

May 2021

Global Asset Allocation Insights

Fidelity Solutions & Multi Asset

Professional investors only



Topics in focus

Macro outlook

Key macroeconomic themes and their implications for asset allocation.

Regional cross asset views

Insights from the team's discussions of cross-asset views across global regions, including the US, Europe and Asia.

Core allocation view

Overview of the team's core investment views, including breakdown across equity regions, fixed income sub asset classes and currencies.

Thematic ideas

A snapshot of the team's current thematic trades and 'best ideas', held where applicable in portfolios alongside core asset allocation positions.

Spotlight

Other insights from Fidelity Solutions & Multi Asset, giving views on broader investment disciplines and research. This month, we examine the key considerations for investors when allocating to global small cap equities.

Introduction

As we move towards the middle of 2021, economic growth remains at elevated levels, albeit still asynchronised across regions. Upside inflation surprises have largely been driven by reopening and supply chain disruptions, which we consider transitory. We remain watchful for any sign of persistent inflation drivers, with US wages and sustainability considerations potentially exerting long-term influence on price levels. The key question from a macroeconomic and markets perspective is whether these inflationary dynamics are transitory or persistent.

In developed markets, consumer strength, fiscal stimulus and accommodative monetary policy remain key pillars of support. However, the diverging strength between growth in developed and emerging economies will continue, especially as China's growth moderates. Ongoing tensions on trade and geopolitics continue to be potential sources of risk.

More broadly, risk markets have resumed their upward trajectory, and our pro-cyclical indicators remain risk-on, while contrarian signals have turned neutral. Overall, supportive fundamentals for risk assets are being challenged by stretched valuations and technical headwinds. Recognising the ongoing tensions between the real economy and markets, we maintain our stance of selectively taking risk in developed equity, but with reduced conviction this month, weighing up a strong fundamental picture against risks around positioning and valuation. We remain neutral in emerging market (EM) assets with the exception of FX. We take a more balanced view on duration, neutralising the underweight, and we also close our real yield overweight as break-evens look stretched given the near-term outlook for inflation and growth. In currencies, we continue to balance our small overweight to undervalued EM FX with an overweight to USD as protection against our moderate risk-on positions and given potential for a re-emergence in US exceptionalism.

	View	Change
Equity	○○○●○	-
Credit	○○●○○	-
Duration	○○●○○	▲
Cash	○○●○○	-

Macro outlook

Inflation burns up: transitory or persistent?

Global reopening coming in hot

The rapid roll-out of vaccinations across the US and the UK, with Europe catching up, pushed developed market PMIs once again to record highs in May. Business activity and new orders have accelerated across both manufacturing and services sectors, business confidence continues to rise and employment gains remain in positive territory. Global activity momentum has remained at very elevated levels as a result. However, the recovery has encountered some turbulence, with significant supply-side disruptions emerging. This has led to shortages across a wide swathe of inputs, ranging from food products, to base metals, to semiconductors. This widening gap between supply and demand, combined with base effects, meant the April core CPI print in the US came in at a year-on-year rate of 2.96% – a year-on-year rate unseen since the mid-1990s.

In China, growth momentum continued to moderate as the government maintains its focus on controlled deleveraging and rebalancing of the economy. The Politburo reaffirmed that there would be 'no sharp policy turn', which has been borne out by gentle reductions in fiscal deficit spending and credit growth. While the potentially disruptive default of the Huarong SOE was carefully managed by policymakers, we remain vigilant of the high and growing levels of leverage in the wider system.

Finally, emerging markets remain a pocket of risk to the global economy, with countries that avoided the worst of the pandemic in 2020 now succumbing to rising caseloads due in part to low vaccination rates. India continues to grapple with a tragic wave of Covid fatalities, stemming from the inability of the health care system to serve the population. An additional concern is the fact that inflationary pressures are beginning to mount in a number of EMs, limiting the ability of policymakers to keep financial conditions accommodative.

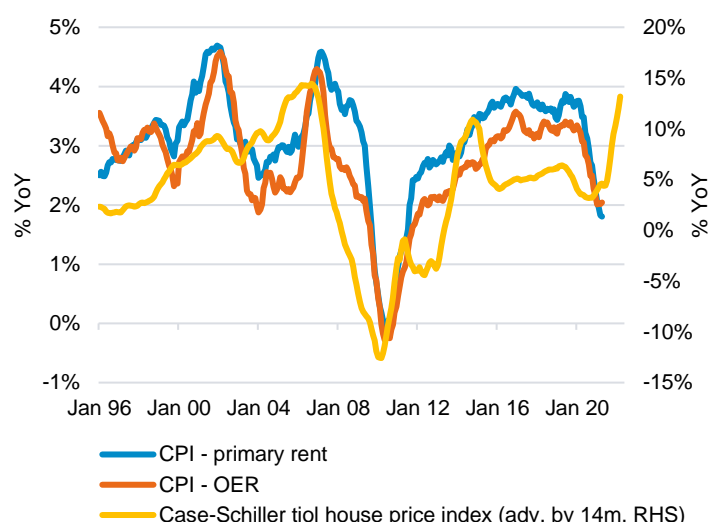
Inflation: likely transitory for now...

Taking a step back, the key question for markets is whether the incipient inflation we are seeing in the US today is transitory or persistent. On balance, we believe the inflation we are seeing now is of the transitory kind. First, our bottom-up analysts are telling us that the vast majority of the supply chain disruptions that we have seen are already beginning to resolve themselves. Second, while enhanced unemployment insurance (UI) appears to have induced some labour market distortions and tightness, given the expiration of this enhanced UI on

the 6 September, we expect the labour market to start finding a more normal equilibrium in Q3/Q4.

Third and finally, it is important to note the compositional differences in US inflation metrics when it comes to primary and owners' equivalent rents (OER) inflation. In core CPI, primary rents and OER make up 40% of the basket. In contrast, rents inflation only comprises 18% of the core PCE basket. As a result, given the significant strength we have seen in the US housing market, we are likely to continue to see strong core CPI prints (see Chart 1). However, given the difference in composition, this will not flow through to the same extent to core PCE inflation, the Fed's preferred inflation metric. Overall then, it does appear that the inflation we are seeing today is transitory in nature, however, this doesn't exclude the possibility that it becomes persistent later down the track.

Chart 1: CPI housing costs versus Case-Shiller index



Source: Fidelity International, Refinitiv Datastream, May 2021.

Inflation: ...with the risk of persistency

Ultimately, inflation persistence will be driven by expectations. Shifts in supply and demand can change price levels, but expectations are key for inflation to become embedded. As we have argued before, for the monetary and fiscal authorities in the US, inflation is a policy choice that is intrinsically related to very high debt burdens. As a result, the potential exists for the Fed to capitalise on transitorily high inflation to re-set expectations higher, thus giving it more policy space in future downturns. Additionally, in collaboration with our bottom-up research analysts, we have identified some potential longer-term sources of persistent inflation:

- **Long-term labour cost inflation in the US for lower wage sectors**, particularly retail and services. The largest employers in the US,

including AMZN, WMT, MCD and the restaurant industry in general have accelerated wage investments prior to and during Covid. Analysts report that this is a multi-year trend that likely has further to run.

- **Decarbonisation, net zero targets and sustainability goals**, policies which could constrain incremental supply capacity as a result of environmental regulations. Other consequences could include permanently higher pricing on commodities and raw materials needed for the energy transition. In addition, carbon taxes and their feedthrough to intermediate and final goods, such as concrete and property prices, will likely be inflationary.
- **Climate change impacts in certain geographies**, such as on the production of agricultural crops as well as forestry. Changes to biodiversity could have unanticipated consequences on inputs as well as final pricing over the long term; we are already seeing impacts of climate change on North American lumber prices, for example.

As a result of all of this, we continue to expect policy credibility to remain front and centre for markets through 2021. On the fundamental side, reflation will continue to play out, as a result of the significant US fiscal pump and drawdowns on excess savings. With the combination of these forces taking GDP growth significantly into positive territory. However, as we have highlighted, the potential for full-loop inflation will figure prominently as a risk for investors and may require the Fed to take tangible action to prove that it will not renege on its low-rates-for-very-long policy stance.

Macro research powering asset allocation

Fidelity's Global Macro & SAA team contributes to Fidelity Solutions & Multi Asset's tactical asset allocation process by providing key macro inputs, working alongside the investment team to understand and respond to the macroeconomic drivers of markets.

Fidelity indicators

Fidelity Leading Indicator (FLI)

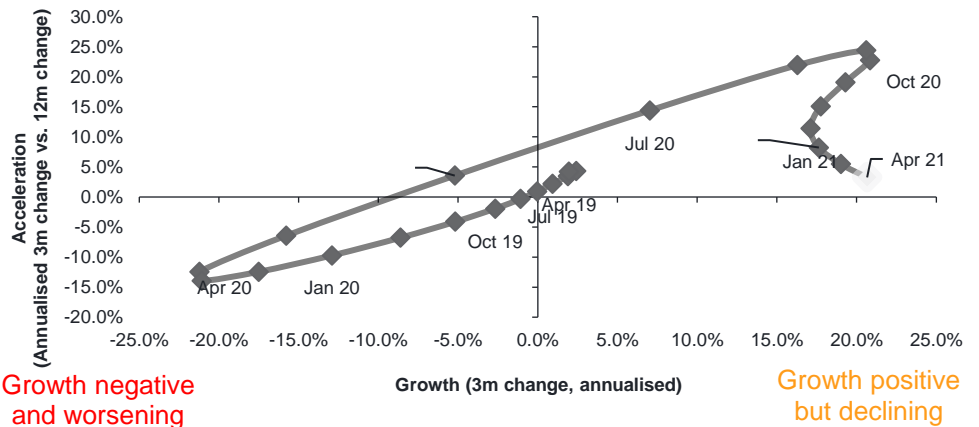
The FLI is a proprietary quantitative tool, designed to anticipate the direction and momentum of global growth over the coming months, and - importantly for investors - identify its key drivers. In practice, it is designed to lead global industrial production and other global cyclical variables by around three months. Fidelity Solutions & Multi Asset uses this as a common and repeatable reference point through the tactical asset allocation process.

The **FLI Cycle Tracker** remains in the 'top-right' quadrant (growth above-trend and improving), with a modest 'second wind' after a few softer months, driven by consumer and commodity components. The peak of the recovery is nevertheless well behind, with two sectors now in outright deceleration. The **FLI quantitative 'bet'** ticked back up to neutral, indicating a mixed outlook for risk and duration as markets digest a fading global recovery impulse. Sector developments broadly indicate weaker momentum, but consumer and commodities have helped support growth after a few softer months. More concerning is Industrial Orders, which is getting very near to the bottom-right quadrant.

FLI Cycle Tracker

Growth negative but improving

Growth positive and improving

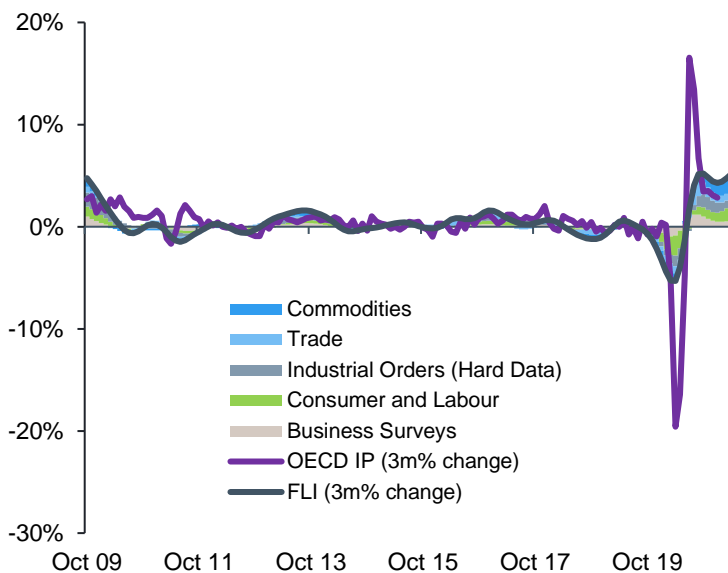


Growth negative and worsening

Growth positive but declining

Source: Fidelity International, May 2021.

FLI: 3-month % change versus OECD



Source: Fidelity International, May 2021.

The **Commodities** sector is well into the top-right quadrant, with growth positive and improving as supply has struggled to keep up with rising demand and survey components continue to move higher. The **Consumer and Labour** sector remains in the 'top-right' quadrant, with the consumer demonstrating significant strength thanks to policy support. Globally, as vaccines are rolled out, consumer confidence has improved, and this has been most significant in the US. **Business surveys** have stabilised in the bottom-right quadrant, with sentiment stalling across new orders and manufacturing. Interestingly the outperformance of manufacturing over services that the world has experienced over the past year seems to have reversed this month, with the global services PMI stronger than manufacturing - perhaps a sign of a genuine 'vaccine recovery' in the West. Europe continues to hold up well, with German new foreign orders showing growth. The picture is less rosy in Japan and the US, where restocking looks to have stalled.

Regional cross asset views

US

As highlighted previously in this edition, inflation remains a key area of interest when thinking about equity exposure, with the US no exception. Overall, the team believes current inflation effects should be broadly transitory in nature, as opposed to structural. In our assessment of US equities, key to watch will be the market's reaction (and possible over-reaction) to evolving inflation expectations.

Alongside these broader economic trends, Q1's earning season was very strong, with both earnings and sales data generating positive surprises in addition to the strong Q4 season. This season saw margin expansions and little sign of these being impacted by cost pressures. From a US sector perspective, IT and consumer discretionary are very strong in beats, but price reaction has been negative. The US has moved above other regions in terms of earnings revisions this season, particularly in the financials sector, with cyclicals leading the way. Feedback from Fidelity's bottom-up research platform suggests the US has seen the highest upgrade in rating actions, particularly in financials (whereas consumer discretionary companies saw the most downgrades). Consumer-related companies will be important to watch, potentially helping to gauge the unfolding re-opening outlook and consumers' response to potential cost pressures. Vaccination roll-out also remains a focus here, where the US has made strong progress to date.

Asia

One focus of the team's debate this month was whether EM Asia countries might be impacted by the same dynamics as other emerging markets as the pandemic continues. With cases rising across the region, governments continue to find a trade-off between economic openness and viral containment. While economic resilience has been stronger so far across the region, this may come under pressure with the rise of new variants. Indeed, EM Asia may appear to have more ammunition in its toolkit to deal with the fall-out of another Covid wave, including fiscal and monetary policy levers given better current account dynamics), but China could be an important factor and act as a stronger headwind in this region. While Covid-19 developments are dominating headlines in the region, what may matter more for EM Asia versus broader EM is China's tightening stance versus US expansionary policy. The former is acting as a headwind for EM Asia at a time when the rest of EM (and especially LatAm) would be more directly benefiting from US fiscal and monetary policy.

Europe

This month's discussions continued to centre on Europe's progression through Covid-19, where it is likely too soon to chart the longer-term impact for the region. The team is watching closely for evolving sentiment, with consumer confidence picking up against a backdrop of weak economic data. European equities saw a good earnings season in Q1, with 69% of companies beating expectations. However, like in the US, the price response was generally negative, suggesting these improvements have been broadly priced in. Another strong earnings season in Q2 could potentially prompt a more positive reaction. The team will also be watching the political picture in Europe over the coming months, including the upcoming German elections.

Global perspective

Overall, from a regional perspective the team remains focused on those with greatest exposure to the global economic recovery. From a regional equity perspective, the team is focused on regions with cheaper valuations, given mean-reversion is a key risk in more extended and highly valued markets. The pandemic's progression through summer remains a driver of risk across asset classes. In developed markets, consumer strength, fiscal stimulus and accommodative monetary policy remain key pillars of support. However, the divergence between developed and emerging markets will continue in terms of economic growth, especially as China's growth plateaus. We see ongoing tensions on trade and geopolitics as potential sources of risk.

Building regional cross-asset views

Deep-dive analysis across region-specific dynamics, incorporating bottom-up input from across Fidelity's global research platform

Core allocation views

Asset class	View	Change	Rationale
Equities			
US	○○●○○	-	Remaining neutral on the US, where strong economic data, extremely supportive fiscal policy and promising vaccine roll-out all support equities, although these are balanced with risks around rich valuations in this less cyclical market.
UK	○○○●○	-	Continuing to take a positive view on UK equities, where valuations are still attractive relative to other regions. The market's cyclical exposure and the UK's strong vaccination programme are also supportive.
Europe ex. UK	○●○○○	-	While financial conditions remain relatively loose and policy is supportive, we are negative overall on the prospects for Europe, seeing more attractive valuations in other global regions.
Japan	○○○●○	-	The latest sell-off in Japan presents a buying opportunity in this market made up of quality cyclical sectors. Cheap currency and reasonable valuations continue to support a constructive view.
Pacific ex. Japan	○●○○○	-	While this is a cyclical market, Asia Pac ex Japan stocks are less attractive from the bottom-up. We remain negative as markets in this region have less to gain from vaccine roll-out, while facing headwinds from China policy tightening.
Emerging markets	○○●○○	-	Remaining neutral on emerging markets overall, while recognising significant divergence between individual countries. Despite attractive valuations, tighter Chinese credit conditions, EM vaccine concerns and rising food and energy prices keep us neutral.
Credit			
Investment grade (IG) bonds	○●○○○	-	Remaining negative on expensive investment grade bond markets, where quality remains poor versus history. IG credit provides relatively little return compensation for possible tail risk at present.
Global high yield	○○○●○	-	Continued positive view on high yield, where defaults have peaked. Carry is attractive relative to default and duration risk.
Emerging market debt (EMD, hard currency)	○○●○○	-	Remaining neutral on EMD in hard currency terms. Valuations continue to look attractive on a relative basis, but risks remain around debt in emerging markets and volatility continues.
Duration			
US Treasuries	○○●○○	-	Maintaining neutral view, marginally reducing risk on real yield rally, ongoing Fed credibility tests and transitory inflationary pressures.
Euro core (Bund)	○●○○○	-	Still cautious on Bunds, continuing to prefer UK Gilts as EU catches up with the UK in terms of vaccination roll-out and economic reopening.
UK Gilts	○○○●○	-	Remaining positive on Gilts, supported by strong vaccine roll-out in the UK. Gilts offer better defensive properties versus Bunds.
Japan govt bonds	○○●○○	▲	Moved more positive to a neutral position this month, following review of Bank of Japan policy and its role as a defensive asset in a rising-rate regime.
Inflation linked bonds (US TIPS)	○○●○○	▼	Turning neutral on US TIPS, with inflation now priced in aggressively. Taking profits where appropriate in portfolios, and reflecting a possible threat to financial conditions from higher real rates.
Currency			
USD	○○○●○	-	Continued positive view on the US dollar, using this where applicable as protection against our moderate risk-on positions and the potential for a re-emergence in US exceptionalism.
EUR	○●○○○	-	Given the strength of the US's fiscally-driven recovery, it would be difficult for EURUSD to rally too far. Remaining negative versus other currencies.
JPY	○○●○○	-	JPY remains attractively valued, with few catalysts to appreciate in the short term. We remain neutral.
GBP	○●○○○	-	Still negative on GBP, which has come a significant way in recent months. Confidence around the UK's economic reopening is likely already priced in.
EM FX	○○○●○	-	Remaining positive on emerging markets, which continue to be undervalued and supported by broader economic dynamics, including the recent commodity rally.

Source: Fidelity International, as at May 2021. Change reflects directional difference in view versus previous month. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters.

Key investment themes

The investment team meets regularly to bring together asset allocation perspectives, forming views on core asset class positions and sharing their best ideas to inform tactical trades. These include macroeconomic perspectives, input from Fidelity's global bottom-up research teams, as well as the breadth of ideas across Fidelity Solutions & Multi Asset's global investment team.



Inflation on the horizon

A broad toolkit of ideas to protect against potential inflation

Long platinum

Platinum shares characteristics with both industrial and precious metals. In the search for potential hedges against inflation, platinum may offer attractive potential in response to rises in inflation either from 'too loose' monetary policy or strong real demand.



Potential rate spikes

Sectors which could prove immune to higher interest rates

Overweight exposure to insurance sector

As risks of 'tantrums' continue to shape markets over the coming months, insurance companies are well positioned. With a strong pricing cycle and significantly higher dividend yield versus the broader market, this sector should prove resilient against shorter-term interest rate spikes.

Alternative view: private equity strategies

At Fidelity Solutions & Multi Asset, we have significant resources dedicated to researching alternatives. We select alternative investments to meet specific investment requirements, accessing instruments from infrastructure, to private debt, to renewable energy. This piece gives a brief overview of key alternative asset classes and our team's assessment, but for further information on our approach to investing in alternatives, please contact your Fidelity representative.

Private equity: detailed research is key given dispersion across the universe

The private equity market has grown significantly in recent years, and can offer attractive characteristics as part of an overall portfolio. These instruments can vary by size, stage of investment, geography, industry focus and overall investment strategy, with the growth stage of the underlying companies a key focus when it comes to understanding the landscape. From venture capital to growth equity funds, to leveraged buyouts and distressed strategies, the focus of private equity approaches varies. This universe demands careful research to select those strategies offering the best risk-adjusted returns. When selecting these strategies for portfolios, our team considers a range of factors, including:

- **Team and experience:** looking for insight into turnover, team structure, key person risk and compensation
- **Quality of limited partners (LPs):** tending to prefer experienced, well-known LPs who can add value through contacts and relevant skillsets
- **Performance in different market environments:** typically looking for broadly diversified portfolios which are not over-exposed to any one industry or sector, providing a degree of consistency across market cycles
- **Strength of deal origination process:** looking for those which are systematic, repeatable and proprietary
- **Portfolio phase:** understanding the value creation approach used by the manager once a deal is closed, including any operational practices they may implement and their exit strategy
- **Performance versus peers:** typically comparing the internal rate of return (IRR) against other funds with the same vintages, strategies or geographies (or the relevant combination of these), looking for a consistent profile

Of course, this is not an exhaustive list, and no single element of a strategy will give us the full picture. We believe that private equity can offer compelling risk-adjusted returns and diversification to a portfolio, but only if accessed through a rigorous and research-based approach.

Source: Fidelity International, May 2021. For illustrative purposes only.

Spotlight on the case for small cap equities

This section highlights a specific theme, trend or area of focus for the team. From small cap equities in this article, to other topics on asset classes and investment disciplines, our team conducts research to create a diversified set of investment ideas to be used in portfolios to deliver long-term objectives.

When it comes to investing in equities, structural allocations to small cap companies have the potential to offer compelling long-term returns, as well as attractive diversification benefits in the context of a broader global equity allocation. Past academic research has found that there is a positive 'size premium' associated with investing down the market cap spectrum, though this can come with higher volatility given the relative infancy of the underlying companies. Implementing an allocation to small cap equities is not straightforward given the heterogeneity of the different small cap universes and challenges around more limited capacity. This piece examines the case for small cap equity exposure overall and the options for implementing such an allocation (namely, regional versus global approaches).

Benefits to portfolios from small cap equities: diversification, beta and alpha potential

Fidelity Solutions & Multi Asset believes that a satellite allocation to small cap equities can enhance investment outcomes through a combination of diversification (differentiated return drivers), beta (the size premia) and alpha (greater returns to active management) benefits.

From a diversification perspective, small caps typically have more idiosyncratic risk and return drivers driven by their less mature and often more niche business models relative to large cap stocks which are typically more diversified and established. Small caps also offer a more domestically-focused set of return drivers as opposed to global, meaning this allocation can offer diversification away from broad global equity factors. Small caps have also historically offered a small cap 'beta' advantage with the size factor typically earning a higher return premium to compensate for the additional risk taken. fundamentally smaller companies have greater scope to grow earnings more quickly from a lower base and have an earlier starting point to compound growth before reaching maturity and eventually 'the fade'.

Beyond these beta drivers, we believe there is a clear case for active management in this market, with significant alpha opportunity available to managers with strong research resources and repeatable processes. Small cap markets are widely considered less efficient than large cap equivalents driven by greater market breadth, weaker buy and sell side research coverage and higher retail investor participation. As per the fundamental law of active management, the alpha per unit of risk is function of breadth (the number of uncorrelated bets taken) and information coefficient (the reward to investors from skilful investment decisions). On both counts, small caps look attractive and this is borne out in historical outcomes for active managers across regions.

Small cap equities also come with specific risks

Of course, while small cap equities can bring benefits to a broader portfolio, they also come with specific risks. Given the size and idiosyncrasies of the small cap market, where business models are often less diversified and established, it's intuitive that these companies bring greater volatility of returns and earnings. As such, a longer-term investment horizon and greater absolute risk tolerance are necessary, as is a clearly defined framework for sizing any allocation. The nature of this market also means typically lower liquidity and higher frictional costs in trading, so the management and implementation approach of these strategies is particularly important. Given these risks, small cap exposures can pose implementation and governance hurdles for some investors.

An evolving landscape: small cap peer groups through time

The small cap strategy landscape has evolved significantly over recent years. Traditionally, most investors have accessed small cap equities through either country or regional approaches, based on the view that the expertise of dedicated (often on-the-ground) research teams can generate an edge in stock selection. In recent years, however, the number of global strategies has grown rapidly, albeit still small compared to the broader regional small cap offering and large cap global universe. Overall, the range of choices available to investors is larger than ever in allocating to small cap equities, so the decision on implementation approach demands careful consideration.

Table: institutional small cap strategy universe through time

Small cap region	Number of strategies with a 5-year track record			Current number of managers 2021
	2010	2014	2018	
Global	13	22	29	71
Asia Pac	5	13	17	21
Emerging markets	2	8	19	61
Europe inc UK	41	35	39	49
Europe ex UK	7	4	6	7
World ex US	45	53	74	118
Japan	23	24	30	39
UK	24	18	17	21
US	410	394	405	473

Source: Fidelity International, 31 March 2021. Note this also reflects the views of investment professionals at Fidelity Solutions & Multi Asset.

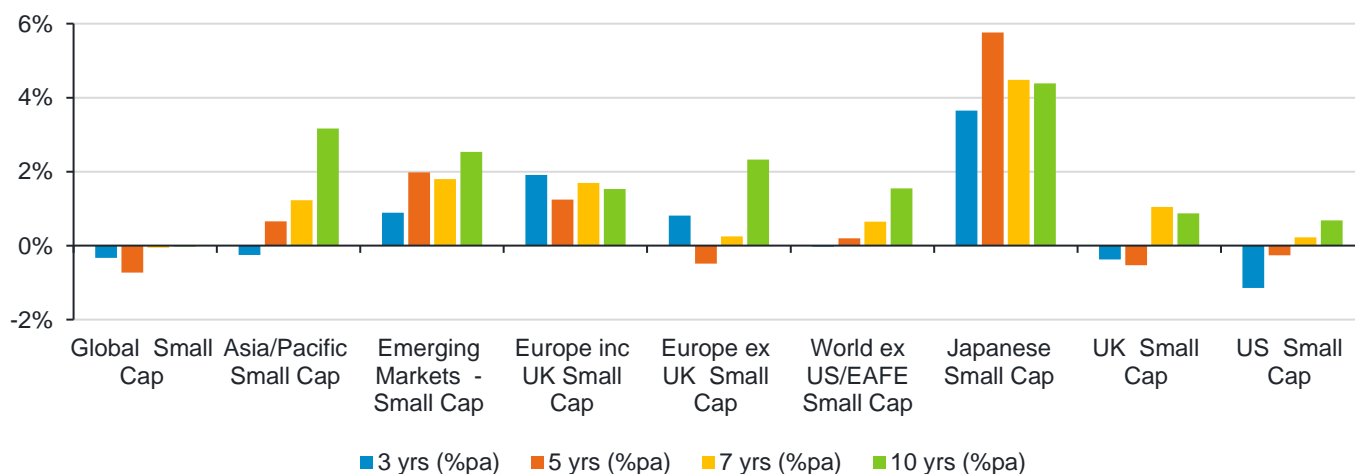
Allocating to small caps: go global or keep it regional?

At Fidelity Solutions & Multi Asset, we do not believe there is one ‘correct’ way of accessing the small cap premia, though at a broad level we do believe the case for using active management is across many universes is compelling. A key consideration shaping any small cap allocation is the choice between selecting regional strategies or going global. For many investors, an initial screen of the universe is likely to start with a review of the current strategy landscape and the long-term performance of small cap approaches. The chart below illustrates alpha generation across regional and global managers, reflecting median outperformance across discrete 3-year, 5-year, 7-year and 10-year periods.

Based on the performance of the past ten years (which of course is no guide to future returns), it is clear that global and US small cap managers have in aggregate struggled to deliver compelling alpha profiles, and indeed looking over rolling 5-year time horizons the alpha profiles have weakened through time. On the other hand, small cap managers in Japan, EM and Europe have delivered more attractive alpha over different time horizons and with a reasonable degree of consistency. The alpha differential across regions likely reflects the relative efficiency of different regional markets. The US market is the most established small cap universe as supported by the high number of institutional active strategies within the peer group. This high prevalence of managers creates more competition for alpha and may limit the extent of pricing inefficiencies.

There is also the broader question around global small cap managers’ struggles to deliver attractive relative performance. The difficulties here are partly tied to the weak alpha in the US market given it accounts for over half of the global small cap market. However, an additional challenge for global managers comes in navigating the breadth of the universe. Whilst breadth is necessary to generate consistently positive alpha, there is at a certain point likely to be marginal diminishing returns as it becomes challenging to balance breadth and depth of research coverage. Moreover, global managers must contend with the fact that their companies are typically more domestically biased and thus local stock pickers in tune with domestic market dynamics and networks will often have information advantage over global managers, whose expertise must span regions. It is likely that only the most well-resourced managers with large research functions can strike an effective balance here and for most it may not be economical to have such a function given small cap’s lower capacity limits.

Chart 2: Median manager gross excess returns - active small cap equities.



Source: Fidelity International, 31 March 2021. Note this also reflects the views of investment professionals at Fidelity Solutions & Multi Asset.

But does this mean that a global approach to small cap investing is always less effective? Not necessarily. We believe there can be a place for global small cap strategies, particularly where investors' governance budgets may not allow for monitoring of individual regional managers. Of course, actively managed strategies are not the only way of accessing small cap equities, and for those investors looking to build global small cap exposure, it may make sense, for example, to allocate passively to more efficient markets, while holding regional small cap strategies in areas where they may add the most value.

Choice between implementation approaches depends on investors' specific needs and preferences

Ultimately, we believe there is no single 'correct' way of accessing small cap equities. The choice for investors between regional and global approaches, or indeed active, systematic and passive building blocks, depends on several factors including an investor's core philosophy and beliefs, governance budgets and oversight functions and, of course, an assessment of alpha potential. Any small cap equity exposure should be tailored to account for each of these elements. We believe that this segment of the equity market has a compelling role to play in generating long-term alpha, but must be implemented intelligently within a portfolio's specific parameters and constraints.

Fidelity Solutions & Multi Asset

Fidelity Solutions & Multi Asset is a global team, managing portfolios using a wide range of asset classes, including equities, fixed income, real estate, infrastructure and other alternatives. The team specialises in building and managing outcome-focused strategies for clients, combining asset classes to deliver investment objectives through time.

As at 30 April 2021, the team manages over \$56bn on behalf of institutional and retail clients across global regions. Our large team includes Investment Management, Global Macro & Strategic Asset Allocation, Research, Client Solutions and Implementation resources, supported by Fidelity's significant operational infrastructure to deliver investment services to clients. We work with colleagues across Fidelity's bottom-up investment teams across key asset classes, capturing research from this substantial global research platform.

For further information on Fidelity Solutions & Multi Asset's strategies and services, please contact your local Fidelity representative.

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