TALKING **POINT**

A PERSONAL PERSPECTIVE FROM FIDELITY

JULY **2008**

FIDELITY UK GROWTH FUND

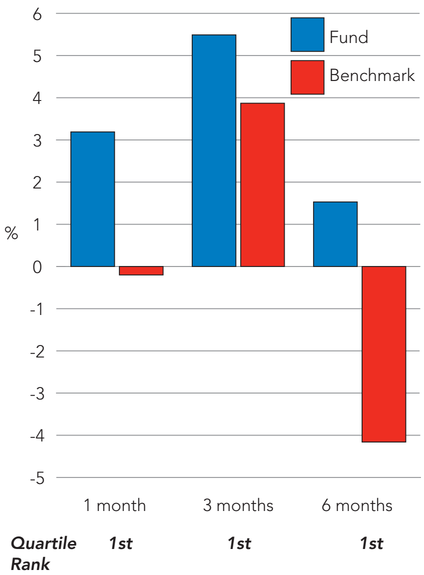
AN ORIGINAL APPROACH TO UK GROWTH

Tom Ewing
Portfolio Manager

Tom Ewing joined Fidelity International in 2000 as a support services and distributors Analyst. From 2002 to 2004, he was a biotechnology Analyst, and between 2004 and 2006 he was an integrated oil & gas Analyst and also natural resources Sector Leader. Tom became a Portfolio Manager – UK Equities in 2007. He has 7 years investment experience.

Tom has a BA (Philosophy, Politics & Economics) from St. Johns College, Oxford and has a MS in Political Science from the Massachusetts Institute of Technology.

CUMULATIVE PERFORMANCE
as at 31.05.08



Source: Morningstar Workstation as at 31.05.08. Bid to bid, net income reinvested.
Benchmark: FTSE All-Share Index
Sector: UK All Companies

Tom Ewing took over the Fidelity UK Growth Fund in December 2007, engineering an impressive turnaround in performance that has seen the fund place in the first quartile of the All Companies sector over 1, 3, and 6 months. In this Talking Point, Tom reveals his investment style, discusses the drivers behind recent performance and provides some insight into the current positioning of the fund.

WHAT HAS DRIVEN THE RECENT GOOD PERFORMANCE OF THE FUND?

The Fund has benefited from investing in the beneficiaries of emerging growth themes. For instance, the overweight position in the mining sector has been a major positive as Asian infrastructure spending has supported metal prices. Similarly, an overweight investment in the oil and gas sector has also been positive. Since taking on the fund, I have cut the number of stocks to about 55 as I want the portfolio to reflect only my best ideas. If I have strong conviction in a stock, then I am willing to back my judgement. I will not invest in a stock simply because it is a big part of the index if I feel that the fundamental outlook is weak. For instance, despite my positive view on the energy sector, I am underweight in Shell which has performed poorly due to concerns over production and escalating costs.

HOW WOULD YOU DESCRIBE YOUR INVESTMENT STYLE?

Essentially, I look for unrecognised growth. The market can overlook sources of growth and be slow to recognise the beneficiaries of emerging growth themes. In order to outperform, I know that I have to think differently from other investors and exploit original investment insights. This requires thinking about wider economic themes and secular trends that are affecting companies and the markets they operate in. Chinese domestic consumption and global infrastructure spending are two examples of current growth themes.

There are a number of ways to exploit emerging growth themes. Firstly, I seek to identify a positive theme at an early stage and to invest in those companies that are direct beneficiaries. Secondly, I can also target an existing, well-established theme but look for indirect beneficiaries whose exposure to it has not yet been fully recognised by the market. I favour investment in companies that can effectively offer me something for nothing; they may appear fairly valued on a superficial basis but further investigation can reveal they are set to benefit from an unrecognised source of growth.

CAN YOU GIVE SOME EXAMPLES OF YOUR INVESTMENT STYLE?

A good example of a stock whose growth potential is not priced in is Capita; one of the leading providers of government services and a direct beneficiary of the government's desire to spend more. The current valuation may seem reasonable, based on existing contracts, however, when you consider the public sector will continue to outsource further services and the fact that Capita is in a good position to win those contracts, there is considerable growth potential in the stock that is not yet discounted in the share price.

I also look for companies that have been misperceived by the market. Cookson is a good example of a UK engineering company that is, in the minds of some investors, still associated with the bursting of the technology bubble. Certainly, the company had some financial problems and pension difficulties; however, new management has come in and rejuvenated the balance sheet, tidied up the pension issues, sold off non-performing divisions and re-focused the business around its growth areas. Now one of Cookson's most significant divisions is its ceramics business which supplies the global steel industry. Given my view that steel volumes will continue to grow, Cookson is in a strong position to benefit. This is not yet factored into its valuation, meaning the company looks cheap compared to other engineering companies exposed to emerging market growth.

TOP TEN HOLDINGS (%)

as at 31.05.08

	Fund	Benchmark
BP	**9.5**	6.8
RIO TINTO (UK)	**6.4**	3.6
BG GROUP	**5.4**	2.5
VODAFONE GROUP	**4.0**	5.1
XSTRATA	**3.5**	1.7
RECKITT BENCKISER	**3.2**	1.3
VEDANTA RESOURCES	**3.0**	0.2
CAPITA GROUP	**3.0**	0.2
STATOIL	**2.9**	-
BAE SYSTEMS	**2.9**	0.9

Source: Fidelity.

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Tom Ewing, Portfolio Manager

PZ Cussons is known for its soap and hair-care franchise in the UK, which provides defensive growth characteristics. Less well known is the fact that the company is now deriving a significant proportion of its profit from its rapidly growing Nigerian business. The Nigerian economy is expanding strongly on the back of higher oil prices and Cussons is well placed to benefit thanks to its well established distribution network.

HOW DO YOU FIND IDEAS FOR THE FUND?

I look at a vast range of data and news sources on a daily basis as I want to be wide ranging in my approach. My research coverage is eclectic as well as extensive, since emergent growth themes can be uncovered in areas one might not initially expect from a company's industry grouping. I also draw extensively on Fidelity's global research capability which acts as a fertile source of ideas. If I need to find out more about what's happening to the Chinese consumer, I can speak to our consumer analyst based in Hong Kong and get an up-to-the minute view of the situation and then assess the implications for the UK stock market. Lastly, but perhaps most importantly, I believe in significant company contact. Fortunately, this is an area where Fidelity has exceptional access to senior management thanks to its size and reputation within the investment business.

WHAT GROWTH THEMES ARE YOU CURRENTLY PLAYING IN THE PORTFOLIO?

The growth in China is an obvious theme. What is not appreciated by most people however is the sheer scale of the developments that are taking place. For instance, around 350 million people are expected to move from rural to urban areas over the next 20 years[1]. This is one of the largest migrations of people in history and it is already generating huge demand for infrastructure investment. These developments mean that the domestic economy has its own internal momentum and is actually fairly well insulated to a slowdown in growth rates in other parts of the world, such as the US. In terms of investing in UK companies that can benefit from Chinese growth, we have to recognise that, in time, China is going to be able to produce most things itself, given its access to vast capital and its huge labour force. There are however certain areas where China simply cannot replicate the products and two examples are commodities and brands.

Rio Tinto is a diversified mining company benefiting from Chinese demand for raw materials. It has dominant positions in copper, aluminium and iron ore production. I think the holders of these finite resources are in a very strong position.

Brands, particularly premium brands, are becoming more powerful as the burgeoning Chinese middle class seeks to emulate the western lifestyle that they have become increasingly exposed to through television and the internet. For example, the drinks giant, Diageo, is set to benefit from increasing demand for its branded whiskies, which include Johnnie Walker and J&B.

Sources: 1 McKinsey & Company, March 2008

HOW IS THE FUND CURRENTLY POSITIONED?

I think the outlook for UK banks remains challenging. They have enjoyed excellent profit growth for a sustained period; however, much of the fundamental supports that have underpinned this growth are now compromised, meaning there is limited visibility on earnings growth for 2009 and 2010. Ultimately, I believe I can find stronger stock stories elsewhere. I remain positive on mining stocks as they will continue to be beneficiaries of industrialisation and infrastructure spending in Asia. The copper price, in particular, looks well supported by tight conditions on the supply side. I also remain overweight in the oil and gas sector, with preferred holdings in BP, BG and Statoil. Lastly, I continue to find value in the industrials sector, where certain stocks have strong business models and attractive valuations.

50%

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