



APRIL 2008

Aris Vatis

Portfolio Manager

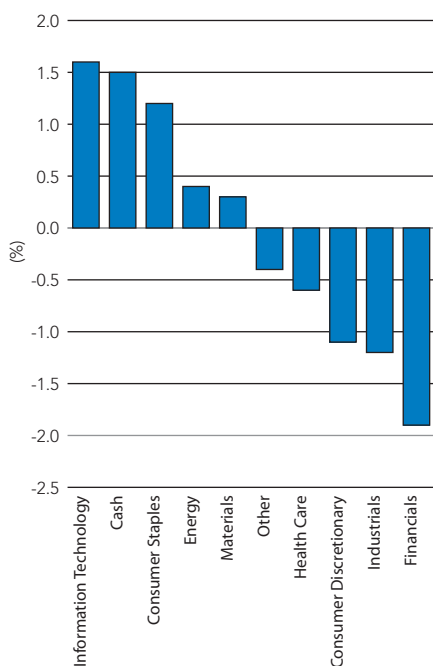
Aris joined Fidelity in June 2006 as a portfolio manager for US equities. He sits within the Global Equity Team in Fidelity's London office. Prior to assuming responsibility for Fidelity American Fund in February 2007, Aris managed an institutional US equity mandate.

Before joining Fidelity, Aris worked as a portfolio manager for Pictet Asset Management and, prior to that, Dresdner RCM Global Investors.

Aris holds an MBA from State University of New York and a BSc in Economics from Athens University of Economics and Business.

RELATIVE SECTOR WEIGHTINGS

as at 31.03.08



Source: Fidelity. Benchmark: S&P 500 Index

FIDELITY AMERICAN FUND

CAUTIOUSLY OPTIMISTIC

Aris Vatis has managed the Fidelity American Fund since February 2007. His tenure has proven an interesting time for investors in US equities. Faced with a weakening housing market, US consumer confidence has taken a serious knock. Exposed to that same housing market, the financial sector – both investment and mortgage banking – has also seen a sharp reversal of fortune. The question now is whether enough has been done to keep the US out of a deep recession and to provide sufficient reasons for optimism in the stock market's fortunes.

Against a demanding and more volatile market backdrop, Aris has delivered a return over his tenure ahead of the benchmark S&P 500 Index. Here, he explains how he looks at the challenges of the current environment and where that view is influencing his portfolio construction and his expectations for the future.

HAS YOUR INVESTMENT APPROACH ALTERED AS A RESULT OF THE INCREASED MARKET VOLATILITY?

I follow a disciplined investment process built around identifying companies where their fundamental value is not being reflected in the share price. That hasn't altered in any way. I look for companies where some sort of structural shift is not being properly priced by the market. Alternatively, I look for shorter-term mismatches. Sometimes that's simply a case of the relative valuation looking out of kilter or it may be some short-term factor impacting the company share price but not altering my longer-term expectation for the business.

If you look at my portfolio, you will see that there are currently no especially strong active sector positions. Within sectors, the dispersion of returns between stocks has increased. There is a real opportunity to profit from picking the right stocks within sectors and so it is wholly correct that my focus should remain there. Maintaining a more neutral sector exposure alongside that is a means of managing the overall portfolio risk.

HOW IS THAT REFLECTED IN THE PORTFOLIO?

Whilst you may see a slight overweight in technology or an underweight in financials of about 2%, that masks individual active stock positions that are much punchier. Within technology, I'm focused on those companies that offer clean balance sheets and high free cash flow yields. Cisco is a good example. I have a position more than double that of the benchmark. At the current price, the market under-appreciates Cisco's dominance in internet infrastructure and the exciting future growth opportunities. Within financials, I think there is still further need to increase provisions within the banking sector and so my attention is directed at other parts of the industry, like trust banks and insurance. To that end, I have a large active position in Bank of New York Mellon (BoNYM), for example. BoNYM makes up just 0.4% of the index but I hold a position of 1.6%.

DO YOU BELIEVE THAT BEING IN LONDON PROVIDES ANY BENEFITS WHEN MARKETS ARE AS TURBULENT AS THEY ARE NOW?

Information flows which inform equity analysis have become truly global. For example, a US-listed company may derive most of its sales outside the US, depend on raw materials and suppliers from Asia, and compete with other global companies which happen to be listed in Europe. The increased scope of analysis necessary to cover a company in this way (US companies are amongst the most 'global' of all listed securities) makes the location of portfolio managers like me less important.

Managing a US equity mandate from a non-US investment centre allows me to draw on a slightly different set of investment ideas and take, perhaps, a more objective view of the opportunity. There is less scope for my investment decisions to be clouded by "noise" in the market.

TOP TEN HOLDINGS (%)

as at 31.03.08

| | Fund | Benchmark |
|-------------------|------|-----------|
| MICROSOFT | 3.3 | 2.0 |
| EXXON MOBIL | 3.2 | 3.9 |
| CHEVRON | 2.7 | 1.5 |
| CISCO SYSTEMS | 2.7 | 1.2 |
| PFIZER INC | 2.4 | 1.2 |
| JOHNSON & JOHNSON | 2.0 | 1.6 |
| HEWLETT-PACKARD | 1.9 | 1.0 |
| JPMORGAN CHASE | 1.9 | 1.3 |
| PROCTER & GAMBLE | 1.9 | 1.9 |
| NORTHROP GRUMMAN | 1.8 | 0.2 |

Source: Fidelity

"The US market offers such a breadth of investment opportunities, in terms of both the variety of sectors listed and in terms of the sheer number of companies traded, that I can always find interesting stocks to own. That is the case whether the economic picture is positive or, as it is right now, more immediately challenging."

Aris Vatis, Portfolio Manager

With so much happening at such a fast pace at present, that "noise" is probably louder than it has been in some time. By sitting in London, I am less exposed to some of those influences that affect sentiment, allowing me to focus on the fundamental value opportunity.

THINKING ABOUT THE INTERNATIONAL ASPECT OF THE US MARKET, HOW MUCH IS THAT IN EVIDENCE IN THE PORTFOLIO?

The portfolio is quite heavily exposed to exporters and companies with sizeable profit generation overseas. Household names with international exposure, such as Colgate, Coca-Cola, Heinz and Wal-Mart, benefit from the current dollar weakness. At the same time, they are also names with fairly inelastic demand and so are capable of demonstrating earnings growth even in a difficult macro environment.

Let's look at Wal-Mart. It is very price competitive within the retail space. There is evidence that middle-income households are beginning to trade down in their spending patterns and Wal-Mart is well-placed to pick up that trade. It has further upside potential from a cost-cutting initiative that should help it alleviate any margin pressures that come from weaker consumer spend in any of its international markets.

Whilst many parts of the market may be suffering from negative sentiment or face the prospect of a weaker trading environment, one global theme that continues to do well is commodities. Nabors Industries is one way I can play the oil price boom through the US market. The company is a land drilling contractor which is benefiting from growing demand for rigs and still trades at an attractive valuation. Nabors has been one of the main contributors to performance in recent months.

WHAT IS YOUR VIEW ON HOW THE US MARKET COULD FARE THIS YEAR?

I am cautiously optimistic on the longer-term prospects for the market. Short-term, however, I prefer to be more defensively positioned.

There are some potential headwinds that could stall any imminent recovery. We're already seeing a slowdown in consumer spending as credit availability is reined in and consumers deleverage. This pull-back is likely to put pressure on margins in the retail sector. It's also proving hard to call the extent that European and Asian economic growth is being affected by what is going on in the US and in the financial sector. If they start to turn down, that could make it harder for the US to pick up again soon.

However, the market is already pricing in much of the economic uncertainty and so I think, on balance, the significant correction we have already seen means that the risk/reward opportunity is quite attractive. Corporate America (ex financials) still looks pretty healthy, with strong balance sheets and good cash flow. This puts them in a good position to buy back stock during any market weakness, having the twin effect of improving their per-share valuation metrics and also providing some share price support.

I think the steps that the Fed has taken are also encouraging, both in trying to shore up market liquidity and in trying to help out the consumer with interest rate cuts. Some of the pressures are already being alleviated on the housing market. I believe that the housing market could bottom during the course of this year and that will be an indicator to position the portfolio towards a cyclical recovery. It's too early to make that move now but I'm already starting to think about what changes I might make to the portfolio when that time comes.

There's also a lot of talk about how the slide in the US dollar is a bad thing. In some ways, that dollar weakness could help the US in its current situation, by exporting the economy out of recession. I think that sentiment towards the dollar is so poor right now that over the short to medium term, we will see some reversal begin. Once there are signs of improvement in the dollar, I believe that will see investor appetite for US equities significantly improve once more.

