

Keeping on the growth track

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Teera joined Fidelity in 1994 as a research analyst. In 1998, he became a Portfolio Manager and took over FF Thailand Fund. Subsequently, he moved to the UK in 2004 to manage FF- Global Telecommunications Fund. He relocated back to Hong Kong in July 2007 and began managing Emerging Asia portfolios.

Teera graduated from Chulalongkorn University, Thailand, with a Bachelor of Arts (Accounting). He also holds an MBA degree from the University of California, Berkeley, in the United States.

In the year since Teera Chanpongsang took over management of Fidelity Funds-India Focus Fund, it has strongly outperformed its benchmark and generated top quartile returns. The Indian economy has also shown equally remarkable resilience as economic growth recovered. Investors, however, are now becoming concerned about future growth prospects as rising inflation leads to further monetary tightening. Nevertheless, Teera remains optimistic that the country's structural growth opportunities can continue to drive attractive long term stock market returns.

WHAT HAS MOST HELPED THE FUND'S PERFORMANCE OVER THE LAST 12 MONTHS?

The fund benefited most from a positive stance towards consumer discretionary stocks. Domestic consumption grew strongly in 2009 even as the global economic environment remained subdued. India's structural growth trend provides a sustained topline growth to the sector. A young and fast-growing population continues to boost the country's workforce and consumer base. Low penetration of durable goods, growing affluence and a high savings rate also provide a strong base for demand growth. Noteworthy contributors from the sector were two-wheeler manufacturer Bajaj Auto, utility vehicles and tractors manufacturer Mahindra & Mahindra and Pantaloon Retail.

I also find the infrastructure sector attractive because, in order to sustain a high economic growth rate, the country needs to aggressively invest in building roads, ports, power plants, etc.

The government realises that and, under the eleventh five year plan, would augment the country's installed power capacity by 50%. It also plans to build 20 kilometers of road per day and has approved metro rail projects for many large cities. While there is a tremendous growth potential, power generation and engineering & construction firms trade at high valuation.

Therefore, I take an indirect exposure to the sector through firms such as the government-owned power finance company Rural Electrification Corp, truck manufacturer Ashok Leyland and railway wagon and earth moving equipment maker BEML. These stocks benefit from the growth of the infrastructure sector but are less exposed to execution risks. This strategy has proved rewarding in the last 12 months.

WON'T INDIA'S HIGH FISCAL DEFICIT MAKE IT DIFFICULT TO FINANCE AMBITIOUS INFRASTRUCTURE EXPANSION PROJECTS?

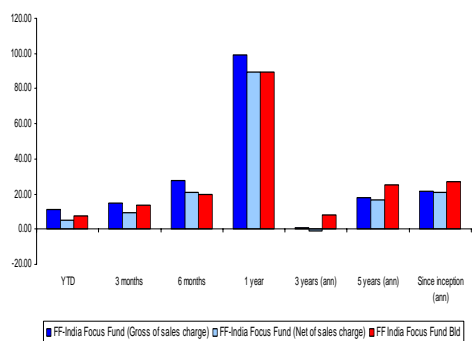
The current high fiscal deficit is a concern. The central government's deficit rose to 6.7% of GDP in the financial year ending March 2010. Combined with state government deficits, the figure is expected to reach about 10% of GDP. However, the budget announced in February proposes to cut the central deficit to 5.5% in 2011, aided by a higher GDP base and growth in non-tax revenue. It also presented a roadmap to curb deficits to 4.8% in fiscal 2012 and 4.1% in fiscal 2013 without raising taxes.

The government is also going ahead with crucial tax reforms aimed at reducing inefficiencies and increasing revenues. For instance, income tax slabs were broadened in the budget to reduce the burden on the middle class. The implementation of a proposed Goods and Services Tax would replace the current parallel systems of indirect taxation at the central and state levels. In response to these efforts, in March, rating agency Standard & Poor's actually raised India's rating outlook to 'stable'. S&P also expects the fiscal situation to recover and growth to remain strong.

As far as infrastructure plans are specifically concerned, the government intends to raise funds for infrastructure development and social sector spending through divestment of public sector companies as well as through the sale of 3G telecoms licences. Moreover, the government is extending incentives to the private sector to participate in infrastructure projects. More and more new projects are being build in partnership with private firms. This should reduce government investment and lessen project execution time.

FUND RETURNS (%)

as at 30.04.10



Source: Fidelity. Performances shown are in NAV-NAV basis, in USD terms with dividends reinvested. Benchmark: MSCI India Index (Gross) Cap 8%
Past performance is not indicative of future performance.

LARGEST OVERWEIGHT POSITIONS (%)

as at 31.03.2010	Fund	Relative
Bajaj Auto	2.9	2.1
Rural Electrification	1.7	1.7
LIC Housing Finance	1.6	1.6
Shriram Transport Finance	1.5	1.5
Multi Commodity Exchange of India	1.4	1.4

LARGEST UNDERWEIGHT POSITIONS (%)

as at 31.03.2010	Fund	Relative
Oil & Natural Gas	0.0	-2.7
ITC	0.7	-2.1
Hindustan Unilever Ltd	0.0	-2.0
Housing Development Finance	3.5	-2.0
Wipro Ltd	0.0	-2.0

Source: Fidelity

Benchmark: : MSCI India Index (Gross) Cap 8%

References to securities are for illustrative purposes and do not constitute a recommendation to transact in them.

WHAT IS YOUR VIEW OF THE INCREASE IN INFLATION AND THE TIGHTER MONETARY POLICIES BEING IMPLEMENTED IN RESPONSE?

The strong trend in economic growth has led to inflationary pressures in the economy. Domestic demand remains strong without a commensurate increase in capacity creation. That, coupled with a rise in global commodity prices, are resulting in the spike in inflation. The benchmark Wholesale Price Inflation (WPI) measure reached a 17-month high of 9.9% in March 2010. While this is a concern, I do not see any asset bubbles building. This is because the Reserve Bank of India (RBI) has been very proactive in its approach. The RBI effectively pursued an ultra loose monetary policy last year to stimulate the economy. This year, it has already raised key interest rates by half a percentage point and the reserve requirement for banks by one percentage point. I think this policy normalisation process will continue but RBI will be mindful that it does not hamper growth. Nonetheless, there could be some short term volatility as markets come to terms with the ending of extremely loose monetary policy.

However, it is heartening to note that India's meteorological department has predicted a normal level of rainfall this year. This should help keep food prices in check and bring down the overall inflation level.

INVESTORS ARE ALSO CONCERNED ABOUT SOVEREIGN DEBT PROBLEMS IN THE EUROPEAN UNION AND THE GLOBAL FALL-OUT. DO YOU SEE ANY IMPACT ON INDIA?

I believe that the banking system in India remains quite robust and does not have any significant exposure to problem assets in the EU. The banks have adequate capital and non-performing loans are quite low and so I do not see any long-term impact on India. However, in the short term, any increase in global risk-aversion could reduce foreign portfolio inflows into the Indian stock market.

HOW DO THE VALUATION OF INDIAN EQUITIES COMPARE TO THEIR PEERS?

The Indian equity market had a very strong run in 2009 but this followed on from a very oversold position in 2008. The Indian market might look expensive compared with some of its peers but it deserves that premium. About 90% of MSCI India stocks, in terms of market capitalisation, are privately-owned, compared to just 25% in MSCI China. Investors typically pay a higher price for owning private firms. Strong future earnings growth prospects also support current valuations.

WHAT IS YOUR OUTLOOK FOR THE ECONOMY AND HOW IS THE FUND POSITIONED?

I remain optimistic about the long-term growth prospects of the economy. The International Monetary Fund raised India's economic growth projection for 2010 to 8.8%, from last year's estimate of 7.7%. India's policymakers are also feeling comfortable enough to roll back some of the stimulus measures – they have already raised excise duties and interest rates. Nevertheless, the government continues to push infrastructure spending. Many industries are working close to their full capacity, which suggests that more greenfield and brownfield expansions would happen.

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