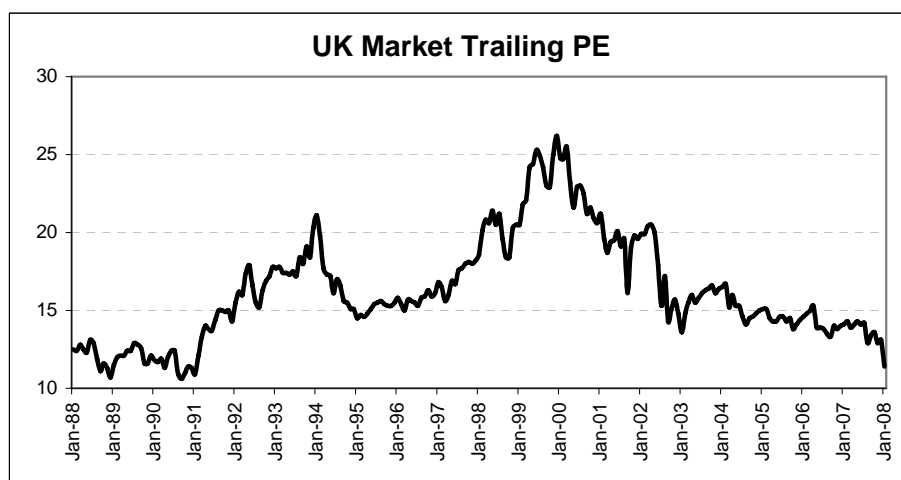


Fidelity's UK portfolio managers share their views on the UK market

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The UK market is down 8% year-to-date (the FTSE 100 at 5942 on 25.01.08), faring just slightly better than Europe and Asia in sterling terms. This follows nearly five years of strong returns, a long bull-run by historical standards. Most sectors are down this year, with pharmaceuticals being one of the more resilient areas. Resources stocks have fallen heavily, led by mining stocks, where M&A activity had pushed shares up in late 2007, and oils, which are tracking the oil price down.

While earnings forecasts are likely to be revised lower over the coming months, the UK market is currently trading on a price to earnings multiple (PE), based on 2007 profits, of 11.4x - near the low end of the valuation range of the last 20 years. This should provide some support if the actions of the Central banks are effective in maintaining business and consumer confidence.



Source: Datastream. UK Market from 23/01/88 to 23/01/08 - Trailing PE Multiple

In this Talking Point, Fidelity's UK equity portfolio managers explain their thoughts on the recent volatility, how their portfolios are positioned and how they are taking advantage of volatility to buy stocks at attractive prices.



Anthony Bolton

Anthony Bolton has over 27 years experience as a portfolio manager with Fidelity. He managed Fidelity Special Situations Fund since its launch in 1979 before handing it over to Sanjeev Shah in January 2008. Anthony remains at Fidelity where he works as a mentor to portfolio managers and continues to develop Fidelity's investment process.

Anthony Bolton, Managing Director, Fidelity International

Anthony believes that the actions of central banks may help to restore stability to stock markets and he remains optimistic about the long-term prospects for equity investing. He believes that even in economies experiencing the most uncertainty, there will be companies with good balance sheets, strong management and successful businesses.

"I believe 2008 will offer particularly attractive opportunities in some of the companies whose share prices have been most adversely affected to date. Investors should be prepared to ride out the current market fluctuations and take a longer term view. This volatility comes at the end of a bull run for world stock markets that has lasted much longer than the average. There is no reason to suggest that another bull run won't follow at some point."



Sanjeev Shah

Sanjeev has 11 years experience at Fidelity, first as a research analyst and then as a portfolio manager. He has previously managed Fidelity UK Aggressive and FF European Aggressive before taking on Fidelity Special Situations in January 2008.

Sanjeev Shah, Portfolio Manager, Fidelity Special Situations

“Similar to Anthony, I have had a cautious view on the market for some time, given high profitability compared to history. The Special Situations fund has been positioned accordingly and I have not made many changes this year since taking over the management of the fund. The exposure to larger companies is high relative to history. However the relatively sharper fall in small and mid cap stocks in the last six months means that there will be more opportunities to find attractively valued companies in this area going forward.

I continue to look for companies with strong balance sheets and sustainable returns on capital which should enable them to weather the storm. The decline in financials and consumer-related stocks has presented some new buying opportunities.”



John Stavits

John joined Fidelity in 1995 as an analyst, before taking on management of Fidelity Growth + Income in 2002 and Fidelity Income Plus in 2004.

John Stavits, Portfolio Manager, Fidelity Income Plus & Growth + Income

“The increased volatility in the market has led to outperformance of larger cap stocks with cheaper valuations, such as aerospace, utilities and tobacco, where my funds were well positioned. These companies have visible cash flows and solid balance sheets, which is very important in this environment.

Corporate earnings and profit margins are generally quite high relative to history following the long bull market, and some companies will see their margins revert back to more normal levels in the coming year.

Generally, I seek out companies that look cheap - even if economic conditions get tough - as that provides me with a valuation cushion. Since the fall in the market has been quite broad, there are companies with attractive franchises which are now looking oversold and I will selectively take advantage of these opportunities. I remain cautious on the banks, as although they offer attractive yields, the scope of future write downs is still unknown. I continue to underweight mining stocks, as I expect metal prices to revert towards their long-term average. I prefer stocks in the oil sector, as the value of their oil fields does not seem to be reflected in share prices.”



Sam Morse

Sam joined Fidelity in 1990, taking the traditional career path from analyst to portfolio manager in 1994. He has managed a range of UK equity funds and took on Fidelity MoneyBuilder Growth in December 2006.

Sam Morse, Portfolio Manager, Fidelity MoneyBuilder Growth

“Although the sub-prime problems in the US have been relatively contained to-date, I expect the issues currently arising will have a negative impact on the wider economy. I believe that while the central banks are cutting interest rates, the greater caution being adopted by the financial markets could mean that the consumer fails to benefit from monetary easing.

While I believe the fundamental outlook for the banking sector is poor, I think stronger, well-diversified franchises will prosper in the long-term. I continue to focus on companies which can deliver consistent dividend growth and have healthy balance sheets. Properly financed companies are best placed to deal with a more expensive credit environment and while I expect to see a continuation of M&A activity, it is likely to be led more by companies with strong balance sheets. In line with my concerns regarding the economy I have been adopting a more cautious approach, with increased defensive positions.”



Aruna Karunathilake

Aruna started at Fidelity in 2000 as research analyst, covering the Technology, Real Estate and Building Material sectors. He became a Portfolio Manager in 2006, running an UK equity internal pool, before assuming management of Fidelity UK Aggressive on 4 December 2007.

Aruna Karunathilake, Portfolio Manager, Fidelity UK Aggressive Fund

“The prospects for economic growth are deteriorating, not just in the US, where the housing issues have been well flagged but also in other regions of the world including the UK. Central banks are in a difficult position as although growth is slowing, inflationary pressures are rising with energy and food prices continuing to increase. Despite this, I think that central banks are likely to cut interest rates further especially if we see an abating of inflationary pressures.

I have been increasing exposure to companies whose earnings have relatively better prospects in this volatile environment. Hence holdings in the utility sector have increased, as they profit from high energy prices and display defensive qualities. I have also added to resources stocks such as Xstrata which benefit from high commodity prices. I have begun to selectively look for stock picking opportunities in some of the consumer and financial sectors, which have performed poorly of late, but where value is now emerging.”



Tom Ewing

Tom joined Fidelity in 2000 as a research analyst and has covered the Support Services, Pharmaceuticals and Oil & Gas sectors. He assumed management of Fidelity UK Growth Fund on 4 December 2007.

Tom Ewing, Portfolio Manager, Fidelity UK Growth Fund

“I believe the market continues to be dominated by the uncertainty as to whether the sub-prime crisis in financial stocks will spread further. The outlook for the OECD consumer looks increasingly tough due to higher mortgage rates, fuel costs and food inflation. This has negatively impacted UK consumer stocks and the uncertainty has contributed to the out-performance of large-cap defensive stocks.

I expect emerging market data to remain robust and continue to underpin commodity prices, helping the oil and mining stocks. I think that although Asia may suffer turbulence in the coming months, the long term growth potential in the region remains attractive and I continue to look at ways of playing this theme through UK companies.”

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