beginning of the year, many market experts thought that the direction of bond yields was upwards and that this would lead to a rotation out of fixed income and into equities. They had, of course, said the same thing a year earlier and they were wrong then as well.

There are several reasons why bonds have held up well this year. First, the demand for safe, income-generating assets remained strong, equity markets hitting new highs encouraged some investors to lock in gains and use the profits to match their liabilities by buying bonds, cash was reinvested not just into shares but into bonds as well, inflation remained subdued and, simply, in a low interest rate world a 3% super safe return on a US Treasury suddenly seemed quite attractive. The key message for me from the performance of bonds this year is the importance of balance and diversity in a portfolio. In an uncertain world, eggs are better spread between a number of baskets.

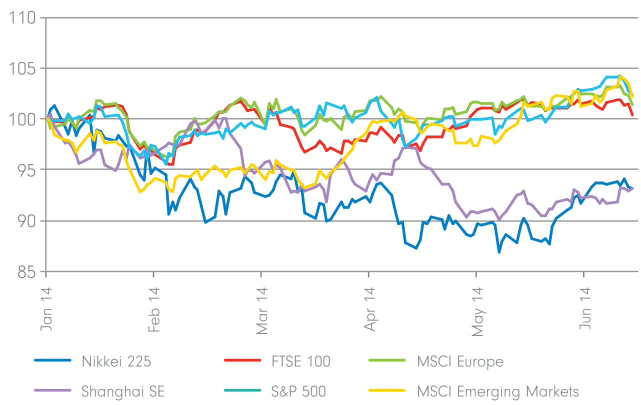
The third theme is related to the outlook for bonds. It is the apparent divergence in monetary policy between key central banks. So while the European Central Bank seems to be embracing stimulus, even contemplating full-blown quantitative easing, the Bank of England is warning that investors should expect rate rises sooner rather than later. The Fed is walking a tightrope of expectation management while the Japanese are in wait and see mode, monitoring the impact of their recent sales tax hike.

My view is that there is less to the tightening rhetoric than meets the eye and the net balance is towards more stimulus not less. This is a positive for investors and is a key reason why I am gritting my teeth and sticking with the rally.

A few new bricks have been added to the market's wall of worry since I last wrote this Outlook. The Ukrainian situation, which was just kicking off three months ago, has deepened, albeit all sides are proceeding with caution. More worrying are the developments in the middle east where the Syrian civil war looks like spilling over into neighbouring Iraq and risks sucking in both Iran and the Western powers.

Other political developments have been more positive for investors. India showed that democracy is possible even in big emerging markets and gave a warm welcome to new Prime Minister Narendra Modi. In investment terms, I wonder whether it will not prove better to travel than to arrive. As the chart on page 13 shows, the Indian stock market rose by 17% in the year leading up to the election. This is one of the reasons why emerging markets were able to move from the bottom of the pack in February to the top of the pile recently as the chart below shows.

Diverging fortunes so far in 2014



Source: DataStream, 1.1.14 to 13.6.14

Past performance is not a guide to future returns.
For full 5 year performance figures please see page 15.

Throughout this Outlook, a recurring theme has been the early signs of market excess and nowhere has this been more evident than in the new issues market, which typically catches fire close to the top of a market cycle. For obvious reasons, the sellers of companies are more inclined to do so when demand for equity is high.

This means that IPOs tend to come along like London buses, all in a rush. To start with, the best prospects test the market but later on quality deteriorates until finally investors lose their appetite for the newly-floated companies. Prices fall below their issue prices and this in turn puts off the more marginal companies from risking an IPO. Both of these have happened in recent weeks.

Another feature of more mature bull markets is the tendency for larger companies to outperform smaller ones. In the early stages of a recovery the shares which do best are those which were most heavily sold off in the preceding downturn. As the cycle matures attention refocuses on quality and reliability which tends to mean the market's biggest constituents.

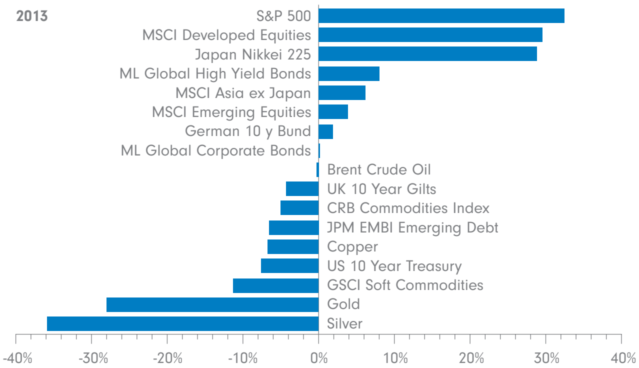
One of the most interesting features of the performance table on page 15 is the outperformance by the FTSE 100 of the FTSE 250 and FTSE SmallCap indices. If this marks a turning point, it will be a big deal because smaller companies have dominated for the last ten years or so since the bottom of the dot.com bust.

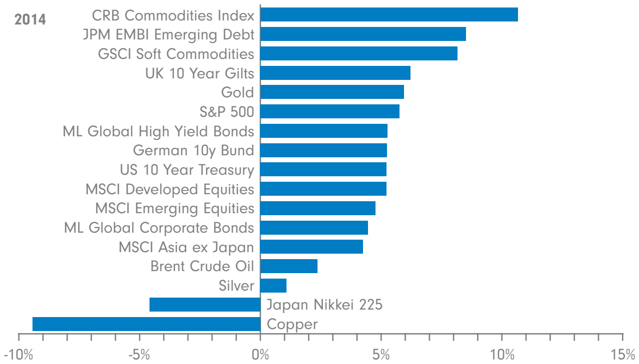
My final observation is to do with valuations. There is a pretty wide gap opening up between the valuations of the most popular markets and the out of favour ones. This has been happening for a while – you may remember three months ago I pointed out the dispersion between the valuations of so-called new and old China stocks.

This creates a dilemma for investors because it raises the difficult question of whether, for example, the US merits its now quite significant premium or whether China has fallen to the point where brave investors will want to shut their eyes to the obvious shortcomings in the Chinese economy and buy.

There is no simple answer, not anyway without the benefit of hindsight provided by charts like the ones below showing the winners and losers last year and in the first half of 2014. So my recommendation, as ever, is to be as well-diversified as you can be in your investments and to avoid the temptation to try and time the market. Investing through the cycle in a wide variety of assets, geographies, sectors and investment styles remains the most prudent approach.

Sector and asset class rotation 2013 and 2014





Source: DataStream, as at 16.6.14

Past performance is not a guide to future returns. For full 5 year performance figures please see page 15.

Asset classes

EQUITIES

Equity markets are climbing a wall of worry. The key characteristics of the global economy today remain: low growth, low inflation, low wage growth, high corporate profits and extraordinarily low interest rates.

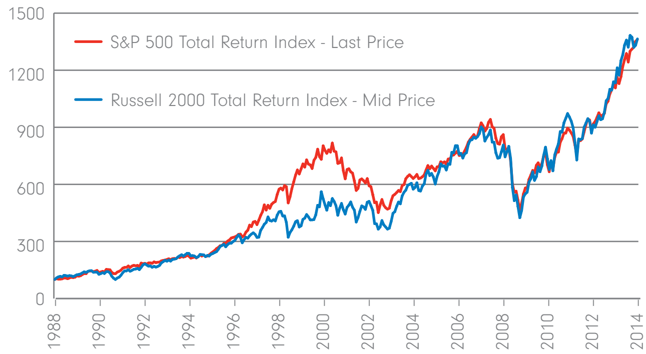
This is a great backdrop for riskier assets like equities, which is why valuations have risen from very cheap levels in 2009 to moderately expensive levels today. The owners of assets have grown richer, allowing them to reinvest profits back into markets, driving prices higher.

There are some worrying signs of excess returning but these are in their early stages. For example, the quality of companies floating on the stock market is deteriorating. Rising valuations suggest some complacency among investors, as do reduced levels of market volatility. More takeover activity suggests that animal spirits are rising.

Compared with a few years ago, the world's stock markets are less attractive than they were and the pressure is on for corporate earnings to rise to justify today's higher valuations. But many of these observations could have been made in the late 1990s, a time that shared many of today's market characteristics. Then, and I suspect now too, equity markets could continue to climb the wall of worry for some considerable time and, as the chart suggests, this could be a time to favour larger stocks which tend to do well in this environment. Markets have a tendency to overshoot in both directions and just as they became excessively cheap in 2009, it is likely that they will become excessively expensive before the current liquidity-fuelled rally has run its course.

Today's favourable environment of increasingly firm economic recovery together with a determination by central banks to maintain loose monetary policy should support equity markets for now. There will be bumps in the road – and some weakness in recent data suggests this summer may be a nervous time in the markets – but overall we think it would be a mistake to take money off the table at this point. Co-ordinated stimulus in all the key economic regions of the world means this could run for a couple of years.

The size effect: sometimes it really does matter



Source: DataStream, 29.1.88 to 16.6.14

Performance over five years

% (as at 16th June)	2009/10	2010/11	2011/12	2012/13	2013/14
S&P 500 (large companies)	34.0	18.7	0.1	29.1	20.5
Russell 2000 (small companies)	24.8	16.0	8.3	23.9	21.6

Source: DataStream, as at 16.6.14, in US$ terms.

Past performance is not a guide to future returns.
When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

If you're interested in global equities a couple of funds on our Select List you may like to look at are:

- **BNY Mellon Long Term Global Equity**
- **Rathbone Global Opportunities**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

BONDS

It is not a matter of if but when interest rates rise in the US and UK. So the question is not how this will affect bond markets but the extent to which the upward move in rates is already factored into prices. Markets are largely doing their job of discounting the future. That means that while rates are likely to drift higher the impact on bond yields may be muted.

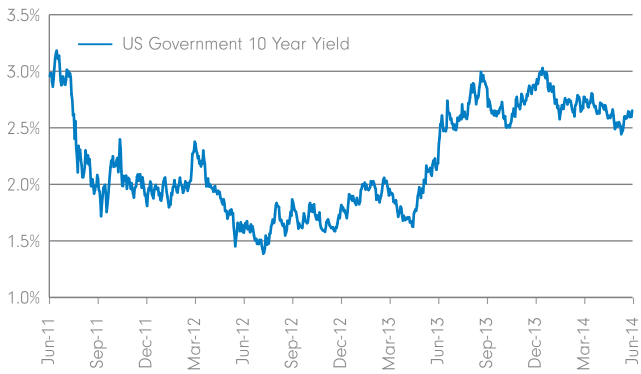
With the European Central Bank openly discussing quantitative easing, the downward pressure on Eurozone bond yields is likely to continue. Meanwhile, the next peak in interest rates is now widely expected to be lower than in previous cycles. Put together these factors suggest that the anxiety over the outlook for bonds over the past couple of years may have been both premature and overdone.

That said, bonds are not our preferred asset class at this stage in the interest rate cycle because there is little scope for capital gain from today's valuations. However, they do provide certainty of income and investors are hungry for yield. Inflation, the enemy of bond returns, remains subdued. And the economic recovery remains muted enough for today's yields to look about right.

The challenge for self-directed investors is knowing how to position the bond segment of their portfolio and the issues do not look like they're getting any simpler. The argument for getting an expert to manage the balance between different types and maturities of bond is stronger than ever, which is why we favour strategic or aggregate bond funds which have the flexibility to move up and down the yield curve as circumstances change.

As with the equity and property markets, there are some early signs of excess. For example, one of the largest high yield bond issues in Europe recently took place and the alphabet soup of derivatives based on packages of bonds is just starting to re-appear. Again, the time to worry is a way off yet.

US 10-year Treasury yield: range-bound



Source: DataStream, 16.6.14.

Past performance is not a guide to future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment.

Important information: 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.

If you're interested in bonds a couple of funds on our Select List you may like to look at are:

- **Henderson Preference & Bond Fund**
- **Fidelity Strategic Bond Fund**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

PROPERTY

The strong commercial property market that we have seen in recent quarters continued over the past three months, with investors' search for yield in a low interest rate world increasingly pushing them towards one of the few asset classes that can still offer a decent income. With prime property prices pushed to levels at which the income yield looks less attractive, attention is shifting to the secondary market. As the market recovers, investors are also becoming attracted to the capital growth as well as the income story. This is being driven by a mismatch between supply and demand (little has been built in the past five years while many companies are hiring again) which in turn is driving rents higher. Values are therefore being forced higher by both a weight of investment money and simple arithmetic (property is valued as a multiple of its income generating potential).

As in the equity and bond markets, some early signs of excess are beginning to emerge. For example, overseas investors are starting to show considerable interest in Spanish property, choosing to ignore high unemployment and the risk of asset price deflation now that the get out of jail card of currency devaluation appears to have been taken off the table. Property investors are having to work harder, and take slightly higher risks, to find good deals but real estate continues to offer significantly higher income than is available in the bond market. The yield uplift continues to compensate investors for the costs of depreciation, obsolescence, illiquidity etc. There is a reasonable cushion as and when interest rates begin to rise. All in all, then, the commercial property market feels more like 2005 than 2006/7. As with equities, the risks of a bubble are increasing but the alarm bells are not sounding just yet.

Important information: Some funds in the property sector invest in property and land. These can be difficult to sell so you may not be able to cash in this investment when you want to. There may be long delays in acting on your instructions to sell your investment. The value of property is generally a matter of a valuer's opinion rather than fact.

If you're interested in property a couple of funds on our Select List you may like to look at are:

- **HSBC Open Global Property**
- **Ignis UK Property**

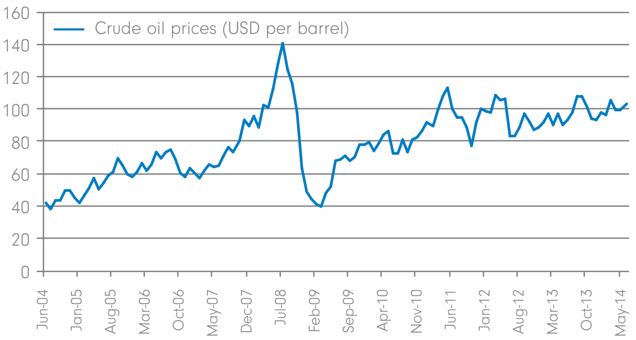
For a full list of Select List funds in this sector please see the fund data section at the back of this report.

COMMODITIES

Investing in commodities is a specialist area that most self-directed investors will, rightly, avoid. As well as the fundamental issues of supply and demand, prices are affected by a whole host of unpredictable influences like the weather, geo-political disruptions and technical issues (rolling into new contracts as existing ones mature, for example). Even if you get one of these right, the chances are that you will get one or more of the others wrong. The price of commodities is an important influence on other markets and consumers' spending power, however, so even if you are not planning to speculate on the price of gold, oil or coffee beans, it is important to keep an eye on trends.

Broadly speaking we feel that the price of commodities will remain subdued for a number of reasons. The outlook for the US dollar is positive and because most commodities are priced in the US currency, this tends to put a cap on the price of resources. Global growth is also relatively muted, although picking up, and this limits demand. This is particularly the case in China, which is the key marginal buyer of many of the world's principal commodities. Finally, after a long bull market in many natural resources, supply is ample. The one noticeable exception to this trend is oil, which has been relatively stable since its gyrations in 2008 but, as the chart shows, is rising steadily. An upsurge in violence in Iraq and the simmering row between Russia and Ukraine is likely to keep upward pressure on the oil price. Agricultural commodities have been weak recently but they are largely driven by the weather and so unpredictable. Gold, many private investors' favourite commodity, has given up the gains it made in the first quarter of 2014. It remains a speculation and not a very attractive one in an environment of low inflation and rising interest rates, which raise the opportunity cost of holding an asset which pays no income.

Brent crude: edging higher



Source: DataStream, 1.6.89 to 1.6.14

Performance over five years

% (as at 16th June)	2009/10	2010/11	2011/12	2012/13	2013/14
Brent Crude Oil	11.7	26.7	-7.4	13.0	3.2

Source: DataStream, as at 16.6.14

Past performance is not a guide to future returns.

If you're interested in commodities a couple of funds on our Select List you may like to look at are:

- **First State Global Resources**
- **Martin Currie Global Resources**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

Equities – a regional perspective

US

The US stock market has risen in a more or less straight line since early 2009. This is great news if you were extremely brave and had great foresight in the darkest days of the post-Lehman slump. For everyone else, there is less of a cushion and the question now is where next? Can America continue to lead global markets higher or is the good news now fully priced into valuations which are also well above average.

I lean towards the bullish case for US shares, although a trebling of the market over the past five years makes me less inclined to chase Uncle Sam as aggressively as I have been. So what is the optimistic argument?

First, volatility is low and will stay that way as it did in the 1990s in somewhat similar economic circumstances. With fewer ups and downs, investors are prepared to pay more for exposure to the US market and that means that an average valuation multiple of 16 times earnings is not excessive and could go considerably higher yet before this bull market is done.

Second, the US economy is in good shape, probably better than most people recognise. GDP growth could exceed 3% by the end of the year. That in turn will see the budget deficit continue to tumble, the government will need less of savers' spare cash and this will instead find its way into the stock market.

Third, the good news continues to filter through to company profits. That means that profit margins, high as they are, can stay high or even widen further. Until unemployment falls a lot lower, labour just hasn't got a strong negotiating position.

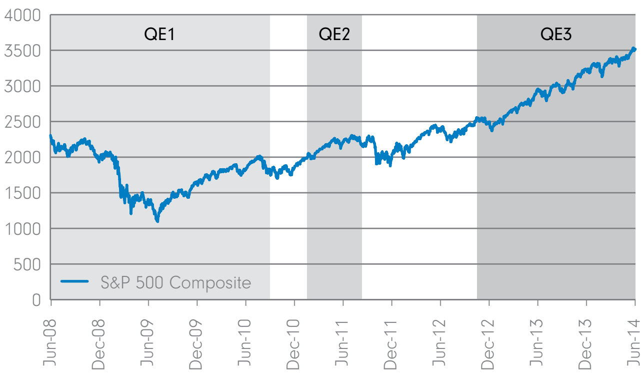
So the groundwork is in place for a return of the cult of the equity which held sway in the last big bull market prior to the bursting of the dot.com bubble. History doesn't repeat itself but it often rhymes and so US equities could rise still further from here.

I don't buy this uber-bullish position completely, and my instinct is to shy away from the world's most expensive market when others (admittedly not many) are available at much cheaper valuations.

This is particularly the case as the Federal Reserve starts to move towards the end of the latest round of quantitative easing. As the chart shows, the end of the two previous rounds unsettled markets and I see no reason why it shouldn't again.

That said, the force is with the US market and similar cautious arguments could have been made in the late 1990s. It would have been a very expensive mistake to be out of the market then and I think it could be over the next couple of years too.

The end of QE: how will the markets handle the end of stimulus?



Source: DataStream, 1.1.90 to 16.6.14, total returns in US$ terms.

Past performance is not a guide to future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. For full 5 year performance figures please see page 15.

If you're interested in the US a couple of funds on our Select List you may like to look at are:

- **Old Mutual North American**
- **Smith & Williamson North American Trust**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

UK

The most important thing to remember about the UK stock market is that it is not a good reflection of the UK economy. Back in the Victorian age London was a conduit to channel money into global investment opportunities and it is again. It is the market-place for a globalised world and that means that the recent run of good news for the British economy is welcome but not really relevant to investors in UK funds.

The London market is, however, sensitive to liquidity conditions in the UK and the knee-jerk reaction to Bank of England Governor Mark Carney's recent warning that interest rates could rise sooner than expected gave a hint of how equities could respond to a rise in the cost of borrowing at the end of this year.

For that reason, I would approach the UK market with a degree of caution. That means avoiding the home bias which tends to see domestic investors over-weighting their local market. It also means focusing on big defensive stocks which might be less exposed to a turn in the interest rate cycle. Big companies, as I've pointed out here before, are less highly-rated than small and mid-cap stocks, a second reason to favour them. In an environment of rising rates, high-yielding stocks are likely to become less attractive relatively, but for two reasons I still like the equity income sector. First, I do not expect interest rates to rise as far or as fast as feared. That's because high levels of household indebtedness mean even a small hike in rates will quickly choke off activity. Second, a high and sustainable dividend remains a key indicator of a well-run company. A blue-chip company yielding 4% or more will continue to look a compelling investment even when interest rates rise from their current emergency level.

If you're interested in the UK a couple of funds on our Select List you may like to look at are:

- **Artemis Income**
- **Fidelity MoneyBuilder Dividend**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

EUROPE

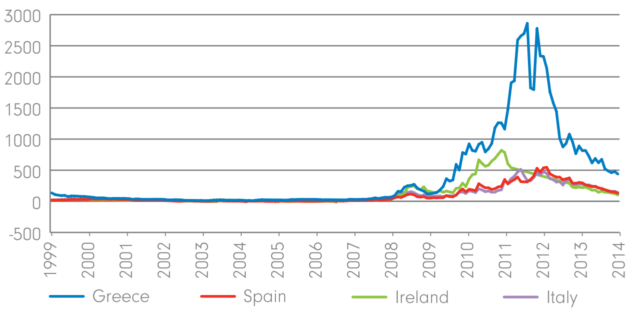
The performance of European shares over the past two years has been remarkable. Ever since Mario Draghi uttered his now famous promise to do "whatever it takes" to underpin the region's single currency, markets have soared. They have outperformed even the buoyant US market over that period. This outperformance has been all about improved sentiment and almost nothing to do with improving corporate newsflow because company earnings have not begun to keep pace with the rise in stock markets. On the contrary we have seen numerous earnings downgrades and a sharp fall in overall forecast earnings growth.

A worrying sign for me is the leadership of the rally which has tended to be the lower quality stocks and those in the eurozone's periphery, a classic sign of a sentiment or liquidity-driven bull market rather than one built on firmer foundations. As I've pointed out here before, Europe is heavily dependent on global growth making up for a shortage of demand closer to home where deflation remains a genuine concern and in some countries unemployment is a persistent problem.

There is an argument which says that increasing levels of corporate activity, a rotation out of fixed income and a shift in the dominant German economy towards ownership of real assets (now that the ECB is less focused on containing inflation) will support equity prices. Certainly, momentum is behind European equities, and fighting Mr Draghi has been a costly mistake over the past two years, but it feels instinctively wrong to chase shares when they are so obviously not supported by earnings.

As with the UK, anyone sticking with Europe should do so in a defensive way. That means a focus on high-quality companies which the market is likely to return to and a preference for large capitalisation stocks which are trading at multi-year lows compared with smaller companies and appear just as likely to be beneficiaries of increased M&A activity thanks to the cash-rich nature of predators' balance sheets.

The Draghi effect: sounding the all clear?



This chart shows the gap between peripheral government bond yields and those on German bunds.

Source: Bloomberg, 30.11.99 to 16.6.14

Past performance is not a guide to future returns.
When investing in overseas markets, changes in currency exchange rates may affect the value of your investment.

If you're interested in Europe a couple of funds on our Select List you may like to look at are:

- **Threadneedle European Select**
- **Jupiter European Special Situations**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

JAPAN

The Japanese stock market has not performed well in the first half of 2014 as investors have held their breath ahead of the implementation of a higher consumption tax in April. However, this is a good example of the need to take care with the start and end point of performance comparisons because standing back can offer a different perspective.

Over a longer three year period, the picture that emerges is of a market which was initially locked in a trading range between 8,000 and 10,000, enjoyed a rapid re-rating following the election of Prime Minister Shinzo Abe between November 2012 and May 2013 and then settled into a new sideways trading range between 14,000 and 16,000.

This is not an unusual sequence. It reflects financial markets' tendency to price in, and sometimes over-react to, new information before pausing to question whether they might have gone too far too quickly. I believe we are coming to the end of this period of re-assessment and I'm happy to restate my positive view on the Japanese equity market.

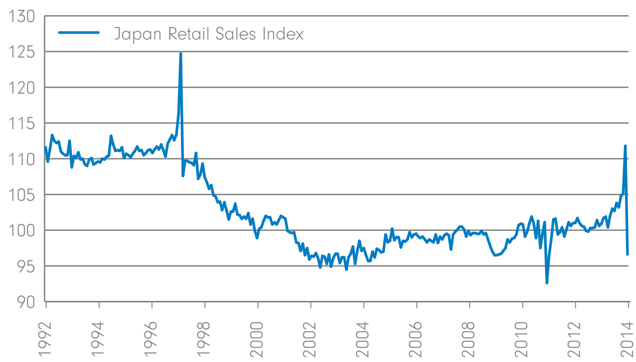
The main reason to remain optimistic is the confidence of Japanese retailers that the initial slowdown in retail sales after April's sales tax hike will be short-lived. Although the comparison with 1997, when the consumption tax was last raised, looks apt, the reality is that the backdrop is very different this time round. Then, confidence was shattered by the unfolding Asian financial crisis. Today, the background is one of rising confidence and, finally, increasing wages.

Once the sales tax hiccup is in the past, investors will focus again on the positives for Japan. Rising capital expenditure and loan growth, a tight labour market leading to improved spending power, real and far-reaching economic reforms, a greater focus than ever by corporate Japan on generating a decent return on investment, still attractive earnings growth and, most importantly, compelling valuations for Japanese shares.

In a world in which very few assets can genuinely be described as cheap, Japanese equities really do look good value, with the average price to book value standing at a big discount to comparable markets in Europe and the US.

As one of my portfolio manager colleagues in Tokyo put it recently, it is very rare for the Japanese government, the Bank of Japan and the corporate sector to all be looking in the same direction but today they are all determined to exit deflation, to grow and to change. This is a time to stick with this out of favour market.

Japanese retail sales: 1997 revisited?



Source: DataStream, 15.1.92 to 16.6.14

If you're interested in Japan a couple of funds on our Select List you may like to look at are:

- **Aberdeen Japan Growth**
- **Old Mutual Japan**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

EMERGING MARKETS (INC. ASIA PACIFIC EX-JAPAN)

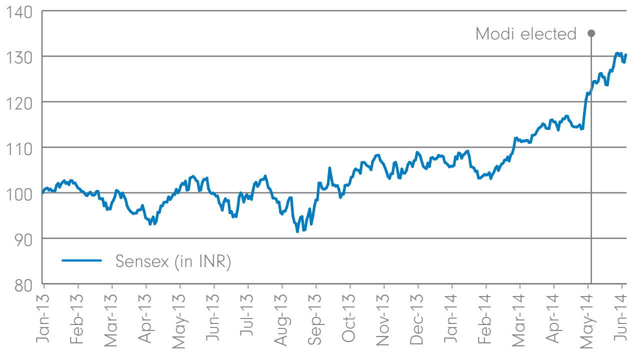
The first point to make about this sector is that it is far too varied to make any meaningful generalisations, although this does not stop people talking about Emerging Markets as if the same influences applied in South America, China and Africa. Clearly this is not the case. The various countries that fall within this category experience different macro-economic conditions, have different degrees of reliance on exports and domestic consumption and, crucially, are valued by investors in very different ways. What follows is, therefore, something of a whistle-stop tour of the world. If it shows anything to me, it is the importance of both diversification (you don't know what's going to be up and what down in the months ahead) and stock-picking (the dispersion between winners and losers in many of these markets is wide).

China remains a dilemma. It is cheap, at around eight times average earnings, but sentiment remains very poor and there are real concerns about the growth outlook and the health of the property market there. There is also a big divergence in valuations between old and new economy stocks in China which needs to be managed on the ground. The Chinese market is well-supported by valuations and history shows that when Shanghai gets very cheap it pays to hold your nose and jump in.

Another market worth highlighting is India, which has soared in anticipation of the election of Narendra Modi as Prime Minister and leader of what many investors consider to be a much more business and investor-friendly government. The question here is when the inevitable snapback in sentiment occurs as people recognise that changing a country as large and diverse as India will not be easy. The north-south divide in Asia is less clear cut than it felt at the start of the year. Although Korea, like China, looks good value compared with many of the ASEAN markets, it continues to be a frustrating place to invest with the obvious quality of many of its multi-national companies not following through in terms of stock market performance.

Australia is not an emerging market, of course, but its outlook is largely determined by one – China – and this makes it unattractive. A very commodity-intensive economy, it is bound to suffer as demand for raw materials is affected by China's slowdown and its rebalancing away from infrastructure investment.

The Modi effect: the investor-friendly PM



Source: DataStream, 1.1.13 to 16.6.14

Performance over five years

% (as at 16th June)	2009/10	2010/11	2011/12	2012/13	2013/14
Sensex (INR)	**16.8**	**3.0**	**-5.8**	**13.2**	**31.4**

Source: DataStream, as at 16.6.14

Past performance is not a guide to future returns.
When investing in overseas markets, changes in currency exchange rates may affect the value of your investment.

If you're interested in Emerging Markets a couple of funds on our Select List you may like to look at are:

- **Fidelity Emerging Markets**
- **Lazard Emerging Markets**

For a full list of Select List funds in this sector please see the fund data section at the back of this report.

Investment risks and opportunities

As I write this Investment Outlook, I am looking at a picture I commissioned for the cover of a newsletter I once edited. It shows a group of cartoon investors in pinstripes harvesting a crop in which the ears of corn are represented by £ signs. Behind them, and out of sight of the investors, looms a dark cloud on the horizon from which rain is pouring.

I ordered the cartoon in the late 1990s and with the benefit of hindsight it was obvious what the cloud represented. The message I wanted to convey was probably a warning but looking at it now I read it slightly differently. There is always a cloud on the horizon but if you focus on it too much there is a risk that you will sit on your hands (or in cash) and miss out on the great opportunity for growing your wealth that financial markets can provide.

There's plenty to worry about today but that's simply par for the course as an investor. The fact that we can see the clouds on the horizon suggests to me that we are some way off the complacency that dominated markets in 1999 and 2007.

Tom Stevenson
Investment Director, Fidelity Personal Investing

Market data

Please be aware that past performance is not a guide to what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in small and emerging markets can be more volatile than those in other overseas markets.

INVESTMENT VALUATION AT A GLANCE

	Price-earnings ratio 2014E	Dividend yield 2014E
Equities	%	%
Global	15.2	2.5
USA	16.6	2.0
Europe	15.2	3.4
UK	14.1	3.7
Japan	14.1	2.0
Asia Pac ex Japan	12.7	3.2
Latin America	13.5	3.1
Central East Europe, Middle East & Africa	9.8	3.6

	Redemption Yield
Bonds	%
ML Global High Yield	5.7
German 10-Year Bunds	1.4
ML Global Corporates	2.7
UK 10-Year Gilts	2.8
US 10-Year Treasuries	2.6

Market data (continued)

Please be aware that past performance is not a guide to what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in small and emerging markets can be more volatile than those in other overseas markets.

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 16th June)	3 m	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Equities						
S&P 500	3.6	38.2	6.8	11.6	23.6	12.3
FTSE 100	4.5	25.5	12.2	-0.1	19.5	10.9
FTSE 250	-1.6	35.4	21.1	-5.0	32.5	16.5
FTSE SmallCap	-0.4	23.5	21.2	-8.1	34.2	19.7
NIKKEI 225	2.4	22.8	-0.7	-1.8	25.5	2.5
MSCI Europe	4.5	23.4	14.1	-12.1	29.3	14.6
MSCI Asia ex Japan	6.7	38.7	12.6	-8.0	13.1	6.2
MSCI Emerging Markets	10.2	40.0	10.9	-11.2	5.7	4.0
Shanghai SE	0.7	2.5	0.6	-9.3	-3.0	-12.3
Bonds						
ML Global High Yield	0.9	37.9	8.8	6.5	15.0	2.4
German 10-year Bunds	-2.2	9.4	7.6	7.9	7.8	-1.5
ML Global Corporates Bonds	-0.4	21.2	4.6	6.1	6.2	-2.7
UK 10-year Gilts	-0.1	8.5	7.4	18.2	-1.4	-1.5
US Treasuries	1.3	7.1	7.2	16.0	-1.7	-1.0
Commodities						
CRB Commodities Index	0.2	14.5	17.5	-16.7	5.0	-0.0
Crude Oil (Brent)	2.7	11.7	26.7	-7.4	13.0	3.2
Gold Spot	-9.5	45.2	13.6	8.9	-15.6	-15.4
COMEX Copper	1.4	43.9	24.7	-17.0	-7.0	-12.7
GSCI Soft Commodities	1.7	5.2	13.4	-11.4	8.2	-0.9

Source: DataStream, discrete performance from 16.6.09 to 16.6.14 in £ terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, Factset Consensus estimates as at 16.6.14. Bond Yields: Source DataStream as at 16.6.14.

Fund data

THE SELECT LIST – INVESTMENT IDEAS FROM OUR EXPERTS

The funds on The Select List are hand picked from the range available on our fund supermarket. For more information on how these funds are selected visit fidelity.co.uk/select. The Select List is not a recommendation to buy funds. Equally, if a fund you own already is not on The Select List we are not recommending that you sell it – the list represents funds and managers that our experts particularly rate. **Please be aware that past performance is not a guide to what might happen in the future**. The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. For funds that invest in overseas markets, the returns may increase or decrease as a result of currency fluctuations. Investments in small and emerging markets can be more volatile than other more developed markets. For funds launched less than five years ago full five-year performance figures are not available. Before you invest, please ensure you have read Doing Business with Fidelity and the Key Investor Information Document (KIID) or Fund Specific Information Document (FSI), relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity, including details of the objective, investment policy, risks, charges and past performance associated with the fund(s). Instructions on how to access these documents can be found at fidelity.co.uk/ importantinformation. If you do not have a computer or access to the internet please call Fidelity on 0800 41 41 61 to request a printed copy of the documents. The Full Prospectus is also available on request from Fidelity.

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

	May-09 May-10	May-10 May-11	May-11 May-12	May-12 May-13	May-13 May-14	Morningstar Fund Rating
EQUITIES FUNDS						
Asia Pacific Equity exc Japan						
Aberdeen Asia Pacific	38.5	15.7	-6.2	23.5	-7.6	✪✪✪✪✪
Fidelity South East Asia	35.9	21.5	-15.0	18.9	-5.0	✪✪✪✪
First State Asia Pacific Leaders	25.8	20.5	-5.1	26.7	-0.9	✪✪✪✪✪
HSBC Pacific Index Fund	33.9	21.6	-11.8	22.7	-0.1	✪✪✪✪
M&G Asian	34.6	18.0	-10.2	27.1	-0.3	✪✪✪✪
Newton Asian Income	41.3	25.4	3.9	26.9	-4.9	✪✪✪✪✪
Schroder Asian Alpha Plus	40.4	23.6	-2.1	21.5	-5.9	✪✪✪✪✪
Asia Pacific Equity incl Japan						
Aberdeen Asia Pacific & Japan	34.7	13.9	-3.2	24.1	-7.6	✪✪✪✪✪
Fidelity Funds - Pacific	40.9	15.5	-13.3	37.1	4.5	✪✪✪✪✪
Smith & Williamson Far Eastern Growth Trust	32.0	12.2	-9.5	29.4	-2.9	✪✪✪✪
Emerging Markets Global Equity						
BlackRock Emerging Markets Equity Tracker	-	-	-15.8	15.9	-5.4	✪✪✪
Fidelity Funds - Emerging Markets	-	-	-11.0	19.7	-1.8	✪✪✪✪
JP Morgan Emerging Markets	36.8	9.6	-12.5	16.8	-6.6	✪✪✪✪
Lazard Emerging Markets	40.5	10.7	-11.6	19.4	-2.8	✪✪✪✪✪
Threadneedle Global EM Eq	39.7	11.7	-16.6	23.0	-4.9	✪✪✪✪
Emerging Markets Regional Equity						
Fidelity Funds Greater China Fund	24.3	13.8	-14.9	25.1	-1.5	
Fidelity Funds - Latin America	48.4	12.9	-16.2	13.1	-15.8	✪✪✪✪
Franklin India	39.9	4.5	-21.6	17.8	9.0	✪✪✪✪
Threadneedle Latin America	49.4	11.3	-17.9	12.5	-15.7	✪✪✪
Europe Equity excl UK						
BlackRock Continental European	24.4	27.8	-18.5	40.6	9.5	✪✪✪✪
Henderson European Special Sits	-	29.6	-17.0	42.2	8.2	✪✪✪
HSBC European Index	13.7	21.6	-24.1	42.2	13.5	✪✪✪
Jupiter European Special Sits	16.7	24.3	-18.3	37.7	9.8	
Threadneedle European Select	22.5	28.8	-8.8	38.5	7.8	✪✪✪✪✪
Global Equity						
BNY Mellon Long-Term Global Equity	24.2	8.5	-	25.7	1.3	✪✪✪✪
Ecclesiastical Amity International	27.2	14.8	-13.4	31.9	0.3	✪✪✪✪
F&C Stewardship International	28.9	8.6	-4.7	27.9	2.5	✪✪✪
Fidelity MoneyBuilder World Index	-	-	-	-	7.2	
M&G Global Growth	31.4	11.2	-10.7	32.3	-0.1	✪✪✪✪
Rathbone Global Opportunities	25.9	22.3	-3.4	21.9	7.2	✪✪✪✪✪
Schroder Global Climate Change	18.2	10.8	-12.5	28.3	5.5	✪✪✪✪
Templeton Growth	22.4	13.2	-19.7	48.0	10.9	✪✪✪
Global Equity Income						
Aberdeen World Growth and Income	23.2	15.6	-4.1	24.4	-3.0	✪✪✪
Lazard Global Equity Income	25.6	14.4	-5.3	28.2	6.5	✪✪✪
Newton Global Higher Income	22.9	17.2	0.9	24.9	3.1	✪✪✪✪
Sarasin Global Higher Dividend	21.1	14.7	-5.2	24.6	4.6	✪✪✪
Global Real Assets						
Fidelity Funds - Global Real Asset Securities Fund A-GBP	-	19.5	-11.8	24.1	-1.8	✪✪
First State Global Listed Infrastructure	22.2	14.7	-1.9	23.4	9.9	✪✪✪✪

Please note, the performance figures shown here are based on the share classes of funds under our 'bundled' pricing structure. For more information about 'bundled' and 'clean' pricing, please visit **fidelity.co.uk/pricing.**

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

	May-09 May-10	May-10 May-11	May-11 May-12	May-12 May-13	May-13 May-14	Morningstar Fund Rating
Sarasin AgriSar	17.5	14.9	-11.2	23.7	-5.9	✪✪✪
Japan Equity						
Aberdeen Japan Growth	20.4	4.5	3.8	27.1	-2.7	✪✪✪✪✪
Baillie Gifford Japanese	19.9	1.0	-4.1	42.4	1.3	✪✪✪✪✪
HSBC Japan Index	14.9	-4.3	-5.0	29.1	-3.5	✪✪✪✪
Jupiter Japan Income	20.4	-1.2	-6.0	26.4	-7.1	✪✪✪
Old Mutual Japanese Select	18.6	-0.3	2.0	32.3	-2.3	✪✪✪✪✪
Schroder Tokyo	21.5	-1.5	0.2	23.5	0.3	✪✪✪✪✪
North American Equity						
Axa Framlington American growth	37.5	13.1	9.8	13.8	10.0	✪✪✪
Fidelity Funds - America	34.1	8.5	0.7	34.8	9.1	✪✪✪✪
HSBC American Index	36.3	8.2	6.8	30.6	7.0	✪✪✪✪✪
JP Morgan US Select	37.2	4.8	3.6	32.9	7.8	✪✪✪✪
Old Mutual North American	36.3	14.4	5.5	31.8	11.5	✪✪✪✪✪
North American Small/Mid Cap Equity						
BlackRock US Opps	45.9	13.5	-9.1	28.3	9.6	✪✪✪
JP Morgan US Smaller Cos	54.8	20.2	-7.1	32.7	-0.8	✪✪
Single European Country Equity						
Barings German Growth	22.3	34.5	-21.7	43.3	16.6	✪✪✪✪✪
Fidelity Funds Germany	22.0	28.5	-21.6	49.1	13.4	✪✪✪✪
Fidelity Funds Italy	0.5	23.3	-34.2	51.4	28.4	✪✪✪✪✪
UK Equity						
AXA Framlington UK Select Opportunities R Inc	28.5	30.8	-2.9	25.4	12.1	✪✪✪✪
Ecclesiastical Amity UK A	25.1	21.7	-2.3	30.3	10.7	✪✪✪
Fidelity UK Select	24.2	20.2	-8.0	29.6	7.6	✪✪✪
HSBC FTSE 100	21.2	17.8	-7.7	27.6	7.4	✪✪✪
HSBC FTSE All-Share	22.3	19.0	-8.1	29.3	8.6	✪✪✪
Jupiter UK Special Situations	22.1	18.0	-1.5	34.5	13.6	✪✪✪✪
Kames Ethical Equity A Acc	19.2	27.5	-8.5	35.0	14.3	✪✪✪✪
CF Lindsell Train UK Equity Fund Inc*	36.9	26.0	-1.5	43.6	14.4	✪✪✪✪✪
Liontrust UK Growth	28.8	30.5	0.2	23.3	8.4	✪✪✪
UK Equity Income						
Artemis Income R Inc	17.6	18.8	-2.9	30.8	10.2	✪✪✪✪
Fidelity MoneyBuilder Dividend	15.3	22.1	1.2	29.1	10.4	✪✪✪✪
Henderson UK Equity Income A Net Inc	32.4	32.1	-5.5	35.7	20.8	✪✪✪✪
JOHCM UK Equity Income GBP Acc Retail	27.6	23.1	-7.6	42.1	13.8	✪✪✪✪
Liontrust Macro Equity Income	25.5	20.8	-6.6	28.9	12.4	✪✪✪
UK Small/Mid Cap Equity						
HSBC FTSE 250	30.4	26.4	-10.0	38.5	14.2	✪✪✪
Marlborough Special Situations	28.6	46.9	-3.2	27.9	23.8	✪✪✪✪
Old Mutual Smaller Companies	26.4	35.2	-6.2	36.5	17.2	✪✪✪✪
Royal London UK Mid-Cap Growth A	29.1	33.8	-3.7	37.8	16.5	✪✪✪
Threadneedle UK Mid 250	22.5	28.7	-6.4	37.4	11.0	✪✪
FIXED INCOME FUNDS						
Emerging Markets Local Currency						
Investec Emerging Market Local Currency Debt A Acc	28.3	2.7	-3.5	12.1	-13.0	✪✪✪
Pictet Emerging Local Currency Debt	27.5	1.6	-0.6	9.3	-13.3	✪✪✪
Templeton Emerging Market Bond	-	0.8	0.2	17.0	-9.0	✪✪✪
European Corporate Bond						
Fidelity Euro Corporate Bond Fund	20.6	6.9	-3.5	18.2	-	✪✪✪
M&G European Corporate Bond	11.9	6.0	-4.5	17.4	-0.4	✪✪✪✪
European High Yield Bond						
Fidelity Funds European High Yield	35.1	16.9	-9.7	27.6	4.4	✪✪✪✪
Invesco Perpetual European High Yield Acc	41.9	13.1	1.0	27.7	6.6	✪✪✪✪✪
M&G European High Yield	21.2	14.6	-10.2	27.9	3.8	✪✪✪
Global Aggregate Bond						
M&G Global Macro	17.5	0.4	8.9	11.6	-6.8	✪✪✪✪✪
Threadneedle Global Bond Fund	11.8	-4.7	8.8	-2.8	-5.2	✪✪
Global High Yield Bond						
Baring High Yield	23.1	16.3	-1.8	13.0	5.1	✪✪
Investec Monthly High Income	24.2	13.1	-2.6	11.7	4.5	✪✪
JP Morgan Global High Yield	22.7	14.9	3.0	11.9	5.7	✪✪✪
Global Inflation Linked Bond						
Fidelity Global Inflation Linked Bond	11.7	5.2	4.6	0.9	-0.8	✪
Standard Life Global Inflation Linked	9.7	6.3	9.7	1.1	-0.5	✪✪
Strategic Bond						
Henderson Preference & Bond	36.1	9.4	-0.7	12.6	6.2	✪✪✪

*This fund is only available with a clean share class.

Please note, the performance figures shown here are based on the share classes of funds under our 'bundled' pricing structure. For more information about 'bundled' and 'clean' pricing, please visit **fidelity.co.uk/pricing.**

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS	May-09 May-10	May-10 May-11	May-11 May-12	May-12 May-13	May-13 May-14	Morningstar Fund Rating
Jupiter Strategic Bond Acc	31.8	12.4	5.7	12.4	5.8	★★★★★
M&G Optimal Income	19.7	9.4	5.9	14.2	5.5	★★★★★
UK Aggregate Bond						
Fidelity Strategic Bond Fund†	19.7	6.3	6.1	11.4	3.7	★★★
Henderson Sterling Bond Fund Acc	46.4	9.8	5.0	12.7	1.9	★★★
UK Corporate Bond						
Baillie Gifford Corporate Bond Fund	35.4	16.3	5.4	16.4	4.7	★★★★★
Henderson Strategic Bond Fund	26.9	9.1	0.3	11.8	6.1	★★★★
BlackRock Corporate Bond Tracker	-	-	6.5	11.4	1.6	★★★
M&G Strategic Corporate Bond	18.7	7.4	7.9	9.9	3.7	★★★★
UK Government Bond						
Allianz UK Gilt	5.5	4.1	14.8	0.7	-2.3	★★★
Henderson Institutional UK Gilt	4.9	4.2	14.2	-0.5	-1.8	★★★
HSBC UK Gilt Index	-	-	14.3	-0.3	-1.0	★★★
Royal London UK Government	5.7	4.1	13.7	-0.5	-1.1	★★★
UK Inflation Linked Bond						
Henderson Index Linked Bond A Inc	8.3	9.7	18.5	6.6	-2.0	★★
Legal & General All Stocks Index Linked Gilt Index	8.9	8.7	15.9	6.0	-0.5	★★★★
M&G Index-Linked Bond A Acc	9.1	8.8	18.1	6.8	-1.6	★★★★
PROPERTY FUNDS						
Property - Listed						
Aberdeen Property Share	22.7	27.2	-11.0	41.6	15.5	
Fidelity Global Property	46.0	13.3	-2.2	25.4	-1.5	★★★★
M&G Global Real Estate Securities Fund	44.1	16.9	-2.2	24.4	-5.7	★★★
Property - Physical						
HSBC Open Global Property Fund	24.7	10.0	0.5	13.3	4.7	★★★
Ignis UK Property	25.5	4.6	2.3	1.5	-	
COMMODITIES FUNDS						
Commodities - General						
First State Global Resources	35.7	26.2	-30.8	-4.8	-1.5	★★★
Martin Currie Global Resources Fund	19.1	18.4	-21.2	15.8	0.5	★★★★
Commodities - Precious Metals						
BlackRock Gold & General	28.4	11.6	-22.4	-25.2	-22.7	★★★★
Investec Global Gold Fund	31.0	12.0	-22.0	-22.1	-23.1	★★★★

† The investment policy of Fidelity Strategic Bond Fund means it can be more than 35% invested in government and public securities. These can be issued or guaranteed by other countries and governments. For a full list please refer to the fund's prospectus.

PATHFINDER RANGE – MULTI-ASSET FUNDS FROM OUR EXPERTS

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS	May-09 May-10	May-10 May-11	May-11 May-12	May-12 May-13	May-13 May-14	Morningstar Fund Rating
Fidelity PathFinder Foundation 1	-	-	-	5.8	-0.6	
Fidelity PathFinder Foundation 2	-	-	-	10.7	0.5	
Fidelity PathFinder Foundation 3	-	-	-	16.9	1.1	
Fidelity PathFinder Foundation 4	-	-	-	-	2.2	
Fidelity PathFinder Foundation 5	-	-	-	-	4.9	
Fidelity PathFinder Focused 1	-	3.6	0.4	7.1	-0.1	★★
Fidelity PathFinder Focused 2	20.5	7.1	-2.8	13.8	1.5	★★
Fidelity PathFinder Focused 3	-	9.4	-6.9	18.4	2.0	★★
Fidelity PathFinder Focused 4	-	-	-7.1	23.3	3.4	★★
Fidelity PathFinder Focused 5	24.5	12.4	-8.3	30.3	4.8	
Fidelity PathFinder Freedom 1	-	-	-	-	1.0	
Fidelity PathFinder Freedom 2	16.1	10.9	-1.9	15.6	2.0	
Fidelity PathFinder Freedom 3	22.1	15.2	-5.9	19.0	1.5	
Fidelity PathFinder Freedom 4	-	-	-	-	3.2	
Fidelity PathFinder Freedom 5	-	-	-	-	3.2	
Fidelity PathFinder Income 1	22.1	8.3	2.1	14.0	4.7	★★★★
Fidelity PathFinder Income 2	-	-	-	-	-	
Fidelity PathFinder Income 3	-	-	-	-	-	

The PathFinder fund range has evolved over the last five years, so full five year data is not available for some funds. For funds launched less than a year ago, one year performance data is not yet available.

Please note, the performance figures shown here are based on the share classes of funds under our 'bundled' pricing structure. For more information about 'bundled' and 'clean' pricing, please visit **fidelity.co.uk/pricing.**

Source: Morningstar from 31.5.09 to 31.5.14. Basis: bid to bid with income reinvested net of UK basic-rate tax. Excludes initial charge. For the latest yields please call 0800 41 41 61 or visit fidelity.co.uk.