TALKING **POINT**

A PERSONAL PERSPECTIVE FROM FIDELITY

APRIL **2008**

FIDELITY EUROPEAN OPPORTUNITIES FUND

SECULAR GROWTH STOCKPICKING IN EUROPE

Colin Stone

Portfolio Manager

Colin joined Fidelity in 1987 working for six years as a research analyst and as Anthony Bolton's assistant on European equities portfolios. In 1990 he became a portfolio manager, managing Fidelity Funds Nordic Fund for nearly nine years and Fidelity Funds Iberia Fund for approximately four years. Colin has managed the Fidelity Funds European Smaller Companies Fund since launch in December 1995. He took over managing the Fidelity European Opportunities Fund in January 2003.

Prior to joining Fidelity, Colin spent two years as an engineer at Britoil. Colin has an M.Eng from the Herriot-Watt University, UK.

CUMULATIVE PERFORMANCE (%)

as at 31.03.08

	Fund	Benchmark
Year To Date	**-8.7**	-7.5
1 Year Cumulative	**2.9**	2.3
3 Years Cumulative	**57.2**	54.6
5 Years Cumulative	**173.0**	148.5
Since Launch (12.09.88)	**1034.4**	699.2

Source: Morningstar. Basis: bid-bid with net income reinvested. Benchmark: FTSE World Europe ex-UK (NUK)

In the last 12 months (to the end of March), the Fidelity European Opportunities Fund has had a solid year, outperforming its benchmark FTSE World Europe ex-UK Index by 0.7% and ranking in the top decile of funds in the Europe ex-UK Sector peer group. The fund has outperformed in each calendar year during Colin Stone's tenure, with a cumulative return of 174% (31.01.03 to 31.03.08), significantly outperforming the benchmark, which returned 141% over the same period.

Here, Colin provides an update on the fund, examining the key drivers of his outperformance, as well as addressing the changes he has made to portfolio positioning during the market turmoil. He also gives further insight into investing in Europe in the current climate and offers his outlook for the market.

WHAT IS SPECIFICALLY DIFFERENT ABOUT YOUR INVESTMENT STYLE?

First and foremost, I am a bottom-up stock-picker with a disciplined approach to stock selection.

In terms of my investment style, I have been a 'growth' manager since I started running a European Smaller Companies fund in 1995. I take a long-term approach, identifying unrecognised growth and uncovering tomorrow's winners. I look for companies: that are leaders in niche markets with a strong competitive advantage; have profit growth that is visible and sustainable; enjoy strong free cash flows that offer the potential for dividend payouts or share buybacks; and have management incentives aligned to those of the shareholders.

My search for companies with strong revenue growth means there is a bias towards small- and mid-cap stocks in the fund, as there are few genuine large-cap growth stories in the European investment universe. I am very focused on earnings estimates. I use Fidelity's superior research to get a competitive edge in forecasting earnings. If a company can beat consensus earnings estimates and surprise on the upside then, nine times out of ten, the stock price will outperform.

I have what could be described as a 'Darwinian' sell-discipline. Strong new ideas will push out any existing holdings that have reached their target price. If I see that better opportunities exist elsewhere, or there has been a change in the investment thesis, I will sell. The lifeblood of the fund is the stream of new investment ideas generated by Fidelity's research analysts.

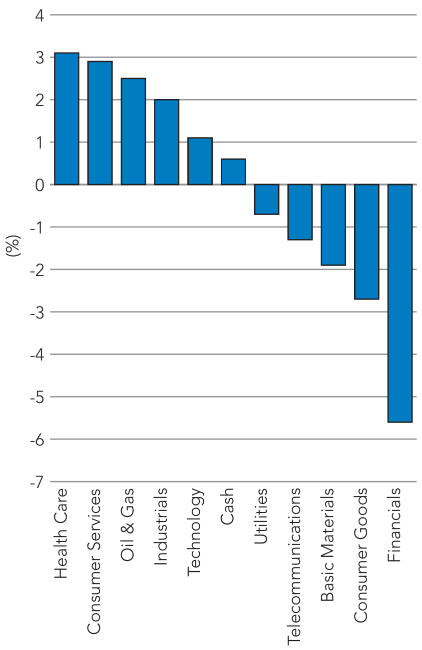
HOW DO YOU EXPLAIN THE STRONG PERFORMANCE OF THE FUND?

Over the last twelve months, I am pleased to say that the fund has again enjoyed strong performance. Value has been added in 8 out of 10 industry groups, with strong stock selection in consumer goods and services, basic materials, financials, health care and telecommunications.

Stock selection has also been the main performance driver over the longer term. I have tended to be overweight companies within sectors – in particular health care and technology – where I can see the potential for long-term growth. It is particularly pleasing that the strong long-term performance has not been the result of picking one or two 'big' winners, but has been generated by systematically getting a large number of individual stock decisions right. I have been assisted by the outstanding research analysis at my disposal at Fidelity.

It has obviously been a tricky environment in the last three months, yet my convictions remain unchanged.

RELATIVE SECTOR WEIGHTINGS (%)
as at 29.02.08



Source: Fidelity. Benchmark: FTSE World Europe ex-UK Index (NUK)

HOW DO YOU EXPECT YOUR GROWTH STYLE TO PERFORM IN 2008?
Since 2001, we have witnessed an extended period where a "value" style of investing has outperformed "growth". This is largely due to the fact that "value" benchmark indices comprise a large proportion of cyclical companies, such as industrials, whose stock prices have soared, driven by the remarkable improvement in companies' profitability since 2002. We are now entering a period of slowing global GDP growth and are likely to see more downward earnings revisions going forward. This would hurt cyclical companies most of all. I believe that long-term growth stocks have the potential to outperform in this environment of earnings growth becoming scarce, and that, in these conditions, I will be able to add value through secular growth stock selection. During the last severe economic slowdown in Europe, in 1990-1991, we saw the growth style index outperform.

CAN YOU GIVE SOME EXAMPLES OF STOCKS THAT HAVE BEEN CONTRIBUTORS OR DETRACTORS TO FUND PERFORMANCE?
Vestas Wind Systems has been a very successful 'growth' story and one of the strongest contributors to performance over the last twelve months (to the end of February), achieving a total return of 93% during the period. Vestas is the world's leading supplier of wind-power-energy solutions. Over the past few years, our research into Vestas has been based on substantial due diligence and background analysis, which has enabled me to build strong conviction that the company can deliver on its business plan, in order to improve profit margins and return on equity.

Seadrill, a rig operator, has a very high exposure to deep water offshore oil exploration drilling; a sector where demand is growing rapidly and there is a shortage in supply. It takes at least 4 years to add new capacity. The share price returned 45% over the last twelve months (to the end of February), as day rates for its rigs continued to move upwards.

Paddy Power, Ireland's largest sports betting company, operates through licensed betting offices and also has a large online betting operation. The shares returned 24% over the last twelve months (to the end of February). Paddy Power has adopted a rapid expansion strategy, throughout Ireland and mainland UK, particularly in London. The on-line gambling business has driven the company's profitability in the last few years, and unlike other on-line gambling business that suffered from exposure to the US market, their market is almost entirely based in Ireland and the UK.

On the negative side, the underweight position in Nokia hurt performance over the last twelve months, as well as poor performance in the last quarter from some solar power companies.

HOW DID YOU ADAPT THE FUND TO THE MARKET VOLATILITY?
As at end of February, the fund is overweight health care, consumer services, oil & gas, industrials and technology and underweight financials, consumer goods, basic materials and telecommunications.

Over the last 5 months, I have made changes in the positioning to adapt the fund to this challenging market environment.

Against a more uncertain backdrop, the portfolio has been shifted in favour of defensive growth at the expense of cyclical growth stocks. These stocks should be better able to withstand a potentially more difficult macroeconomic environment.

In particular, I reduced the position in consumer goods and services from a sizeable overweight to respectively underweight and slight overweight, through a significant reduction in the fund's exposure to consumer discretionary stocks. I sold the entire holdings of luxury goods company Richemont and l'Oreal.

TOP TEN HOLDINGS (%)

as at 29.02.08

	Fund	Benchmark
E.ON	**4.0**	1.9
TELEFONICA	**3.9**	2.1
ROCHE HOLDINGS GENUSSSCHEINE	**3.2**	2.1
ACTELION	**2.6**	–
SEADRILL	**2.5**	0.1
NESTLE (REGD)	**2.3**	2.9
MODERN TIMES GROUP	**2.2**	–
NOKIA	**2.2**	2.2
UNICREDIT	**2.2**	1.1
STATOILHYDRO	**2.1**	0.6

Source: Fidelity. Benchmark: FTSE World Europe ex-UK

In contrast, I increased the position in the utilities sector from underweight to neutral, through the purchase of selected companies, such as the Italian multi-utilities company ASM, which should experience substantial cost reductions, driven by synergies from its merger with AEM.

The fund remains significantly underweight in the financials sector, however the underweight was reduced through the purchase of a selection of stable and cash-generating stocks, such as Zurich Financial Services and Unibail-Rodamco.

While the fund's exposure to industrials was increased, the stocks purchased were relatively defensive. They included Q-Cells, the solar power equipment company, Alstom with its attractive exposure to growth in global power generation, and Finmeccanica.

WHERE DO YOU CURRENTLY FIND SECULAR GROWTH?

I am playing a number of long-term themes across the portfolio. I have substantial exposure to businesses that will benefit from the global shortage of energy resources, in particular oil services and renewable energy stocks. Emerging European economies are also interesting, and I am finding good growth prospects in the media, property, consumer goods and banking sectors. Within health care, I am underweight pharmaceuticals and overweight medical devices and bio-technology.

In addition to these themes, I also invest in "roll-out" businesses, such as Rosinter Restaurants, the Eastern European restaurant chain. Rosinter floated in June last year and operates a leading portfolio of brands, including: TGI Friday's, Il Patio – an Italian restaurant format, Moka Loka, Planet Sushi and Benihana.

The company's expansion strategy, targeted to meet the demand of the burgeoning middle-class in Russia, Central Europe and the Baltics, is achieved through both corporate development and franchising. They have a roll-out expansion policy that is focused on relatively untapped high-growth markets, in particular Siberia, the Far East, the Volga and the Urals. Rosinter are typically the first mid-market chain restaurant operator to establish units in these regions and to provide a good quality, reliable product.

WHAT DO YOU EXPECT FOR THE REST OF THE YEAR?

I expect to see further downward revisions to 2008 earnings growth estimates. My main concerns are the knock-on effects of a US consumer slowdown, and I have moved to avoid stocks exposed to US demand. The housing slowdown in the UK, Ireland and Spain is likely to impact consumer spending, and this is an area that I will continue to monitor carefully.

But I do not think that the current environment is unfavourable for my investment style. The fund is benefiting from a good flow of new ideas from Fidelity's research analysts, even though the economic climate is getting more inclement. I think the fund's growth bias now has the potential to act as a 'tailwind' for strong returns going forward.

"Against an uncertain backdrop, where earnings growth is becoming scarce resource, I expect secular growth companies to gain investors' favour and to outperform their more cyclical peers".

Colin Stone, Portfolio Manager