

Defensive positioning pays off for Fidelity European Fund

MARCH 2008

Summary

- Tim McCarron's defensive positioning has paid off for Fidelity European Fund, outperforming the sector by almost 5% over the last 3 months (as at 29.02.08)
- The Fund is ranked 4th out of 100 funds in the Europe ex UK sector over this 3 month period
- Fidelity European Fund has returned 158% versus a benchmark return of 124% since Tim McCarron assumed management in January 2003.*
- Fidelity European Fund is 1st quartile year to date, plus over 3 months, 6 months, 1 year, 5 years, 10 years and since launch, with an upper 2nd quartile record over 3 years
- Europe is showing signs of slowing, however Tim McCarron is confident that there are still pockets of robust growth for investors to take advantage of, for example, within Eastern Europe and Greece

Fund Performance

In February, the fund returned 4.9%, outperforming the benchmark, which posted returns of 2.1%. This performance, which reflects the value added by Fidelity's research strength now that volatility has returned to the market, has reinforced the Fund's excellent long-term track record. This shows a top quartile ranking over 6 months, 1, 5 & 10 years as well as over Tim's tenure. Since Tim assumed management in January 2003, the fund has returned 158% versus a benchmark return of 124%.*

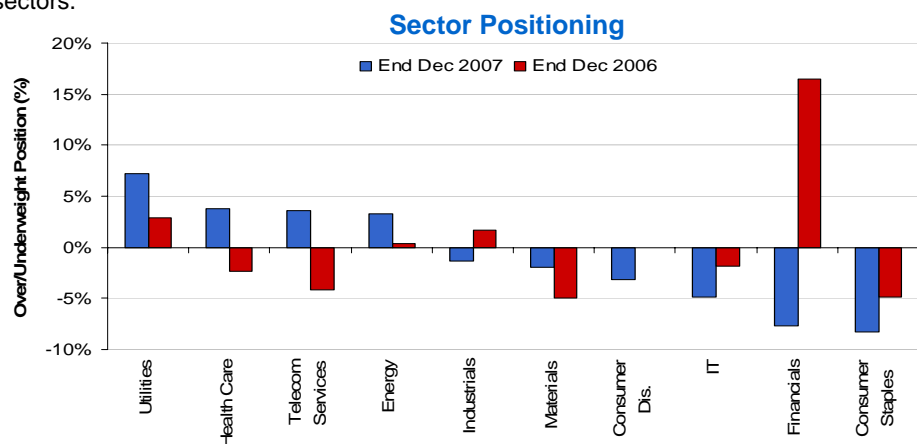
Fidelity European Fund	YTD	6 mths	1 yr	3 yrs	5 yrs	Since Launch
Competitors Beaten	90%	95%	91%	66%	91%	100%
Quartile Ranking	1st	1st	1st	2nd	1st	1st

Source: Fidelity as at 29.02.08. Sector: IMA Europe ex UK

Tim's Defensive Strategy

Due to the increasing potential for slower growth, Tim made a number of changes to the fund's positioning towards the end of 2007. This entailed increasing the fund's exposure to defensive sectors, such as telecommunications and pharmaceuticals at the expense of the economic and US dollar sensitive financial and industrial sectors. For example, holdings in Societe Generale and Unicredito Italiano were closed due to their exposure to the progressively more fragile global markets, while the fund's exposure to Telefonica, KPN and Roche were increased. A knock-on effect of this repositioning was that the fund shifted up the market-cap scale, with the median market-cap of stocks in the fund increasing from £9.1 billion in August to £17.4 billion in December.

The chart shows the change in relative sector positions from 31 December 2006 to 31 December 2007. This displays a shift from financial holdings into the utilities, health care and telecommunications sectors.



Source: Fidelity, 31.12.2006 and 31.12.2007, Benchmark: MSCI Europe ex UK

Tim has continued to maintain the defensive stance that he adopted in November last year. He still favours telecommunications stocks, such as KPN and Telefonica, as well as utilities, including E.ON, Suez and EDF and pharmaceutical stocks, particularly Roche. Tim is steering the portfolio away from areas that are economically sensitive or are affected by movements in the value of the US dollar. The largest sector underweight is currently in banking, while at a country level, the portfolio is underweight in France and Germany. However, Tim is currently finding opportunities in Greece and the UK.

Market Outlook

Latest estimates show that Inflation is currently running at 3.2% in the eurozone, mainly as a result of rising energy and food costs. This, coupled with the evidence of slowing GDP growth across the eurozone presents a tricky situation for the European Central Bank (ECB). Rising consumer prices might make it difficult for the bank to reduce interest rates. At the same time, a moderation in economic growth makes it tough for the ECB to increase rates.

In February, the European Commission cut its forecast for economic expansion for the eurozone to 1.8%; 0.4 percentage points below the pace predicted in November and the weakest since 2005. According to the European Commission's recent forecast, consumer prices are expected to rise 2.5% in 2008.

However, underneath the headline slowdown, there are still pockets of robust growth for investors to take advantage of, for example, within Eastern Europe and Greece. Tim is finding attractive opportunities in these countries, which are experiencing a secular expansion in their economies. The increasing importance of emerging markets as export destinations should mitigate against the impact of a US-led slowdown in global growth.

Investment Style

Portfolio Manager Tim McCarron utilises an investment style that is characterised by a flexible and pragmatic approach. He is not restricted in the choice of company either by size or industry, or in terms of the geographical split of the portfolio, which is largely determined by the availability of attractive investment opportunities rather than the outlook for each market.

The portfolio is managed with a value tilt and a bias towards medium sized and smaller companies where Tim believes a greater number of undervalued opportunities can be identified. Tim generally looks for investments with one or more of the following features:

- **Undervalued Stocks:** out-of-favour and unfashionable companies trading at below their intrinsic value, based on earnings potential or a discount to asset value.
- **Growth at a Reasonable Price:** companies whose growth is unrecognised by the market are particularly favoured. Selected investments in companies with strong and sustainable growth but where valuations are reasonable are also made.
- **Turnaround Situations:** companies which are currently underperforming their potential, but where the elements of recovery are identifiable.

*Source: Fidelity from 31.12.2002 to 29.02.2008, basis bid to bid with net income reinvested Benchmark: MSCI Europe ex UK. Unless otherwise stated, all views are those of the Fidelity organisation. Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. The research and analysis is gathered by Fidelity for its use as an investment manager and may have already been acted upon for its own purposes. Fidelity only offers information on its own products and services and does not provide investment advice based on individual circumstances. Fidelity, Fidelity International and Pyramid Logo are trademarks of FIL Limited. Past performance is not a reliable indicator of future results. The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of an investment. The Authorised Corporate Director of Fidelity Investment Funds is Fidelity Investment Services Limited. The Full Prospectus and Simplified Prospectus for this fund are available from Fidelity by calling 0800 41 41 81. Issued by Fidelity Investments International, authorised and regulated in the UK by the Financial Services Authority. CB33495/0908