Balance sheet solutions: 5 proprietary case studies

January 23

Important information

- 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.
- These strategies may invest in overseas markets and the value of investments can be affected by changes in currency exchange rates.
- These strategies may invest in emerging markets which can be more volatile than other more developed markets.
- These strategies may invest in a relatively small number of companies and so may carry more risk than portfolios that are more diversified.
- These strategies may use financial derivative instruments for investment purposes, which may expose the portfolio to a higher degree of risk and can cause investments to experience larger than average price fluctuations.
- These strategies may make increased and more complicated use of derivatives, and this may result in leverage. In such situations performance may rise or fall more than it would have done otherwise. The portfolio may be exposed to the risk of financial loss if a counterparty used for derivative instruments subsequently defaults.
- There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.
- Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the portfolio investing in them.
- Due to the greater possibility of default an investment in a corporate bond is generally less secure than an investment in government bonds.
- Certain strategies might have high volatility owing to their portfolio composition or the portfolio management techniques.

Important information

- These strategies do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.
- Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.
- These strategies might use currency hedging to substantially reduce the risk of losses from unfavourable exchange rate movements on holdings in currencies that differ from the dealing currency. Hedging also has the effect of limiting the potential for currency gains to be made.
- These strategies may promote environmental and/or social characteristics. The Investment Manager’s focus on securities of issuers which maintain sustainable characteristics may affect the portfolio's investment performance favourably or unfavourably in comparison to similar portfolio's without such focus. The sustainable characteristics of securities may change over time.
- The valuation of our investments can be determined in accordance with our fair value process. Generally, FIL values its investments at their market price if market quotations are readily available. In the absence of observable market prices, valuations may incorporate management's own assumptions and involve a significant degree of judgement, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks.
- Investors should note that the views expressed may no longer be current and may have already been acted upon.
- Past performance is not a reliable indicator of future results.

Case study 1: Fidelity's Solvency II optimised global multi asset portfolios

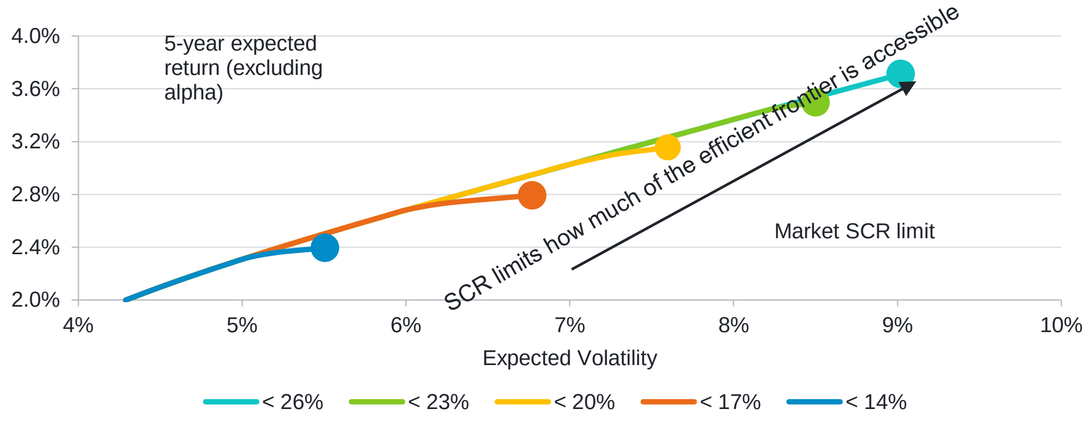
Repositioning of the asset allocation and effective implementation after client's validation

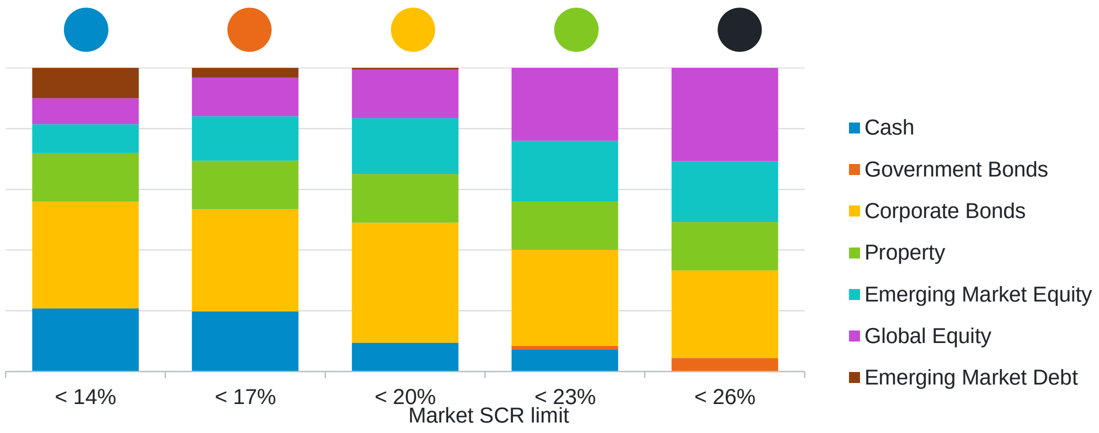
Client investment challenge

- Create an insurance vehicle with a SCR constraint, targeting cash + 3% return objective over a five-year horizon
- Consider additions to the client's existing investment universe
- Provision of monthly portfolio data to support SCR calculation and QRT production

Our solution

- Reviewed the client current asset allocation conclude that it is unlikely to meet the client's objectives based on Fidelity's capital markets assumptions
- Designed two asset allocation proposals to either meet the return objective with increased capital requirement or deliver the same expected return with a lower estimated capital requirement
- Implementation via a range of active and passive currency hedged strategies and a custom-made reporting package to meet client's requirement





➢ **SCR aware efficient frontier analysis to evaluate optimal trade-offs between risk-return and capital efficiency**

Source: Fidelity International, 2023. For illustrative purpose only

Case study 2: Fidelity's Solvency efficient solutions

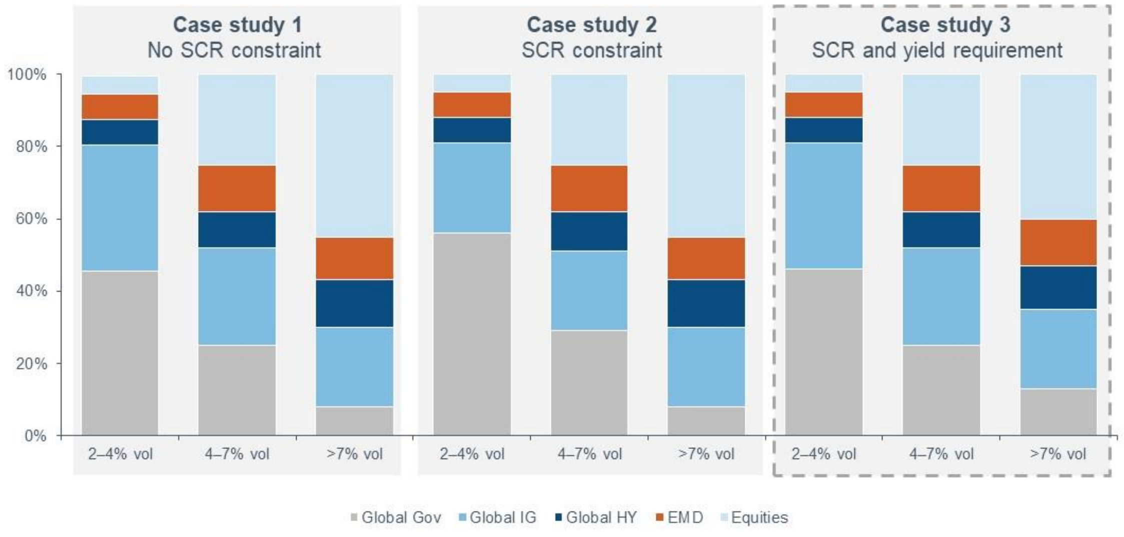
Proprietary SCR constrained optimisation of the asset class mix

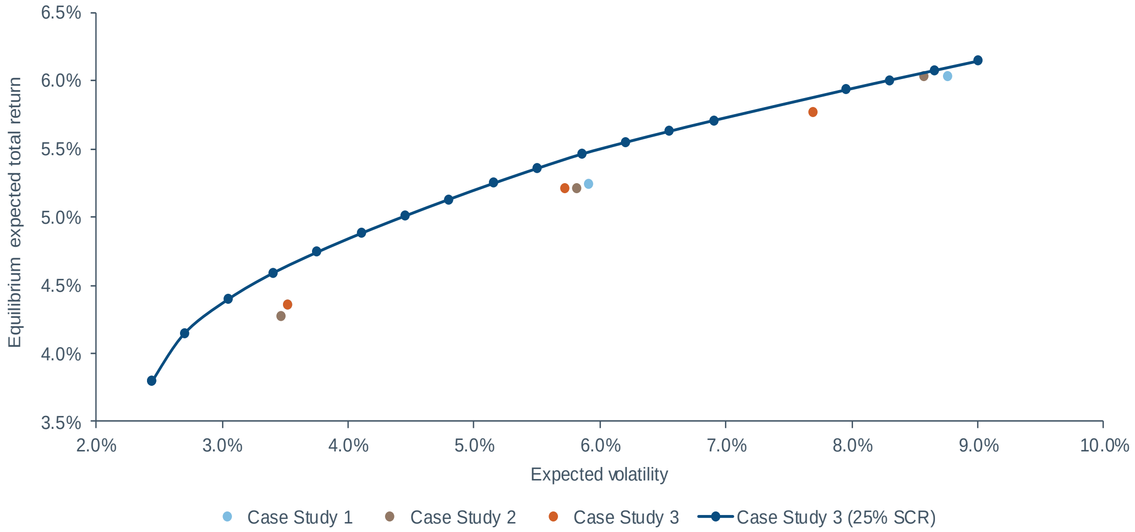
Client investment challenge

- Long-term growth through diversified exposure across asset classes and geographical regions
- Regular income delivered through monthly dividends
- Compliance with Solvency II regulations
- Tailored investment approach to incorporate Client's specific duration, currency, and derivative exposure requirements
- Tailored engagement on reporting and ongoing updates

Our solution

- Strategic asset allocation annually reviewed and optimised based on growth, income, SCR and risk requirements
- Proven track record in delivering value from tactical decisions
- Proprietary tool to support portfolio's SCR requirements in portfolio construction
- Accessing markets through combination of passive, systematic and discretionary active strategies, adding value through security selection





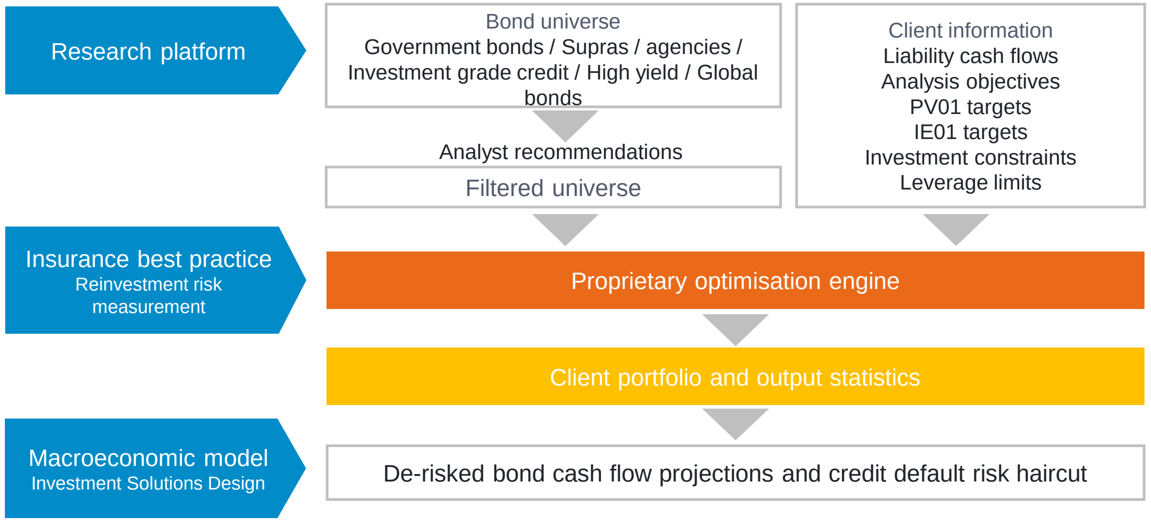
Source: Fidelity International, 2023. For illustrative purpose only

Case study 3: Cash flow matching for UK life insurance liabilities

Precise cash flow matching and minimal turnover thanks to long term credit research recommendations

Client investment challenge

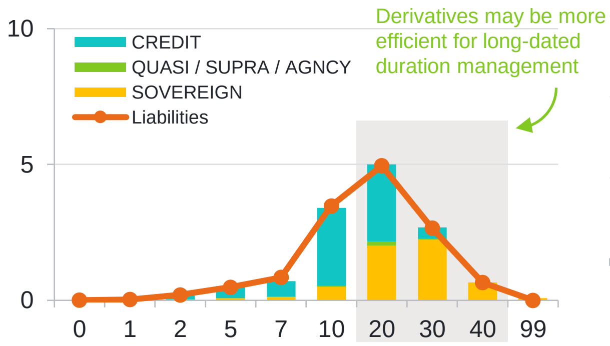
- Design and manage a custom liquid credit portfolio to match the insurance liability cashflow
- Maximize OAS over gilts under the constraints of KRD and cashflow matching as well as concentration and rating limits
- Control reinvestment risk



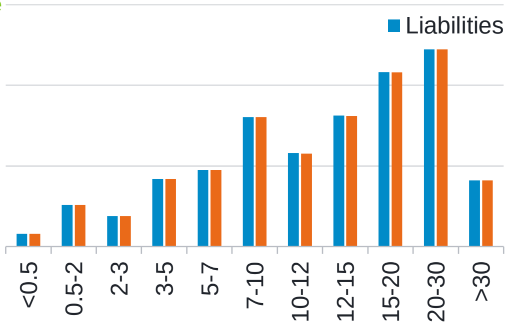
Our solution

- Custom filtering and optimization framework that systematically leverage the fundamental insights from Fidelity's credit research analysts
- Estimate the expected loss due to credit risk based on an internally developed methodology taking into account our views on GDP, inflation and economic cycle
- De-risked credit spread could be incorporated into the liability discount rate for annuity books subject to Matching Adjustment regulations
- Optimized portfolio match liabilities at Gilts + 1.2% (de-risked spread) with low reinvestment risk at 3.3% (PRA test #1)

Key duration



Cash flow projection



➢ **Unique portfolio engineering capability with made-to-invest process: customised risk budget and ESG positioning**

Source: Fidelity International, 2023. For illustrative purpose only

Case study 4: Fixed maturity client for an Asian client

Portfolio of 4 year Investment grade credit with limited turnover

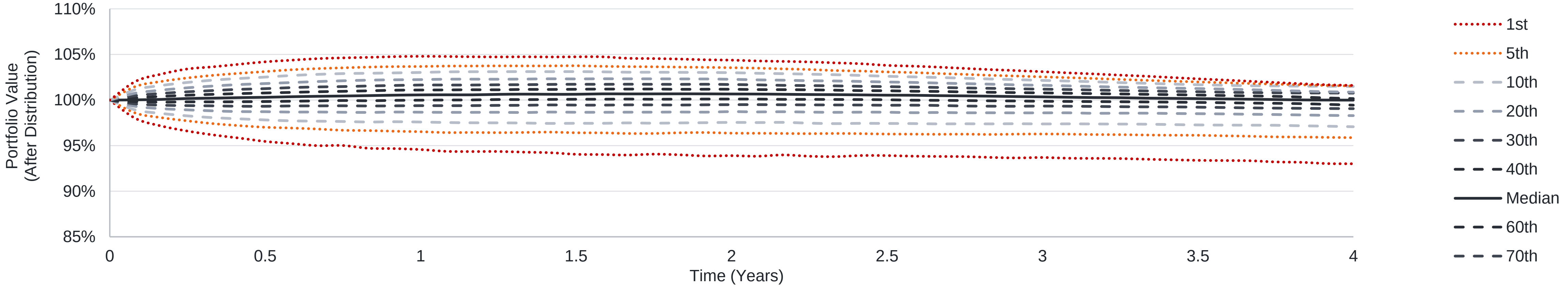
Client investment challenge

- Achieve an attractive regular income and portfolio value protection
- Asian debt focused
- Yield of 4.3% and distribution of 3.9%
- Maturity of 4 years

Our solution

- Fixed income solution
- Invested in USD denominated Asian debt
- Supports 3.9% distribution in median scenario
- 30% allocation to high yield. Average rating of BBB
- Average maturity of 4 + 0.5 years

Projected portfolio values



These are estimates, based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

For illustrative purposes only, based on Fidelity's proprietary yield and default modelling. Distribution is the distribution supported in the median scenario using our simulation method for a portfolio with the same starting yield, approximately the same rating distribution, and level of diversification. Distributions are assumed to be made continuously as a proportion of initial investment. Risk due to callable bonds not explicitly modelled in simulations. Distribution gross of fees.

Source: Fidelity International, 2023.

Case study 5: Fixed maturity solution balancing income and capital protection

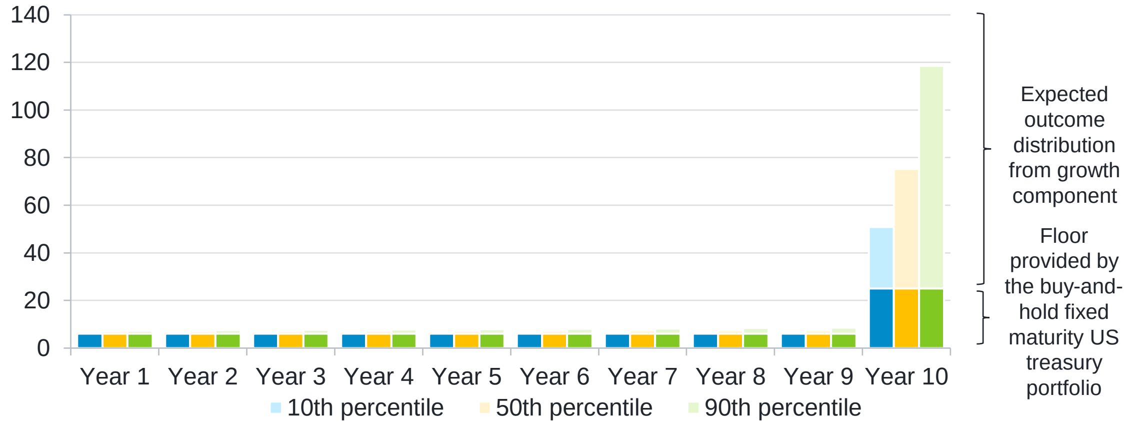
Customised Multi asset portfolio with client's specific cashflow requirements

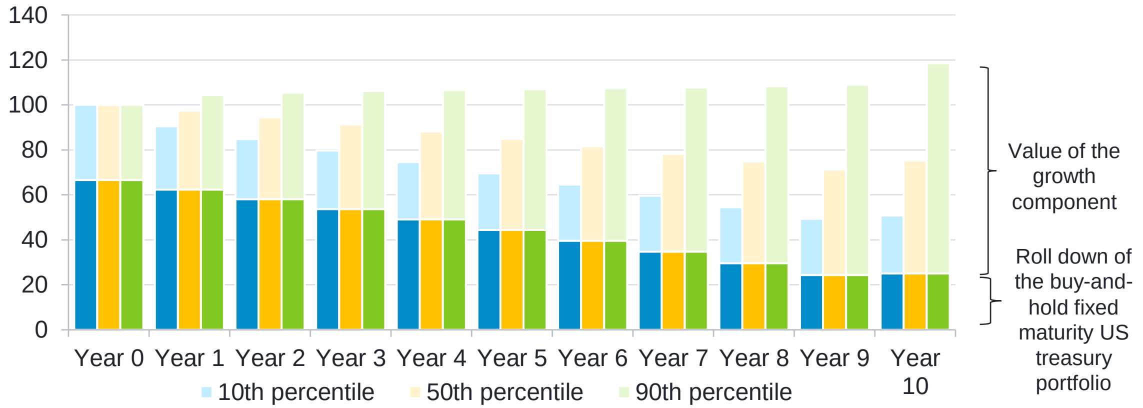
Client investment challenge

- A leading Asia institution wants to create a post-retirement income and decumulation solution with partial principal protection feature
- Target to deliver 5% of the initial investment amount per annum in local currency net of fee and hedging cost.
- Expect 10-year investment horizon
- Investment mechanism to provide partial capital protection with upside potential

Our solution

- A custom fixed maturity solution composed of 1) a fixed income buy-and-hold portfolio tailored for cashflow payout; 2) a growth component using the Fidelity Greater China Multi-Asset Growth and Income strategy
- Total solution is expected to generate 7% gross annual distribution in USD. For $100 initial investment, median expectation for Year 10 distribution is $75, and expect to be above $50 with 90% confidence interval
- Modelled the potential outcome distribution in median, downside and upside scenarios





Source: Fidelity International, 2023. For illustrative purpose only

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