

The case for global income investing

In the past, Canadians have been reluctant to invest abroad. But now they're eager to take advantage of global opportunities – including income investments.

Canadian investors have always tended to feel more comfortable investing at home. For example, many RRSP investors neglected to make full use of even the small amount of foreign content they were allowed. But industry statistics demonstrate that Canadians are now recognizing the potential benefits of putting their money outside the country.

According to data from the Investment Funds Institute of Canada (IFIC), global balanced funds have had the largest year-over-year asset growth — 37.2% — with over \$1.5 billion in gross sales as at the end of May. Global balanced and global equity funds currently account for roughly one-quarter of assets held in mutual funds.

At the same time, investors are also on the hunt for income. And if they've absorbed the message that global equities bring important benefits – diversification plus exposure to more growth opportunities – why not global income as well?

Why global income investing now?

The removal of foreign content limits on RRSPs has helped get investors thinking about global investing of all types. And as the wave of baby boomers begins to hit retirement – the first of the group reached 60 last year – the search for consistent, reliable cash flow should grow.

At the same time, all indications are that future retirees will live longer, lead more active lives and have higher expectations of their non-working years – which means they'll need more income. Even if interest rates do rise somewhat, it's unlikely that traditional income investments will provide enough to both fund the boomers' dreams and fight off inflation.

Global income provides low correlation

	GLOBAL EQUITY	CANADIAN EQUITY	GLOBAL REAL ESTATE	U.S. EQUITY	CANADIAN BOND	U.S. HIGH YIELD BOND	GLOBAL BOND
Global equity	1.00						
Canadian equity	0.64	1.00					
Global real estate	0.44	0.32	1.00				
U.S. equity	0.97	0.57	0.44	1.00			
Canadian bond	-0.12	-0.04	0.15	-0.15	1.00		
U.S. high yield bond	0.54	0.16	0.39	0.57	0.12	1.00	
Global bond	0.06	-0.33	0.38	0.05	0.44	0.47	1.00

Source: Ibbotson. 5-year correlation as at May 31, 2007. Indices used: global equity: MSCI World Index; Canadian equity: S&P/TSX Capped Composite Index; global real estate: FTSE EPRA/NAREIT; U.S. equity: S&P 500; Canadian bond: Scotia Capital Universe Overall Bond Index; U.S. high yield: U.S. High Yield Master II Index; global bond: Lehman Brothers Global Aggregate Bond Index; Underlying returns in CDN \$.

Considering the risks

As with any investment, there are risks – and risk is an even bigger issue for income investors, who may be depending on reliable cash-flow and capital protection. But a properly designed product can lessen the risk.

- **Volatility** – As the chart above shows, the correlations between Canadian investments and the various global asset classes are relatively low. Funds and portfolios can be designed to take advantage of those correlations, cushioning investors against volatility while improving their chances of being in the right markets at the right time.
- **Market corrections** – While market corrections are inevitable, investors who need income will want to avoid sudden drops as much as possible. Funds that invest mainly in well-established economies, rather than emerging markets, are often the best solution.

- **Currency risk** – While research has suggested that currency risk has a negligible effect over the long term, income investors often have shorter horizons. Hedging currency volatility within a portfolio can mitigate the risk.

A trend with a future

Opportunity, basic investment principles and demographics... they're all powerful reasons why the taste for global income investing won't be disappearing any time soon – and why the industry needs to provide the right solutions.

Fidelity and global income

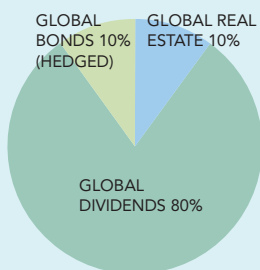
The mix of desires fuelling the global income trend creates a challenge for advisors, says Ghislain Maillet, a Fidelity district vice president of sales in Montreal: "People want to go global and they want more return from their income investments. But they're afraid of market corrections and currency risk."

In designing its new suite of global income funds, Fidelity has kept all that in mind.

Providing global income funds for Canadians comes naturally for a company that has decades of international investing under its belt. The same resources that back up the company's global equity funds are also behind the new income funds: an international network of more than 900 investment professionals, constantly exchanging research on virtually every stock, bond and commodity in the world.

The funds will be managed with a team approach. Each subportfolio will be overseen by experts in that asset class, backed by groups of analysts. The subportfolio managers, in turn, will work with the portfolio manager or co-managers on strategy issues and the final selection of the best investment securities.

The funds will also benefit from the "intersection" approach introduced by Pyramis Global Advisors¹, one of the three Fidelity money management companies behind the company's funds. With a strong background in institutional money management, Pyramis combines Fidelity's traditional rigorous bottom-up research process with quantitative analysis based on over 20 years of investment history.

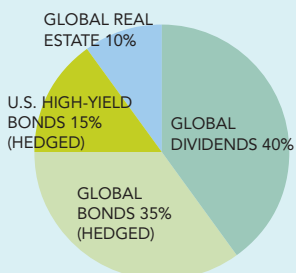


Fidelity Global Dividend Fund – An emphasis on quality

"The starting point is an institutional-class universe of 3,000 stocks, of which 2,000 qualify as high-quality dividend payers," says Bill Hoyt, manager for the global dividend subportfolio. "Basically no small caps, no emerging markets. We're only interested in mature dividend payers in the developed world." Only securities with a five-year record of dividend stability and/or growth and a yield of at least 1.3 times the stock's benchmark will be considered. Roughly 65 to 70 names will then be selected after closer analysis.

Global dividend-paying equities offer significant advantages for equity investors with a lower risk tolerance. While global equities have had a somewhat better upside (based on average one-year rolling returns), when it comes to the downside, global dividend-paying stocks have suffered only a fraction – 28% to be exact – of the MSCI World Index's losses.* Moreover, with Fidelity's Global Dividend Fund, says Glen Davidson, a Fidelity district vice president of sales in Ontario, "Clients also get hedged fixed-income and global real estate securities, and that makes them feel very comfortable."

Distributions are annual, and the Fund is available in a U.S. dollar version. It can also be used with Fidelity Capital Class, to mitigate the unfavourable tax treatment of foreign dividends, and with Fidelity T-SWP®.



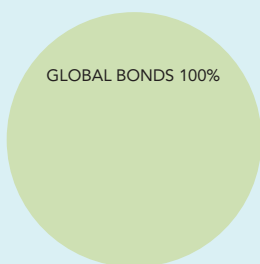
Fidelity Global Monthly Income Fund – A successful approach goes global

Davidson says the advisors he talks to are responding enthusiastically to this Fund because, "They know about the success of Fidelity Monthly Income Fund and believe that Fidelity has a proven process for managing these kinds of funds." Co-managed by Mark Friebe and Mariana Egan, the Fund also employs the well-established talents of Bill Hoyt, Andy Weir, Steve Buller and Eric Mollenhauer.

According to Davidson, advisors are concerned about the current investment environment, especially since many of their clients are approaching retirement. "There's a real feeling that dividends are a safe haven." Add global real estate, global bonds and U.S. high yield bonds for a little extra power, and advisors see a low-risk way to move their clients into the global market. Many are using the Fund as a core income product or as a complement to other funds, such as Fidelity NorthStar® Fund, says Davidson.

Distributions of interest, dividends and capital gains are monthly, and the Fund is offered in both T-SWP® and a U.S. dollar version.

Fidelity and global income - *continued*



Fidelity Global Bond Fund – An experienced team provides more opportunity

Not only do global bonds offer low correlation to other asset classes, including Canadian bonds (see “Global income provides correlation”), but the global bond market is both larger and more liquid than the Canadian market.

While Fidelity Global Bond Fund is technically a new fund, the team managing it has already been working together for three-and-a-half years on the bond portion of Fidelity Global Asset Allocation Fund. Portfolio manager Andy Weir, also Director of Quantitative Research and international bond portfolio manager for Fidelity International Limited, will stick to the traditional Fidelity approach, employing credit and sector analysis, cross currency-hedged positions and yield curve strategies rather than pursuing interest rates. “While betting on interest rates can provide strong returns,” says Weir, “it’s a difficult strategy to get right consistently, and mistakes can be costly.” The Fund will concentrate on government bonds but will also include corporate bonds, U.S. mortgage-backed securities and collateralized mortgage obligations.

Distributions are monthly and the Fund is also available in currency-neutral and U.S. dollar versions.

*MSCI; FMR Corp. Represents the average 1-year rolling returns from March 1998 to March 2007, of the MSCI World High Dividend Yield Index (global dividend-paying equities) and the MSCI World Index (global equities).

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