



JULY 2008

**Bob Haber**

**Portfolio Manager**

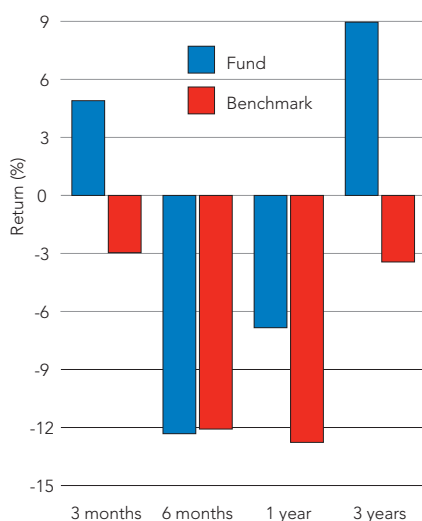
Bob is Chief Investment Officer of Fidelity Investments Canada in addition to being a portfolio manager at Pyramis Global Advisors, a subsidiary of Fidelity's US affiliate, FMR LLC. He has managed Fidelity American Special Situations Fund since 1 July 2006.

Prior to becoming a portfolio manager in 1998, Bob served as Director of US equity research. He joined FMR in 1985 as a research analyst following the technology and energy industries.

Bob holds an MBA from Harvard Business School and both a BS and an MS in Chemical Engineering from Tufts University. He is a member of the American Institute of Chemical Engineers and of the Financial Analysts Federation.

**CUMULATIVE PERFORMANCE**

as at 30.06.08



Source: Morningstar Workstation. Bid-bid, net income reinvested excluding initial charge in GBP. Benchmark: S&P 500 Index

FIDELITY AMERICAN SPECIAL SITUATIONS FUND

**CAPITALISING ON THE POTENTIAL TO BE FOUND IN A WORLD-LEADING MARKET**

Over the past year, US investors have grappled with (amongst other things) a collapsing housing market, a seriously impaired financial system, the real prospect of recession and, most recently, the rising spectre of inflation. It is little wonder that it has been a volatile ride. Some may see that as reason enough to avoid US equities. Bob Haber, portfolio manager of Fidelity American Special Situations Fund, thinks otherwise. As the first global economy and stockmarket to turn down, he believes it now stands on the cusp of an improving environment. Here, he shares why that is and what he is doing to capitalise upon that opportunity.

**WITH SO MANY NEGATIVE HEADLINES AROUND THE STATE OF THE US ECONOMY, WHY SHOULD INVESTORS CONSIDER A US EQUITY EXPOSURE JUST NOW?**

This year started out by showing a sharp decline in the US market as pessimism around the depth of the US recession and the troubles of the financial system took hold of sentiment. It was a continuation of the negativity which became ingrained in the investor mindset as the sub-prime scandals broke last year. That negativity bottomed out when the Fed stepped in to bail out Bear Stearns in March. By showing itself to be so accommodative of the situation, the Fed made a major contribution to rebuilding confidence in the market. Some of that confidence has since been eroded as inflationary fears took hold as a further threat to the US economy and we've consequently seen the market give up some of those gains since March. I think investors need to look beyond those immediate pressures.

The US is still a world leader in many growth areas and I believe that those growth stocks are priced quite inexpensively. Some valuations are pricing in US-level growth when, in fact, many companies are exposed to faster growing markets overseas. Materials, energy and the industrials sectors are, for example, driven much more by global growth than by domestic growth. There is little or no exposure to the US consumer.

Sticking with the US in a global context, the US dollar has been weak for a long time and that has made investors wary of buying into the US. As other markets now follow the US in lowering interest rates in response to the economic climate, that has improved the relative attractions of the greenback and we've seen the dollar stabilise. That's another encouraging sign.

Lastly, the corporate sector is still in good shape, in general. Some specific sectors may have issues to overcome – the banks being one – but, in general, balance sheets are sensibly leveraged and pretty healthy and cash flow is still good.

We have cheap stocks, good fundamentals and an improving currency – that has to be a good reason for thinking the worst may now be behind the US.

**YOU MENTIONED THE WEAK DOLLAR AS A POSITIVE FOR US EQUITIES. COULD YOU SHARE SOME EXAMPLES OF HOW THAT PLAYS OUT?**

The dollar has been weak against almost every major currency. It has been a theme in the portfolio for some time to exploit that trend by looking at companies who gather a lot of their earnings overseas and then benefit from repatriating those foreign profits into dollars. One of the most successful examples of this strategy has been Nike. Even though it is a consumer stock, it is a highly respected global brand and earnings have consistently come in ahead of expectations. More than half of the company's revenues come outside of the US. Another example that's worked for me has been in the medical technology space. Again, a lot of US companies are world leaders in this market segment and have significant overseas exposure.

**TOP TEN HOLDINGS (%)**

as at 31.05.08

	Fund	Benchmark
Hewlett-Packard	4.7	1.0
Thermo Fisher Scientific	4.2	0.2
Nike	4.1	0.2
Invitrogen	4.1	0.0
Assurant	4.1	0.1
Annaly Mortgage Management REIT	4.1	0.0
Oracle	4.0	0.7
Bunge	3.9	0.0
EnSCO International	3.8	0.1
BMC Software	3.7	0.1

**SECTOR ALLOCATION (%)**

as at 31.05.08

	Fund	Benchmark
Energy	17.1	14.3
Industrials	13.6	11.7
Information Technology	13.2	16.6
Financials	12.7	15.9
Health Care	10.9	11.4
Consumer Discretionary	9.1	8.5
Consumer Staples	8.6	10.5
Materials	4.6	3.7
Telecom Services	4.2	3.5
Utilities	3.5	3.7
Cash	2.7	0.0

Source: Fidelity  
Benchmark: S&P 500 Index

*"I am becoming more positive in my outlook for US stocks, with the low interest rate environment, some interesting yield curve plays and US exporters continuing to benefit from dollar weakness. However, there are some major differences in prospects at a sector level and good stockpicking presents the best opportunity to profit while markets remain volatile."*

Bob Haber, Portfolio Manager

**DOES HOLDING NIKE INDICATE A MORE POSITIVE VIEW ON THE CONSUMER SECTOR?**

Consumer discretionary stocks have been amongst the hardest hit in the market. I believe there are further headwinds for the consumer, and this sector, ahead. For that reason, I am still not a big proponent of "big ticket" items like automobiles. I have, however, taken advantage of market weakness to introduce a greater exposure to the sector through some selected stocks that had been unnecessarily beaten up. I'm now marginally overweight after buying into Nike, as mentioned, and Warnaco, the global distributor of Calvin Klein casualwear, where I still anticipate good growth coming through. They offer strong earnings potential and now come at quite attractive valuations.

**THE OTHER SECTOR WHICH HAS BEEN BEATEN UP IS FINANCIALS. ARE YOU BECOMING MORE POSITIVE ON THEM TOO?**

I had moved the portfolio towards a more neutral position during the first selling wave of the year. I picked up some good stocks in the market dips. Not all financial companies are suffering – or will suffer – because of the credit crunch and I believe that the survivors will do very well as the market begins to acknowledge the quality of the earnings stream coming through from them. I added positions in regional banks, less exposed to the sub-prime issues, and Berkshire Hathaway, which is doing well from opportunistic investments in the insurance sector.

We've seen financials come under pressure again through the earnings season and that has brought the portfolio back to an underweight stance. Being below-market-weight in some of the bellwethers such as AIG, JPMorgan Chase and Bank of America has added some positive relative gains to the portfolio through May, as they all gave up ground.

**AS WELL AS THE CREDIT CRUNCH, INFLATION IS NOW A GROWING ISSUE FOR THE ECONOMY. RISING OIL PRICES IN PARTICULAR SEEM TO BE AN ISSUE IN THE US. HOW CAN YOU PROTECT AGAINST THIS IN THE PORTFOLIO?**

A major new theme for the portfolio is US natural gas. Oil companies have been very strong on the back of the rampant oil price and I believe that natural gas companies offer more attractive valuations. They are a play on natural gas's energy equivalence to oil – and so benefit from the rising oil price environment – but they are also a play on the growing green theme in the US. The US has to come to grips with new legislation around climate change and carbon accounting. Natural gas should be a major beneficiary of this as it is an abundant domestic source of clean energy. We should see higher prices, more drilling and, for those companies engaged in the industry, higher earnings and cash flow. My biggest position in this new segment is top ten holding EnSCO International, an offshore drilling contractor based out of Texas.

**RISING FOOD PRICES ARE ALSO ADDING TO INFLATIONARY PRESSURES. DO YOU HAVE ANY POSITIONS WHICH BENEFIT FROM THIS ISSUE?**

The food price inflation we are seeing is as much a demand issue (a growing global population) as it is a supply issue (limited available arable land). This is not a new phenomenon but it is one that has been more publicly commented upon in recent months. However, there has been an agricultural theme in the portfolio for a long time already, playing into this idea of increased demand for soft commodities.

The fund did very well from a position in Terra Industries but I've recently switched this into Mosaic. Mosaic is more geared into the growing demand for potash fertiliser. With global demand for fertiliser rising strongly, Mosaic has an opportunity to significantly expand its margins through higher prices. I also continue to have a large overweight position in AGCO, a leading distributor of agricultural equipment. These two stocks provide quite different opportunities to benefit from the need to increase crop yields and farming efficiency to meet the world's growing demand for basic foodstuffs.



Printed on paper made from 50% recovered fibre and 50% virgin wood fibre. Manufactured at a mill that has been awarded the ISO14001 certificate for environmental management. Pulp bleached using an elemental chlorine free (ECF) process.

