

## Positioning for growth

**Brenda Reed** is portfolio manager of the Fidelity Funds - Global Focus Fund.

She has been with Fidelity for 17 years. Prior to running global equity portfolios, Brenda was Director of Research in London and Tokyo.

She also managed Japanese equity portfolios in Tokyo, as well as other mandates earlier in her career in Boston.

She is supported in London by the Global Equity Team, composed of six global sector portfolio managers, two US equity managers, two additional global equity managers, two dedicated quantitative analysts and 400 analysts located around the world.

Brenda manages more than \$1.3 billion for Fidelity clients.

**Brenda Reed, portfolio manager of Fidelity Funds - Global Focus Fund, shares her views on how she has positioned her fund to take advantage of the opportunities now being presented. She explains the changes she has made to the fund that have allowed her to deliver returns through an uncertain and volatile market environment.**

### THE GLOBAL ECONOMY IS RECOVERING. WHAT DOES THIS MEAN FOR COMPANIES?

The global economy appears to have stabilised in the third quarter. This is good news for companies, many of whom reported better-than-expected quarterly results in the latest earnings season.

Looking forward, I expect continued inventory restocking and the US's spending of the rest of its fiscal stimulus to create additional global demand in coming months.

### HOW IS THE FUND CURRENTLY POSITIONED?

The fund is positioned to take advantage of this renewed global growth and demand. This has seen the fund shift to being overweight in technology and basic materials, the latter including some metal and mining stocks.

The fund is also taking an increasing position in industrial companies. I'm finding the management of some of these have been exceedingly aggressive in cutting costs and I am convinced that the companies we own are going to have much higher margins than they did in the previous cycle.

Conversely, I am now underweight the boring staple companies whose defensive characteristics really helped the portfolio last year - telecoms, utilities and consumer staples.

### WHY IS THE FUND OVERWEIGHT TECHNOLOGY?

The thing that initially attracted me to technology was that it is an industry that has had consistent price cuts over time. It also has management that has had to manage through quite violent cycles, which is what we've seen in the global economy over the past year.

If we look at most technology companies, they have very clean balance sheets, very little debt, lots of cash and they generate excellent free cash flow, which I think is important in the new world we've moved into. I have also found technology companies to be cheaply priced, with high returns and good management.

Initially, the segment that I felt most confident in was the semi-conductor industry, because the industry had been so decimated with the downturn. We've seen that come through quite well; semi-conductors have stabilised, demand is improving and the stocks have performed very well. Hence, I've been starting to sell some semi-conductor stocks.

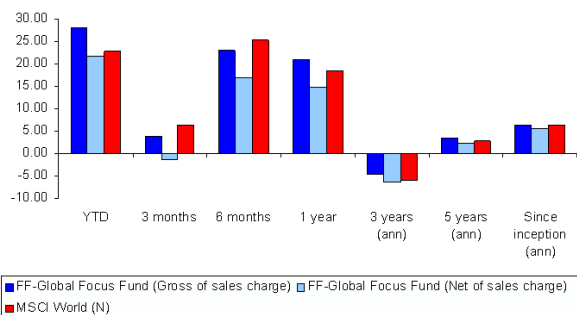
Now I'm more interested in the PC cycle. We have seen corporations all around the world cut back on their spending on PCs. The average PC on desks is very old and no longer under warranty. That's why we are expecting a new refresh cycle to start kicking in at the end of this year and the beginning of next year. The stocks of many PC manufacturers are also very inexpensive, so that's one of the current areas that I'm looking to exploit.

### WHAT TYPE OF MATERIALS COMPANIES ARE YOU FINDING ATTRACTIVE?

I'm very interested in platinum, as it has a store of value, much like gold is a store of value. It is a relatively rare metal. But the other key thing about platinum is that the main end use of platinum is in catalytic converters for cars. Sales of new cars dropped dramatically last year: the US had historically sold 17 million cars a year, but last year it was just 8 million. This year will clearly be better, which should benefit the platinum price.

### FUND RETURNS (%)

as at 31.10.09



Source: Fidelity. Performance figures are in USD terms NAV to NAV with dividends reinvested. Past Performance is not indicative of future performance

Since inception: 01.10.90

Benchmark: MSCI World (Net Lux tax) Index

*“One theme that plays out throughout the portfolio is my interest in companies that have kind of a self-help story, where companies are being proactive in aggressively reducing both their fixed costs and their variable costs.”*

#### WHERE ARE YOU FINDING THE MOST VALUE IN FINANCIALS?

At the beginning of the year, the area that I had the highest conviction in were investment banks, as their pricing spreads were exceedingly wide for trading and fixed income, equities, convertible bonds, and currencies. They have made a lot of money in the past couple of quarters and their stock prices performed exceedingly well. Now those spreads are starting to narrow, so I have been reducing my exposure to most investment banks.

I reinvested some of the proceeds into US commercial banks. What I'm looking for here are banks that are going to win market share, ones that have high consumer exposure and low commercial exposure. Although consumer loans may have been behind some of the difficulties experienced by US banks, they have since put aside a lot of money against that. They're now very focused on loan quality. We're already seeing signs that the non-performing assets on the consumer side of their books have peaked. And if they're starting to decline, I think this will drive a large re-rating in these stocks, which currently look undervalued.

#### WHAT DO YOU THINK ABOUT THE HEALTHCARE SECTOR?

The health care reforms the Obama administration is trying to introduce in the US in order to expand coverage and control costs have been well documented. As a result many companies have been substantially de-rated and are selling at record low price earnings multiples. This presents us with an opportunity to buy high quality companies, with high returns on invested capital and that are innovators in their industry.

One area I favour is generic pharmaceutical companies. These are the low cost providers of drugs that have come off patent. For example, we own South Africa's Aspen, which takes drugs that go off patent and comes up with a generic version and sells these low priced generic drugs into the entire African region, as well as across the Middle East, where there is huge demand but the majority of the population can only afford cheaper drugs. Aspen have a fantastic distribution network, which is very valuable, and also have a good R&D team.

#### WHY IS THE PORTFOLIO NEUTRAL THE ENERGY SECTOR? WHAT ARE YOUR VIEWS ON THE OIL PRICE?

I am quite bullish on the oil price, over the next year or so, as the economy rebounds. China's demand continues to be great and if the Western world's GDP recovers, then oil prices are likely to continue to rise over time.

In terms of companies, I favour those in exploration and production that are based in some of the up and coming new developments around the world. These tend to be located in areas that are off the beaten path. For instance, we own a company that operates in Colombia and another that produces offshore of India. A third one, Anadarko Petroleum, is a valuation-driven play on West African oil discovery. These are areas of high potential, and if the oil price is going up and their production comes through I think these stocks are going to be real winners for the portfolio.

#### HOW HAS THE FUND PERFORMED AS THE MARKET HAS TURNED?

Our timely switch from a defensive positioning in favour of a bias towards early cyclicals that were trading at distressed valuations (particularly those that had implemented radical cost cutting measures) proved rewarding. These individual holdings performed strongly after investors started to regain confidence and economies began to show signs of recovery. Many of these stocks have since reached my price targets and were sold.

#### HOW DO YOU COME UP WITH INVESTMENT IDEAS?

Fidelity has many analysts on the ground looking at companies in most of the countries around the world and they generate a lot of investment ideas. My colleagues in the global equity team based in London also come up with great ideas. All day long we sit and talk stocks, we argue about them. We talk about how we should value them. We talk about different competitors and their impact. Ideas may originate from company meetings, attending conferences, reading something or even going shopping. Any of these may spark an idea, which I may then do more work on and may ultimately result in a stock ending up in the fund.

#### LARGEST OVERWEIGHT POSITIONS (%)

as at 30.09.09	Fund	Relative
Novo-Nordisk	2.3%	2.1%
Standard Chartered	2.0%	1.8%
Anadarko Petroleum	1.9%	1.7%
Goldcorp	1.7%	1.6%
Ingersoll Rand	1.6%	1.5%

#### LARGEST UNDERWEIGHT POSITIONS (%)

as at 30.09.09	Fund	Relative
Exxon Mobil Corp	0.0%	-1.6%
HSBC Holdings Plc	0.0%	-1.0%
General Electric Co	0.0%	-0.8%
Procter & Gamble Co	0.0%	-0.8%
Johnson & Johnson	0.0%	-0.8%

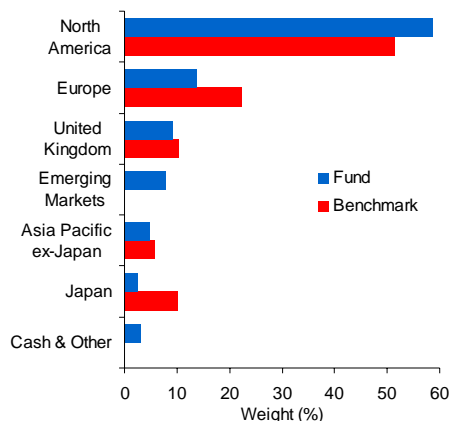
Source: Fidelity

Benchmark: MSCI World Index (Gross)

References to specific securities are for illustrative purposes and are subject to change without notice. They should not be construed as a recommendation or an advice to transact in them.

### Regional Allocation (%)

as at 30.09.09



### WHAT CHARACTERISTICS DO YOU LOOK FOR IN A COMPANY?

My favourite companies are ones that have high and rising returns on invested capital, have great free cash flow and really have some kind of added value versus the competition. It may be new patents or a new product cycle or any other competitive edge. I particularly like it if the company's management are really engaged and have a lot of money invested in the company themselves. This gives me conviction that management are doing the right things for shareholders.

### WHAT ASPECTS DO YOU PAY PARTICULAR ATTENTION TO RIGHT NOW?

In this still relatively challenging environment, one theme that plays out throughout the portfolio is my interest in companies that have kind of a self-help story, where companies are being proactive in aggressively reducing both their fixed costs and their variable costs. I am likely to build decent positions in such stocks if valuations do not reflect their improved profitability. I expect some of these firms to significantly overshoot brokers' earnings estimates, as demand for their products picks up.

### COULD YOU GIVE AN EXAMPLE OF SUCH A STOCK?

One example in the top 10 right now is US industrial conglomerate Ingersoll Rand. It's been built up through acquisitions and there are a number of different parts to the company. The interesting thing about it is that Fidelity can benchmark those individual segments of the company against their competitors and can see what the company earns versus their competitors in these segments. With new management that has a cost focus, I'm convinced Ingersoll will have margins far in excess of prior cycle margins, and the market is not pricing this in yet.

### DO YOU HAVE A LIMIT ON THE NUMBER OF STOCKS IN THE FUND?

I typically have somewhere between 100 and 120 companies in the fund at any point in time. These are all stocks that I have high conviction in, that I have good sized positions in. I do not tend to own stocks in which I am underweight relative to the benchmark. I want to own companies I strongly believe in, my very best ideas worldwide. So if something works, it really does matter to the performance of the portfolio. But it also gives me the flexibility to be buying new positions, be trimming other older positions that worked well. Over time, it just always seems to end up as 100 to 120 stocks. I guess that just shows you that we are able to find many great companies out there, many great opportunities and ideas to invest in.



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