The Future of Investment Management

Politics, economics and demographics will bring in disruptive changes in the investment industry on a global level. These factors will change the way the investment business functions and redefine the services and products there are in this sector. The only thing that we can do is hope that the change does not have a negative effect, but brings in good possibilities and opportunities.

— SURVEY RESPONDENT, CIO, ASIAN PUBLIC PENSION

This report prepared by Fidelity Institutional Asset Management® (FIAM®) for the Fidelity Research Institute®.
From the President of FIAM

Institutional investors today have access to more inputs than ever before, thanks to big data and technology. Delivering on their investment objectives requires them to be able to evaluate a growing tide of information, strategies, and new ways of thinking.

We are at a point in history where innovations are increasing the rate at which the markets and business environments move. With the advent of artificial intelligence (AI) and other technological breakthroughs, change could start coming even faster, at an exponential pace. Disruptions may unfold in real time, and investors who aren’t prepared could find themselves left behind.

At Fidelity, we have been exploring the views, goals, and intentions of institutional investors through our surveys since 2002. This growing body of research has helped us in our longstanding objective of giving institutional investors new insights about emerging trends, opportunities, and risks. Our 11th edition, published through our newly launched Fidelity Research Institute, comes at a critical time for investors facing a rapidly changing landscape.

This edition uncovered two sentiments I found particularly striking. First, the vast majority of investors worldwide are highly confident that AI will transform all facets of the investment industry by 2025, just a handful of years from now. Many are even acting on that belief by beginning to incorporate AI-enabled systems into their investment decision-making. Second, not everyone agrees about the pace or extent of change: Investors in the Americas—particularly those in the U.S.—think it is less likely that the investing ecosystem will be different in seven years. These more skeptical investors may not yet have allocated resources to prepare for the future changes that much of the rest of the world sees as a certainty.

Before becoming President of Fidelity Institutional Asset Management (FIAM), my prior roles with Fidelity International Limited (FIL), particularly in Asia and Japan, allowed me to work in many regions around the world and see first-hand the appetite for change and innovation. Perhaps because the investment industry is relatively young in some regions and still evolving, it is receptive to new advances. U.S.-based investors, for their part, have already established an interdependent investment ecosystem, which may make them less convinced of disruptions on the horizon and confident in their potential to pivot quickly whenever circumstances warrant.

However, history has many examples of companies and institutions that were not able to understand the business implications of emerging technology and navigate change in real time. An informed outlook about our industry can enable institutional investors to make better investment decisions, and may also help them identify and manage new risks more effectively. This edition of the survey provides an invaluable look into what is happening today, and also reveals how the world’s institutional investors are planning for 2025 and beyond. I am excited to share those insights in this report.

I encourage you to learn more about our findings by visiting go.fidelity.com/globalsurvey for additional research, articles, customizable data views, and more. Thank you for your interest in FIAM and the Fidelity Global Institutional Investor Survey.

Judy Marlinski
President, Fidelity Institutional Asset Management
About the Institute

The Fidelity Research Institute presents forward-leaning thought leadership, curated for institutional investors and bolstered by Fidelity’s experience in building and enhancing multi-asset class portfolios. The mission of the Fidelity Research Institute is to help institutional clients find solutions that address their most pressing needs. By combining Fidelity’s deep research expertise with a practitioner’s mindset, the Institute produces thought leadership designed to give institutional investors the data, insights, and tools they can use toward solving their problems and exceeding their goals.

go.fidelity.com/globalsurvey

About the survey

The 11th edition of the Fidelity Global Institutional Investor Survey is one of the largest in the industry. The survey polled chief executive officers, chief investment officers, treasurers, and other investment executives at 905 institutions in 25 countries across the Americas, Europe, and Asia.* At the time of the survey, these organizations cumulatively represented more than $29 trillion (USD) in investable assets.

Institutional investors surveyed included private- and public-sector pensions, insurance companies, endowments and foundations, and sovereign wealth funds. Respondents were asked a range of questions about how they see the future of investment management, as well as questions about their portfolio objectives, market perspectives, asset allocation, investment philosophy, and investment process.

Fidelity Institutional Asset Management (FIAM) conducted the survey of institutional investors from June through July 2018. The surveys were executed in association with Strategic Insight, Inc., in the United States and Canada, and with FT Remark, a Financial Times company, in Europe, Asia, and the remaining countries.† Institutional executives responded to an online questionnaire or a telephone inquiry.

* See page 8 for countries and regions surveyed.
† Fidelity Investments is unaffiliated with Strategic Insight, Inc., and the Financial Times.
The Pace of Business Accelerates
Technology will allow for faster decisions and quicker execution. Institutions that are incorporating AI say they have already seen benefits, and many consider it a panacea. But operating at a tech-enabled rapid pace may result in a false sense of confidence.

Roles Will (Reluctantly) Be Eliminated
AI will take over or augment many traditional investment roles, impacting how investments are created and distributed, as well as how they are serviced. But data can’t solve everything, and unquantifiable needs will still be met through relationships.

Portfolios Will Need to Adapt
Markets’ quicker pace will require agile thinking and more dynamic portfolio management, and sources of alpha will evolve. Investors plan to lean toward quantitative strategies, private investments, active management, and socially responsible investing.

Conclusion
Based on the survey’s findings, a look at the steps institutional investors may want to consider to position themselves for the changing landscape.

Introduction
The institutional investment industry is poised for a seismic transformation amid a digital revolution.
Introduction

The institutional investment industry is poised for a seismic transformation. In the past, change has come slowly to an industry rooted in longstanding traditions and partnerships. Now, however, a digital revolution triggered by emerging technologies has seeded sharp new thinking about the future of investment management. This survey from Fidelity Institutional Asset Management reveals that global institutional investors are adopting innovative applications of technology at a significantly accelerated pace, and are generally confident that different approaches will reshape institutional investing over the next seven years.

Implicit in this enthusiasm is a rapidly growing trust in the outputs received from advancing technology, a confidence that is so pervasive across everyday life that it seems unremarkable. Drivers trust apps that take them through a residential neighborhood to get them to their destinations, creating new congestion problems for tiny side-streets ill-equipped for such traffic. Restaurant diners, travelers, and shoppers increasingly rely on online reviews to make decisions that may not be optimal. Big data and nearly immediate quantitative feedback have led to pronounced optimism in the power of technology to “get it right.”

The Fidelity Global Institutional Investor Survey found that the vast majority of institutions believe massive disruptions from emerging technology could transform the investment industry across a wide range of elements.
As a special focus for this edition—the future of asset management—our survey reveals how institutional investors are thinking and planning for 2025. Their answers show a number of key themes they feel will likely emerge over the next seven years:

- The investment ecosystem will experience a radical shift with new participants, likely with new business models, and widespread consolidation.
- Technologies will fuel the pace of business, resulting in faster decisions, quicker execution, and more efficient markets.
- Portfolios will adapt, with more dynamic management and alpha coming from new sources, and a growing focus on socially responsible investing.
- Roles will be eliminated amid sweeping changes in how investments are created, distributed, and serviced, as technology replaces some quantitative tasks.
- Asset managers and consultants will still add value by addressing “unquantifiable” needs that data can’t solve—supplying human perspective, judgment, and expertise to help clients solve unique problems.

Fidelity’s survey provides a broad and holistic look at attitudes within the industry, and in many cases highlights the diverse views held across geographic regions and organization types. Expectations for the future are driving decisions and practices today. The survey gives institutional investors new insight into their peers’ concerns about the future, potential emerging risks and how to address them, and how they can be more strategic and informed in their decision-making.
The Future of Investment Management

What does the investing world of 2025 look like?

<table>
<thead>
<tr>
<th>SOURCE OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Region</strong></td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Americas*</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Asia ex. Japan**</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>Europe ex. UK***</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

* Includes Brazil, Canada, Mexico, and United States
** Includes Australia, China, Hong Kong, Singapore, South Korea, and Taiwan
*** Includes Denmark, Finland, France, Germany, Iceland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and South Africa
† Numbers do not sum due to rounding.

Decision-making and execution will be much faster in the future. Transactions will take less time to be executed while data and information will be available at a comprehensive or close to real speed.

— SURVEY RESPONDENT, CORPORATE MANAGEMENT, EUROPEAN PRIVATE PENSION
ORGANIZATION TYPES REPRESENTED

- Private Pension: 24%
- Public Pension: 21%
- Insurance: 20%
- Endowment: 16%
- Defined Contribution: 14%
- Sovereign: 2%
- MEPP: 2%
- Other: 1%

ASSETS UNDER MANAGEMENT

- Under $1B: 25%
- $1B–10B: 40%
- $10B–50B: 23%
- $50B+: 12%
The Investment Ecosystem Changes
The investment industry, like other industries, is a delicate balance of buyers and sellers. However, these participants don’t operate independently of each other—any significant change in the business model of one can have ripple effects on many others.

Most institutional investors expect to see a transformed industry by 2025. Nearly three-quarters of those we surveyed think it is unlikely the industry will be the same in seven years. Many expect AI and other technological innovations to unleash massive disruptions. Additionally, they expect consolidation among incumbent investment managers, as non-traditional competitors enter.

Although convictions about change are high around the world, institutional investors in the Americas, especially in the U.S., are less convinced. One in five U.S.-based institutions do not believe a significant transformation will occur, versus one in 20 for the rest of the world.
EXHIBIT 1: LIKELINESS THE INDUSTRY WILL BE THE SAME IN 2025

Overall 73% of respondents believe that it is unlikely the industry will be the same in 2025. However, certain regions are more skeptical that changes will occur.

73% Unlikely
17% Neutral
10% Likely

Survey Question: How likely is it that, by 2025, the investment management industry will be disrupted in one of the following ways? Our industry will be largely the same in 2025 as it is today. See endnotes for response scale.

One frequently cited driver of disruptive change is the increased application of AI technology. However, there are striking regional differences in attitudes about AI. A majority of global institutional investors are already deep in thought about AI integration. Across Europe and Asia, 88% of institutional investors are in the early stages of deploying AI applications to gain or maintain a competitive advantage. Optimism is generally high around the world about the potential incorporation of AI into many high-value investing functions, such as evaluating portfolio performance and risk and determining optimal asset allocation strategy. In stark contrast, 77% of investors in the U.S. have no immediate plans to even consider AI in their decision-making, putting them at risk of falling behind. (See page 32 for more discussion of institutional views on how AI will be used.)

Institutional investors expect disruptive technology will create hyper competition, which will lead to widespread industry consolidation as asset owners seek new partners to obtain the technological capabilities they need to stay competitive.

“The integration of AI will be the most important thing by 2025. Industries in every field, largely including ours, will have to make optimal use of artificial intelligence so that they get the best out of their business and, more importantly, their operations.”

— SURVEY RESPONDENT, CIO, ASIAN SOVEREIGN FUND
Firms like Amazon and Google are massive firms with one of the largest market[s] reached. It will not be difficult to step into any market like the financial one and create demand for their services over others. I expect one in the next 3–4 years.
— SURVEY RESPONDENT, CIO, EUROPEAN PRIVATE PENSION

New entrants will be no surprise
A majority of institutional investors expect to see new service providers come into the industry, whether they are established non-financial firms, tech startups, or “Big Internet” players, (e.g., Google, Amazon, Facebook). Many of these organizations have already ventured into financial services with personal banking, loans, or retail investment products. As a natural next step, survey participants indicated, these AI-powered products and services will get better, smarter, and create a growing appeal for institutions. “Digital first” business models could change how products and services are created, with tech integration in some cases happening through new AI licensing agreements with companies that are years ahead. On a global basis, 75% said it is likely non-financial services firms will enter the investment industry. Convictions are strongest in Europe ex. UK and Asia ex. Japan, while investors in the Americas have more doubts about this possibility. While these new entrants can deliver significant value, we believe it could also create systemic risks as portfolios end up powered by just a handful of AI providers.

EXHIBIT 2: LIKELINESS NON-FINANCIAL FIRMS WILL ENTER THE INVESTMENT INDUSTRY

Survey Question: How likely is it that, by 2025, the investment management industry will be disrupted in one of the following ways? Non-financial services firm will enter the investment industry (e.g. Google, Amazon). See endnotes for response scale.
Expectations for consolidation and integration of services
Institutional investors expect that hyper competition will lead to widespread changes and industry consolidation. As asset owners continue to benefit from cost pressures on traditional investment managers, there will be growing urgency for investment managers and consultants to acquire new capabilities (beyond their core expertise) to stay competitive. In some cases, legacy core businesses of these players could be at risk of extinction.

Likewise, the industry could look very different as the lines blur between asset owners (e.g., pensions, insurers, sovereign wealth funds) and traditional investment managers. Three-quarters of respondents globally believe large asset owners with in-house investing expertise will begin to offer their services externally to smaller asset owners—essentially competing with traditional investment managers and creating new revenue sources. Convictions were strongest in Europe, ex. UK, with 95% expecting to see this change, and weakest in the Americas, where 39% thought it likely. A number of factors may be driving these results, including demographics and average plan sizes within the regions. For example, more investors in Europe ex. UK reported being under 45 years old. Respondent plan sizes are also smaller in the U.S., so investors may be less focused on such business model shifts.

EXHIBIT 3: LIKELINESS LARGE ASSET OWNERS WILL MANAGE ASSETS FOR SMALLER ASSET OWNERS

Survey Question: How likely is it that in 2025 large asset owners (e.g., pensions) will compete with current investment managers by managing assets for smaller asset owners? See endnotes for response scale.
Amid heightened competition and rapid adoption of new technologies, large institutional investors in some markets could become selective investment managers to leverage their scale for efficiencies and cost benefits. Smaller asset owners could engage industry peers to invest for their particular objectives. Insurance companies and endowments/foundations were most convinced of this scenario, with over 90% of them thinking it likely. Conversely, private sector pensions and multi-employer pension plans (MEPPs) were less convinced, with 59% and 53%, respectively, finding it likely. Many private pension sponsors are transitioning toward using defined contribution plans (shifting investment responsibilities onto participants), which may reduce their interest in new business models. MEPPs may find it harder to identify other funds where this arrangement is viable, given varying objectives, constraints and levels of investment sophistication.

In general, the survey shows that larger institutions have more assets allocated to internal management than do smaller ones. In a continuation of a current trend, larger institutions indicated they want to keep building up this expertise, which they could potentially market to like-minded smaller institutions. In contrast, smaller institutions are more likely than their larger peers to keep their current ratio of internal/external management, or even increase external management.

**EXHIBIT 4: INSTITUTIONS ARE PLANNING FOR MORE IN-HOUSE MANAGEMENT**

<table>
<thead>
<tr>
<th>Current Allocations 2018 Overall Results</th>
<th>Percent Increasing their Allocations to Each 2018 Overall Results (Increasing is a Score of 4-5/5)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under $1B</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>79%</td>
</tr>
<tr>
<td>Internal</td>
<td>21%</td>
</tr>
<tr>
<td><strong>$1B–10B</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>82%</td>
</tr>
<tr>
<td>Internal</td>
<td>18%</td>
</tr>
<tr>
<td><strong>$10B–50B</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>73%</td>
</tr>
<tr>
<td>Internal</td>
<td>27%</td>
</tr>
<tr>
<td><strong>$50B+</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>67%</td>
</tr>
<tr>
<td>Internal</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Survey Question:** Please estimate the percentage of your portfolio allocated to external/internal management today. What direction of change do you expect with each allocation by 2025? See endnotes for response scale.
A majority of global investors—77%—also believe it likely that consolidation will create a few mega-firms that offer all types of services (e.g., investment, consulting, actuarial, operational), at reduced costs. Japan had the greatest conviction about the potential for mega-firms to emerge, perhaps a reflection of a culture that embraces larger institutions with the right scale to provide for the common good. Again, the Americas were most skeptical, with nearly one-third believing such consolidation is unlikely to disrupt the industry. While Japan has two primary pension funds, both massive, there are hundreds of smaller plans in the Americas, where competition has been fierce.

EXHIBIT 5: LIKELINESS CONSOLIDATION WILL LEAD TO MEGA-FIRMS OFFERING A RANGE OF SERVICES

Survey Question: How likely is it that, by 2025, the investment management industry will be disrupted in one of the following ways? Consolidation will create a few mega-firms that offer all institutional investment services (e.g., consultant, investment manager, benefits) at reduced cost. See endnotes for response scale.

Consolidation will create mega-firms as businesses will get highly acquisitive in the future. With disruptions becoming a trend, larger firms will begin investing in these disruptive firms and consolidate at a point in the future, creating one firm that has all the financial services available in the market.

— SURVEY RESPONDENT, CIO, ASIAN PUBLIC PENSION
The rising tide of fintech and insurtech companies will rise even further in the future. A large portion of the investment market will be overtaken by these companies unless larger institutions don’t change or improve their services and products.

— SURVEY RESPONDENT, FUND MANAGER, EUROPEAN PUBLIC PENSION

Implications
Overall, institutional investors see an industry future in which bigger is better, with ongoing consolidation on the inside and disruptions coming from the outside. The largest players will have an advantage in an environment of declining prices, and mega-firms will fight to own client relationships. New connections will emerge as large institutions continue to build out their internal investment capabilities and possibly market them to their smaller peers. Asset managers and consultants that fail to adapt may be reduced to product providers, with waning influence. The transformation of this dynamic and interconnected ecosystem will force industry players to evolve their practices, including how they work together.

The need to stay current and adaptable will be critical as new technology alters business practices and in-house investment operations. Institutions large and small will need to find ways to evaluate newcomers to the industry. They may be well-equipped to assess a financial services firm or a traditional asset manager, but not necessarily an e-commerce giant or a fintech startup with an entirely different business model. They will also need to look to mergers and acquisitions or other partnerships to ensure they have the skills and expertise they require.

Moreover, as traditional investment partners consolidate and embrace newer technologies, institutional investors may need to evolve their due-diligence practices. Institutional investors may in fact have a fiduciary duty to understand and evaluate how emerging technologies could be creating risks for their portfolios, their partners (both traditional and non-traditional), and the investment industry as a whole.
The Pace of Business Accelerates
Rapid and widespread adoption of technology will change how the investment world operates at its core. From faster transactions in the back office, to accelerated decisions in the front office, emerging technologies will deliver new benefits that could affect all industry participants.

However, while rapid technological advances could be a welcome path toward improving outcomes and reducing costs, we believe this accelerated pace could bring on new systemic risks.

A majority of institutional investors think blockchain and similar technologies will fundamentally alter the industry. Already, we have seen signs of implementation, with institutions believing blockchain will cut out the “middlemen,” increase the security and speed of raising and funding capital, and reduce costs. One notable example was Australia’s recent issuance of its sovereign bonds exclusively through blockchain. In another case, the Ontario Teachers’ Pension Plan recently tested a fixed income transaction using a blockchain platform. Many envision blockchain helping financial firms in every aspect of their businesses, including money transfers, recordkeeping, and back-office functions. However, not everyone is convinced about a coming blockchain revolution: Investors in the Americas again are more skeptical, with just a little more than half agreeing.

As outlined earlier, many investors in the Americas have indicated more skepticism about new technology’s powers to transform the landscape, and it’s possible some simply believe it will take longer to hit the mainstream. Viewpoints in the U.S., which comprise a big segment of the Americas, may also be a factor: The investment industry there is mature and well capitalized, and investors may be expressing confidence they will be able to quickly adjust.
Faster “frictionless” transactions were cited by many as representative of the future pace of the industry overall, and may be connected with assumptions that technology could make the markets function more efficiently. For example, across geographies, a majority of institutional investors expect high-frequency trading algorithms and quantitative investment strategies will make the markets more efficient by 2025, making it harder for traditional fundamental managers to generate alpha. Already we have seen evidence of this happening, with many traditional Wall Street firms looking to ramp up hiring of data scientists rather than fundamental analysts. The “always on” data processing of AI and its much faster execution rates will create new challenges for some asset managers to deliver outperformance. The strongest views were in Japan, where 70% said market efficiency would increase. The other regions expressed similar optimism, but the Americas had the highest level of skeptics (17%) who predicted less market efficiency.

As technology spurs faster investment implementation and decision-making, many asset owners indicated they would expect their investment partners to be able to deliver better performance, with less risk. Again, the potential uses of big data and AI were cited as a key driver of this anticipated acceleration and associated improvements.
EXHIBIT 7: HIGH-FREQUENCY TRADING ALGORITHMS AND SOPHISTICATED QUANTITATIVE INVESTMENT STRATEGIES WILL MAKE THE MARKETS MORE EFFICIENT

Survey Question: Do you feel that by 2025 high-frequency trading algorithms and sophisticated quantitative investment strategies will have made the markets more or less efficient? See endnotes for response scale.

Implications

Given the quicker pace of the markets in the future, it is likely that faster decision-making will become a necessity, fueled by new or enhanced quantitative approaches. Institutions should understand a need to proceed with caution: A world of concentrated investment managers deploying rapid quantitative or AI-powered investment strategies may create more volatility (not less, as some think). Few institutional investors expressed concern about potentially emerging risks. Implicit trust in the output of AI programs may thus bring a false sense of confidence, even as risk management “appears” to become more precise. Institutional investors should work to improve their ability to evaluate the risks and tradeoffs of operating at such high speed. At the same time, they should be mindful about assumptions they may have about the infallibility of their technology, recognizing that human biases may be embedded in their AI-powered programs.

Essentially, the thin competitive advantage some asset managers have today may fade away due to technology. Incumbents may need to reinvent their approach to alpha generation, opt to become a passive, low-cost investment manager, or risk extinction. Institutional asset owners may find that some of their investment partners could lose their competitive edge if they aren’t exploring all forms of AI and technology. The risk for these asset owners would be the potential to fall short of their long-term objectives.
Portfolios Will Need to Adapt
At the same time, socially responsible investing (SRI) will continue to grow, and new asset classes will become available. As technology augments portfolio construction investors may need to evolve the training and the talent they use to support their investment decision-making.

Institutional investors predict a major shift in how investment managers will deliver value, across many different aspects of investing. The majority believe it likely that advanced analytics will fully decompose an active manager’s alpha into beta—market factors that can be captured passively and inexpensively. In this scenario, the ability for active managers to generate alpha through traditional methods is expected to decline, and new proprietary data sources or analytical techniques will be needed to deliver outperformance. As mentioned previously, this shift is already evident in the hiring practices of some asset managers, which are recruiting fewer traditional fundamental analysts and a greater proportion of data scientists. Institutional investors were most convinced about alpha’s evolution in Europe ex. UK, Asia ex. Japan, and Japan (80%+), while only 43% in the Americas thought so. General skepticism about change or higher convictions about the importance of human portfolio managers may be driving the Americas’ views. (See page 39 for more discussion about the human element of investment management.)

However, this assumption does not imply the end of active management. Institutional investors imagine a future where active portfolio management includes active security selection.
Survey Question: How likely is it that by 2025, advanced analytics will have completely decomposed an active manager’s “alpha” into factors that can be captured passively and inexpensively? See endnotes for response scale.

Survey Question: What are your current allocations to active strategies, traditional passive strategies, and non-traditional passive strategies (e.g., factors, non-cap-weighted “smart beta”)? How likely is it that you will increase or decrease your allocations by 2025? See endnotes for response scale.
We are currently developing a technology that uses the traits of artificial intelligence for recommendations and asset allocation. It will be bifurcated into different segments and assist us in handling recommendations for managers, determine entry and potential exit of an investment, [set] asset allocation, and help in creating passive portfolios that need minimal intervention of portfolio managers.

— SURVEY RESPONDENT, HEAD OF STRATEGY, ASIAN INSURANCE COMPANY

culled from new data sources as well as non-traditional strategies for which the active management of exposures will generate outperformance. Although institutional investors overall said they currently have a 33% allocation to traditional passive strategies, only 8% plan to increase their exposure in seven years—and 38% plan to decrease their exposures. Meanwhile, 38% plan to increase exposures to active strategies by 2025. Moreover, 23% said they would increase allocations to non-traditional passive strategies (e.g., factors, passive strategies not weighted by market capitalization, or "smart beta" approaches).

Institutional investors also plan a moderate shift away from using traditional asset classes as a basis for portfolio construction, focusing more attention on risk factors and liability matching. In other words, institutional investors are redesigning their portfolios either to align with their objectives more precisely (through liability matching) or to reflect evolving analytical capabilities and products (e.g., factors). Additionally, an expected increase in liability-matching reflects the ongoing shift from open pension plans to closed or frozen plans with greater emphasis on risk management.

EXHIBIT 10: HOW INSTITUTIONS CONSTRUCT PORTFOLIOS TODAY, AND HOW THEY EXPECT TO CONSTRUCT PORTFOLIOS IN 2025

Confidence in “better” risk management and decision-making through technology may increase comfort with complex portfolio construction techniques. Within current allocations, 70% of investors globally said they use derivatives to control risk, with 48% using them to generate additional returns and 45% saying they use them to achieve long- or short-term market exposures. More than half (60%) indicated they would increase derivative use by 2025. Short positions are at an average of 18% of allocations at large institutions, and expected to grow in the years to come.

**Impact investing plays a role**

Even as institutional investors apply new strategies to their pursuit of returns, socially responsible investing (SRI) will guide more investment allocations as well. Outside of the Americas, SRI concerns have a high level of influence on investment decisions. This emphasis may be partly due to national regulatory environments that require institutional SRI policies, or strong cultural sentiments in favor of pursuing positive social agendas. Regardless of the cause, most institutional investors outside of the Americas are planning to increase their allocation to socially responsible investments.

Institutional investors in the Americas showed sharply lower emphasis: Only about one-fifth said SRI influences their decisions, and only 21% reported that they have SRI policies in place. One-third said SRI has a no influence at all on investment decisions, and the majority is not intending to increase allocations to socially responsible investments. In

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**EXHIBIT 11: INFLUENCE OF SOCIAL RESPONSIBILITY IN INVESTMENT DECISIONS TODAY**

<table>
<thead>
<tr>
<th>Region</th>
<th>High</th>
<th>Low</th>
<th>Overall Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>21%</td>
<td>65%</td>
<td>High</td>
</tr>
<tr>
<td>Japan</td>
<td>22%</td>
<td>58%</td>
<td>High</td>
</tr>
<tr>
<td>Asia ex. Japan</td>
<td>16%</td>
<td>66%</td>
<td>High</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>12%</td>
<td>74%</td>
<td>High</td>
</tr>
<tr>
<td>Europe ex. UK</td>
<td>12%</td>
<td>75%</td>
<td>High</td>
</tr>
</tbody>
</table>

*Survey Question:* How much does social responsibility influence your investment decisions today? See endnotes for response scale.
Investing in a socially responsible manner is necessary at the moment. We have made provisions where most of our investments are with the social principles and we are also looking forward to selling our investments that still lie in socially detrimental areas or industries.

— SURVEY RESPONDENT, CIO, EUROPEAN PUBLIC PENSION

the U.S. in particular, an emphasis on return-focused investing as part of an institution’s fiduciary duty—potentially to the exclusion of other considerations—may be reinforcing the regional disparity.

A focus on augmenting SRI does not preclude other types of portfolio changes for institutional investors. Institutions worldwide indicated a desire to increase allocations to private equity and infrastructure funds, both of which can allow investors to deploy their capital directly to support their social agendas, rather than investing in securities of companies that may be ideologically aligned. Some institutions are even planning to share their SRI expertise with peers to help drive wider adoption. For example, the Ford Foundation recently announced a “mission-related investments team” that would not only direct a portion of the Foundation’s assets but would also help other asset owners develop their own strategies for impact investing (also an example of larger asset owners helping smaller ones invest, as discussed earlier). The Foundation has also been helping to support the development of an AI application to assist with risk management for environmental, social, and governance (ESG) investing, illustrating several trends suggested by Fidelity’s survey.*

**EXHIBIT 12: PERCENT OF RESPONDENTS EXPECTING TO INCREASE ALLOCATIONS TO SOCIALLY RESPONSIBLE INVESTMENTS BY 2025**

<table>
<thead>
<tr>
<th>Overall</th>
<th>Americas</th>
<th>Japan</th>
<th>Asia ex. Japan</th>
<th>United Kingdom</th>
<th>Europe ex. UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>63%</td>
<td>38%</td>
<td>52%</td>
<td>70%</td>
<td>64%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Asset allocation and intended shifts

Current asset allocations also demonstrate differences between the Americas and the rest of the world. Relative to their worldwide peers, Americas investors are heavily weighted toward the primary asset classes of public-market equity and domestic fixed income, with a corresponding lesser weight to private equity, real estate, and infrastructure funds. An emphasis on actively managed private investments was consistent throughout Europe and Asia.

In the next seven years, investors in the Americas are planning changes that align with return-focused or liability-matching investing. Allocations to emerging-market equity and domestic fixed income are the most frequently planned increases for Americas investors, though many are planning to decrease these exposures as well. One-fifth are also planning increases to private equity, real estate, and infrastructure, which could bring their

EXHIBIT 13: CURRENT ASSET ALLOCATIONS BY REGION
2018 Results by Region

Survey Question: What is your current allocation to the following asset types? See endnotes for response scale. Numbers may not equal 100 due to rounding.
portfolios closer to those of peers around the world. This shift will continue to be funded by decreased allocations to the public-equity markets. In the rest of the world, investors had similar intentions, with the greatest expected portfolio increases in private equity and infrastructure, and the greatest decreases in domestic equity and real estate. Private equity and infrastructure may be the type of investments where active allocations are most expected to increase; with less public data available in private markets, active managers may still have an information advantage and be able to generate above-average returns.

EXHIBIT 14: PLANNED INCREASES AND DECREASES TO ASSET ALLOCATION BY 2025
Americas versus Rest of the World

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Americas Decreasing</th>
<th>Americas Increasing</th>
<th>Rest of the World Decreasing</th>
<th>Rest of the World Increasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>45%</td>
<td>6%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Non-Domestic Equity (Ex. EM)</td>
<td>27%</td>
<td>20%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>Emerging-Market Equity</td>
<td>22%</td>
<td>32%</td>
<td>1%</td>
<td>21%</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>18%</td>
<td>31%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Non-Domestic Fixed Income</td>
<td>8%</td>
<td>24%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>16%</td>
<td>8%</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>Commodities</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>11%</td>
<td>22%</td>
<td>2%</td>
<td>34%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>13%</td>
<td>21%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>3%</td>
<td>19%</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td>17%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Survey Question: What is your expected allocation in 2025 to the following asset types? See endnotes for response scale.
In addition to the traditional asset classes, most institutional investors are receptive to new types of investments being developed. Globally, 70% see new asset classes coming into the mainstream by 2025, including cryptocurrencies and other blockchain-related investments. Convictions were highest in Japan (94%) but lowest in the Americas (39%), with some investors indicating that these types of investments were not viable within the current regulatory environment or even downright “scams.” However, CFA Institute recently announced it was adding blockchain and cryptocurrencies to its general curriculum, suggesting expectations that digital asset classes will continue to grow toward legitimacy.

EXHIBIT 15: LIKELINESS NEW ASSET CLASSES WILL EMERGE (LIKE CRYPTOocurrency) AS A RESULT OF ADVANCING TECHNOLOGY

\[
\begin{array}{c|c|c|c|c}
\text{Region} & \text{Likely} & \text{Unlikely} & \text{Likely} & \text{Unlikely} \\
\hline
\text{Americas} & 94\% & 0\% & 85\% & 15\% \\
\text{Japan} & 39\% & 61\% & 88\% & 12\% \\
\text{Asia ex. Japan} & 72\% & 28\% & 12\% & 88\% \\
\text{United Kingdom} & 12\% & 88\% & 72\% & 28\% \\
\text{Europe ex. UK} & 88\% & 12\% & 72\% & 28\%
\end{array}
\]

**Survey Question:** How likely is it that new asset classes will emerge (e.g., cryptocurrency) as a result of advancing technology such as blockchain? See endnotes for response scale.

New asset classes are without a doubt going to be introduced in the investment industry. We will move way past cryptocurrencies and should expect something greater than this technology to take over asset classes in the next 7 years.

— SURVEY RESPONDENT, CIO, EUROPEAN PUBLIC PENSION
Implications

Portfolio construction and alpha generation approaches are being redefined by sophisticated quantitative techniques, many of which are rooted in big data. Many believe that AI will help find new forms of alpha generation, shifting the focus of asset managers to new techniques while systematizing current approaches. With increased market efficiency potentially making traditional excess return harder to find, institutional investors will need to adapt, developing new strategies and new competencies to help deliver on their long-term return objectives.

The rapid pace with which we will gather and analyze information will force institutional investors to reshape their portfolio decision-making process, being mindful of how quickly they intend to act. Some may feel pressured to conform to peers’ actions, similar to the drive to invest in hedge funds in the early 2000s, while others may be motivated by a desire to improve returns. Whatever the motivation, the industry is moving toward making faster asset allocation decisions. Some may move at a slower pace due to general inertia (e.g., holding on to old ways), skepticism, or lack of talent and skills, while others will accept change more rapidly.

Amid these changes, institutional investors may become more comfortable with risk when aided by technology-driven investment processes, and that comfort level carries the hazard of a false sense of confidence. Research, risk analysis, and comprehensive due diligence will be critical safeguards as technology stokes the pace of investing, broadens the menu of investment strategies beyond a traditional focus on asset classes, and increasingly offers new investment opportunities, from drivers of social impact to cryptocurrencies and beyond. Moreover, as these new approaches are developed, human judgment will remain a crucial element in prudent investment management.

Given the interconnected and transforming ecosystem, institutions could benefit from staying apprised of how various technologies are influencing their asset managers and consultants, and how those changes could reshape their own portfolios. Learning from those partners, as well as understanding how peers are piloting these new capabilities, may be a way for institutions to recognize potential use cases for their own organizations. Investing in training and education may become increasingly important as institutional portfolios continue to evolve.
Roles Will (Reluctantly) Be Eliminated
The institutional investment industry operated largely the same for decades, with clearly defined roles underpinning ongoing relationships between participants. Pension plans, retirement plans, insurers, and sovereign wealth funds relied on traditional asset managers and consultants for a standard set of services and products to help them reach their long-term risk and investment objectives.

Research analysts, portfolio managers, and risk officers also had well-defined roles, and a traditional fundamental asset manager’s advantage came from expertise in processing and interpreting data. Personnel costs were a significant factor in the shape of the industry.

At the highest level, all of these successful relationships embodied many subtle and unquantifiable variables that built trust and have always existed between human beings: The power to be empathetic and understand a point of view, the ability to be a good listener, the wisdom to know what a person says and what they mean. Human relationships, at their best, have allowed the investment industry to thrive.

Now, institutional investors see the implementation of AI and other cutting-edge technology as a trigger for widespread disruptions, changing both traditional investment jobs and the practices that reinforce competitive advantages. These shifts have the potential to create new paradigms for industry relationships within a handful of years. Many said they expect to see deep changes in how investments are created and distributed. The level and types of service available from investment partners also is expected to shift considerably.
Broadly speaking, about half of institutions believe technology will replace many traditional roles, with a “digital first” model eliminating positions that historically focused on products and services. A slightly higher number believe AI will enhance and/or augment traditional roles. In the Americas, views were again muted on AI taking over traditional jobs (43%), but with a higher conviction about the potential for an AI/human partnership, with 70% of them indicating technology will enhance traditional roles—greater than any other region.

A large number of investors in Europe ex. UK, Asia ex. Japan, and Japan (63% to 80%) expect to make investment allocation decisions without any human contact from asset managers by 2025, contrasted with much lower numbers from investors in the Americas and the UK. The data suggests asset managers will need to carefully reevaluate their position in the industry as technology has the potential to edge them out of their traditional roles.

Globally, a large segment of investors believe that AI will take over traditional investment-related roles as well. For example, Japan’s Government Pension Investment Fund (GPIF) recently decided to partner with Sony Computer Science Laboratories, Inc., to study AI’s
EXHIBIT 17: LIKELINESS ORGANIZATIONS WILL MAKE INVESTMENT ALLOCATIONS WITHOUT HUMAN CONTACT

Survey Question: How likely is it that by 2025 your organization will be making investment allocations (either directly or through asset managers) without having any human contact from an asset manager’s sales, marketing, or investment teams? See endnotes for response scale.

potential incorporation into the management of their own portfolio.’ Finding subject matter experts outside of one’s organization is a critical first step toward quickly adapting to rapid technological change. Over time, asset owners may leverage resources from another firm or build their own in-house capabilities, but today many are still firmly in the educational phase of exploring AI’s possible uses.

A significant portion of institutional investors think it is likely they will rely on AI to varying degrees across many functions. Monitoring and evaluating manager and portfolio performance and risk are expected to shift to AI. Perhaps more surprisingly, confidence in AI’s impact extends to complex investment-based tasks, with nearly half of global institutions believing they will rely on AI to recommend or select managers. For asset allocation modeling, 69% of institutional investors felt they would be relying on AI. Globally, 39% of institutional investors (with 33% of those in the Americas as the lowest conviction) believe they will be able to use AI to bypass asset managers entirely and create customized portfolios directly from underlying securities in the next seven years.

EXHIBIT 18: INVESTMENT SERVICES THAT AI WILL BE USED FOR BY 2025

Survey Question: Do you feel that, by 2025, it is likely you will rely on artificial intelligence for any of the following services? See endnotes for response scale.
We would want our investment partners to maintain the balance between humans conducting investment jobs and machines doing theirs. If this balance is maintained only then will their business have better credibility in the future.
— SURVEY RESPONDENT, CIO, EUROPEAN PRIVATE PENSION

The asset managers and consultants that currently perform these tasks for many institutional investors may need to reinvent themselves. As further evidence that changes are coming, many asset managers and financial services firms are undertaking aggressive recruitment of data scientists, programmers, and software developers, in contrast to hiring traditional analysts or MBAs. Importantly, though, many institutional investors do not see their own roles eliminated or bypassed by AI, even those who cited its potential power in decision-making. A large number of comments suggested that technology could provide important inputs, but would not be entrusted with the final decision.

**AI: from theory to implementation**

Institutional investors seem to be acting on their convictions about AI. On a global basis, a large majority are well on their way to incorporating AI and advanced analytics into their investment decision-making process, and current engagement by region generally matches up with expectations for future importance. For example, in Japan, 38% of investors have already fully incorporated AI into decision-making, versus just 1% in the Americas.

In fact, more than three-quarters of U.S. investors (71% of the Americas investors) have no current plans to incorporate or evaluate the potential for AI, compared with just 12% in the rest of the regions. Similarly, smaller institutions worldwide are less likely to be at the leading edge, with 71% not even exploring AI-related capabilities today. If AI-assisted capabilities become an investing or operational advantage, organizations that are slower to adopt this technology may have trouble keeping up with their peers or working effectively with their investment partners. A reluctance to even consider potential uses for AI may end up putting investors in the Americas behind other regions.
The dependency on human decision-making will be reduced in the future. Machines and systems will be highly capable of making these decisions based on their calculations and predictions. We do believe a technology-assisted decision-making strategy will be highly effective.

— SURVEY RESPONDENT, CIO, EUROPEAN PRIVATE PENSION

EXHIBIT 19: PERCENT OF INSTITUTIONAL INVESTORS IMPLEMENTING OR EXPLORING AI

Survey Question: Have you explored ways to incorporate technologies such as artificial intelligence and other advanced analytics into your investment decision-making process?

While these are still early days for AI implementation, institutions who are utilizing it indicated high confidence that the technology is delivering on its promise of improving investment decision-making. Of those testing or integrating AI today, 56% claim to already see new analytical insights and 35% claim it has removed some of their human biases. Given that many have only recently started exploring or testing AI, it may be somewhat premature to gauge its success.
EXHIBIT 20: INSTITUTIONS IN THE EARLY STAGES OF IMPLEMENTATION THAT ARE SEEING BENEFITS

35% Yes, it has removed some of the human biases in our decision-making
56% Yes, it provides new analytical insights/inputs into our process
31% Too early to judge the effectiveness
7% We have not realized any benefits from adding these technologies

Survey Question: Have you explored ways to incorporate technologies such as artificial intelligence and other advanced analytics into your investment decision-making process?

Unquantifiable needs: the human element still matters
Machines and systems are likely to take over many routine investment tasks once handled by human portfolio managers and analytics teams. Emerging technology will analyze market scenarios, automate data collection, and generally make predictions and execute decisions much faster than a traditional asset manager team. But technology may not be able to solve everything, participants said.

“Expertise,” “greater insights,” and “human perspective” are the characteristics most cited by respondents as valuable contributions that may be difficult to replace with technology. Taken together, the survey responses suggest that the majority of institutional investors are hungry to adopt new technology but still see value in consulting a wide range of partners to help shape the appropriate adoption and implementation of AI and other advances.

There is a chance that we could rely on these technologies but with a restrictive use that will help us in decision-making processes like selecting managers, creating portfolios, and entry and exit time for our investments. We wouldn’t give the technology powers to execute decisions on behalf of us.

— SURVEY RESPONDENT, CFO, EUROPEAN INSURANCE COMPANY
Implications

Technology may take over certain core investment functions, but institutional investors will need to remain engaged with their external partners in order to fully understand and endorse their underlying processes. As technology reduces the number of human interactions, the impact of those interactions could increase. Portfolio monitoring and risk management will remain important, to ensure appropriate decisions are made. Asset managers and consultants who currently perform these tasks for institutional investors may need to reexamine their business models to find new ways to add value.

Even if institutions are not interested in exploring AI for their own in-house implementations, they should keep in mind the interconnectedness of the industry, and that these technologies will be increasingly used by their providers as part of a standard toolkit. Having general knowledge of how these technologies work (e.g., via new talent and training) will likely
I don’t expect it [decision-making] to be vastly different. I think AI will exist but I think it will still be in a phase of being a verification check, not the lead in making decisions.

— SURVEY RESPONDENT, CIO, AMERICAS PUBLIC PENSION

become a necessity, as will considering the implications of technological innovations for the overall financial markets.

For those who are embracing AI today, we believe investors should develop appropriate due diligence methods before adopting it into their investment processes. Confidence—and overconfidence—in AI could lead to unintended risks or crises. Processes built to evaluate traditional asset management may not apply effectively to AI applications aimed toward the same objectives.
Conclusion: Change is Expected to Come Quickly

The institutional investment industry encompasses trillions of dollars, spanning a diverse and vibrant ecosystem. Asset owners hail from all corners of developed and emerging markets, each with their own unique investment considerations, objectives and risk sensitivities. There are pensions investing to meet long-term liabilities, university endowments funding their operating budgets, sovereign wealth funds investing for their nations’ futures, insurers managing their balance sheets, and foundations working to fund their causes and maintain purchasing power. With access to more information and ever-increasing computing power, institutions today face a difficult task in evaluating the landscape and making decisions over time horizons both long and short. As our survey revealed, the vast majority of these institutional investors expect transformative changes to unfold, in the relatively short window of just seven years.

The 11th Edition of the Fidelity Global Institutional Investor Survey explored how this influential group of professional investors is thinking and planning for 2025. They see a new world that may alter all aspects of investing:

- New technologies will fundamentally change the ecosystem, with pressure from both inside and outside the industry as all participants are compelled to evolve.
- A faster pace for gathering and processing information could foster faster decision-making aided by technology—though that could create new risks along with a false confidence that markets are safer.
- Portfolios will need to be dynamic and agile as sources of alpha shift, with a migration towards private investments, active management, and SRI.
- Some investment roles will disappear and others will assume new prominence, reshaping relationships between institutional investors and their partners. But human connection will remain important to satisfy institutions’ unquantifiable needs.

As our survey revealed, the vast majority of institutional investors expect transformative changes to unfold, in the relatively short window of just seven years.
Based on the survey's findings, we encourage institutional investors to examine their commitment to training and having the right team in place to embrace new technologies. For those testing AI, blockchain, and other innovative technologies—and even those still sitting on the sidelines—now is the time to build a deeper understanding of these powerful new tools, and a clear sense of how peers and partners are using them. As with any cutting-edge approach, unanticipated risks will emerge and caution is advisable. But those who are not exploring transformative technology or considering its potential impact to the investment ecosystem could rapidly find themselves falling out of touch.

Taken together, these responses suggest that the majority of institutional investors are eager to embrace technological advances. However, they still see value in consulting a wide range of partners to help shape the appropriate adaption and implementation of AI and other innovations, according to each individual institution's needs and objectives.
ENDNOTES

Survey question details:
Exhibits 1–3, 5, 6, 8, 15, 17: Responses show answers from a 7-point scale, where 1 is “unlikely” and 7 is “very likely.” Unlikely: scores of 1–3; likely: scores of 5–7; neutral: 4.
Exhibits 4, 9, 12: Responses show answers from a 5-point scale, where 1 is “significantly decrease” and 5 is “significantly increase.” Decrease: scores of 1–2; increase: scores of 4–5; neutral: 3.
Exhibit 7: Responses show answers grouped from six choices. Less Efficient: significantly less efficient and slightly less efficient; No Change: no change from today; More Efficient: significantly more efficient and slightly more efficient; Not Sure: not sure.
Exhibit 10: Responses show percentage of respondents choosing one of five choices: By asset class; by factors (e.g., equity beta, credit, interest rates); matched to liabilities; risk budget; other (not shown).
Exhibit 11: Responses show answers from a 7-point scale, where 1 is “no influence” and 7 is “strong influence.” Low: scores of 1–3; Moderate: scores of 4; High: scores of 5–7.
Exhibit 13 and 14: Responses were based on 12 selections: domestic equity, non-domestic equity (excluding EM), emerging markets equity (non-domestic, if applicable), domestic fixed income, non-domestic fixed income, hedge funds, commodities, private equity, real estate, infrastructure, cash, other. Planned increases and decreases show answers from a 5-point scale, where 1 is “significantly decrease” and 5 is “significantly increase.” Decrease: scores of 1-2; Increase: scores of 4-5; neutral: 3 (not shown).
Exhibit 15: Responses show answers from a 7-point scale, where 1 is “strongly disagree” and 7 is “strongly agree.” Unlikely: scores of 1–3; Neutral: scores of 4; Likely: scores of 5–7.
Exhibit 18: Responses show percentage of respondents who selected the listed service. Available responses also included “none of the above” (5% selected) and “Other, please specify” (0% selected).
Exhibit 21: Respondents were asked to provide free responses. Responses were read and thematically classified by Fidelity. Responses could include more than one theme.

Unless otherwise noted, all data sourced from the Fidelity Global Institutional Investor Survey.

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