

## Looking for value in a slow growth economy



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Adrian sits within Fidelity's Global Equity Team in London. He joined Fidelity in January 2006 and has managed FF-America Fund since January 2008.

Prior to joining Fidelity, Adrian spent six years at Investec Asset Management, first as a global equity analyst and then, later, as a global equity portfolio manager. Before that, he was an analyst at Schroder Investment Management between 1995 and 2000.

Adrian is a CFA charterholder and holds a BSc (Joint Honours) in Economics and Politics from Bristol University.

**There was a sharp sell-off in US equities recently and although markets have rebounded, there are fears that the US might undergo a more protracted slowdown than previously thought. But in this slow growth environment, Adrian Brass, portfolio manager of the Fidelity Funds - America Fund, believes there are companies that not only offer value but also offer the potential for growth. Adrian offers his views on the current market environment and how he has recently positioned the Fidelity Funds - America Fund.**

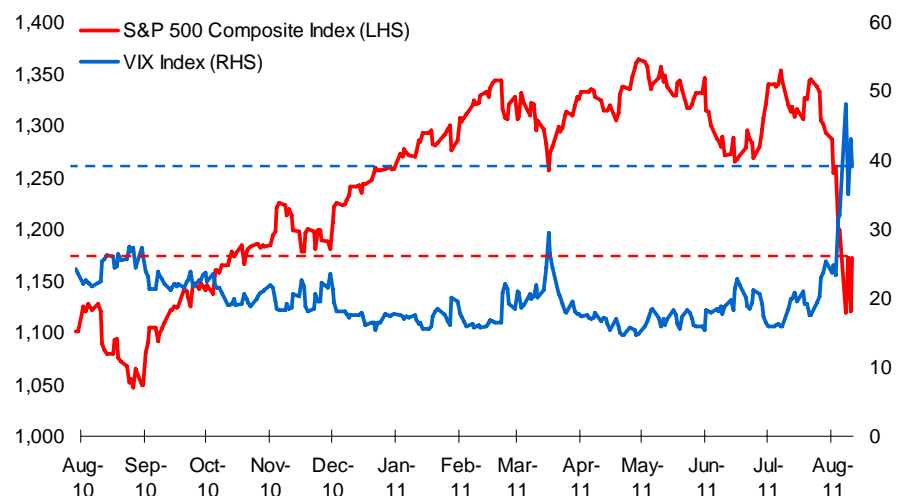
### WHAT ARE YOUR VIEWS ABOUT THE RECENT MARKET VOLATILITY?

There are many factors underlying the aggressive sell-off we experienced last week. Broadly, they represent a dramatic deterioration in confidence in the economy, policy and the structure of sovereigns. On the economic front, the US (and global) economies are experiencing decelerating growth and a deterioration in forward looking indicators. Further, some of the structurally challenged areas of the US economy such as employment and housing remain stubbornly weak, even with the benefit of the substantial 'QE2' stimulus program (now ended). On the policy front there has been a dramatic deterioration in sentiment over recent months with increasing fears that sovereign indebtedness is so extended that the unthinkable prospect of a major sovereign default could become a possibility.

This has manifested in a rapid unfolding of macro events. We first saw a sharp rise in yields on Italian and Spanish government bonds, before the ECB intervened through sovereign purchases. We then witnessed a symbolic downgrade of US Treasuries from their coveted triple-A status by Standard & Poor's. Finally, rumours spread that France was next in line for a downgrade and that its banks had liquidity issues – this quickly prompted several nations, including France, to implement a short selling ban on financials.

All of these events have shaken investor confidence. It is likely that every piece of economic data released in the coming weeks will be scrutinised thoroughly and that the market response will be exaggerated. But as investors become more comfortable with the prospect of lower economic growth, I think we will see a change in stock market leadership that will see investors seek out good-quality companies that are likely to benefit from long-term growth trends. Previously valuations for these companies may have seemed mediocre, but this recent correction has created some excellent value. Markets appear to have overreacted, shifting from monolithic extremes of optimism to pessimism and investors now have a lot more choice than before.

### MARKET VOLATILITY SPIKED WHILST EQUITIES PLUMMETED



Source: DataStream, 09.08.2011

## TOP 10 SECURITY HOLDINGS (%)

as at 31.07.11	Fund	Benchmark
Apple	3.9	3.1
Microsoft	3.1	1.7
Chevron	2.9	1.8
Google	2.6	1.3
Philip Morris International	2.5	1.1
Wells Fargo	2.1	1.3
Oracle	2.1	1.0
Pfizer	2.0	1.3
Ebay	1.9	0.3
Coca-Cola	1.8	1.3

Source: FIL Limited.

Benchmark: S&P 500 Index

Top security holdings are those securities in which the largest percentage of the fund's total assets are invested. Holdings in different securities issued by the same company are listed separately and any exposure achieved by derivatives is not shown. This means that the data may not always represent the total exposure of the portfolio to any given company. A full list of holdings, including derivatives, can be found in the fund's annual and/or semi-annual report and accounts. References to specific securities are for illustrative purposes only and are subject to change without notice. They should not be construed as a recommendation or advice to transact in the securities.

## HOW HAS THE FUND PERFORMED RECENTLY?

The fund has underperformed relative to the benchmark in the sell-off, despite having moved to a defensive position. This is due to a range of factors, which I believe I will ultimately be able to turn to my advantage over the medium-term. This has been my experience in previous sell-offs. Firstly, my strategy is to focus on cheap stocks and as a strategy, value stocks have performed poorly – markets are paying an extended premium for growth stocks in this uncertain economic growth environment. Second, I tend to hold an overweight position in mid-caps due to being a bottom-up stock-picker. Again, in this confidence shock, the market has flocked to the perceived safety of large-caps. Lastly, my cyclical exposure has been focused on areas where we feel the fundamentals are likely to get incrementally better from this point on; these include later-stage-cycle industrials, hospitals and technology services. Rising risk aversion has led markets to be less patient waiting for later-cycle areas to improve; even though such stocks have substantial relative upside, they have performed poorly in the sell-off.

## HOW HAVE YOU POSITIONED THE FUND?

In recent months, I have shifted the fund toward more defensive sectors and then later into cyclicals that were at the latter stages of their lifecycle. The main areas I have added to are healthcare, software and aerospace. This is where I saw incremental opportunities in terms of relative valuations and improving fundamentals. Overall, this has left the fund in a slightly defensive position, after having been overweight cyclicals for the past two-and-a-half years. Prior to the correction, this shift in the portfolio's position made sense – market expectations for growth seemed high, whilst valuations, although not expensive, did not seem that appealing.

## WHAT IS YOUR OUTLOOK FOR THE US EQUITY MARKET?

There are many new investment opportunities following the sharp sell-off that I will slowly take advantage of. The correction has been largely indiscriminate and is now pricing in a severe contraction in the outlook for growth. My focus will be on companies that are attractively valued and that can grow even in a low-growth GDP environment. This has been my strategy for investment over the past six months.

*“Although markets have priced in a severe contraction in economic growth, I remain focused on attractively valued companies that can grow even in a low growth GDP environment.”*

Adrian Brass, Portfolio Manager



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