FundPerspective:

FIDELITY FUNDS - GLOBAL CONSUMER INDUSTRIES FUND JANUARY 2010

2010: a good year for consumer stocks?

Nicola Stafford *is the portfolio manager of Fidelity Funds - Global Consumer Industries Fund.*

Nicola joined our US affiliate, FMR LLC, in 2001, as an equity analyst covering US consumer discretionary stocks. She moved to Fidelity in London in 2006 and took on coverage of European large cap consumer stocks. In January 2008, she became portfolio manager of Fidelity Funds Global Consumer Industries Fund.

Nicola has a BSc in Economics and a BSc in Mechanical Engineering from Massachusetts Institute of Technology (MIT) in Boston.

As a gradual economic recovery takes hold, investors are considering the diverse attractions of the consumer sector. We have already seen consumer discretionary stocks rally strongly from the market lows in March 2009, but there are, in fact, a number of attractive opportunities across the wider sector, going forward.

Nicola Stafford has been running Fidelity Funds - Global Consumer Industries Fund since January 2008; the fund is first quartile in its peer group for the two years to 30.11.09. Here, she discusses why she believes 2010 will be an environment in which stock-picking comes to the fore, after a period of divergent sub-sector performance.

WHAT ARE THE PROSPECTS FOR THE CONSUMER SECTOR IN 2010?

I think we can be reasonably optimistic, in that we should see a benign environment supported by recovering economic growth and historically low interest rates. Certainly, a lot of the downside risk that was apparent in 2008 and 2009 has been removed. Policymakers have delivered significant stimulus to the world economy and consumption has held up reasonably well. There are some obvious tailwinds: consumers are still deleveraging and the savings rate may stay high for a while. However, I expect retail sales to hold up reasonably well, particularly against relatively easy-to-beat annual comparisons, as twelve months ago economic activity contracted very sharply after the credit crunch.

HOW DO YOU VIEW THE RELATIVE ATTRACTIONS OF CONSUMER STAPLES VERSUS DISCRETIONARY?

2008 was a year of defence, when consumer staples performed best. 2009 was a year of offence, which saw consumer discretionary perform best. I see 2010 as a much more stable year of consolidation, where there is less divergence between the discretionary and staple sub-sectors. There was a significant valuation discount to investing in discretionary names in the first quarter of last year but that valuation gap has been eroded away by the recent outperformance of these stocks. Now, the fundamental attractiveness of staples and discretionary names looks much more evenly balanced.

As a result, I think 2010 will be more about picking the right stocks within both these sectors than picking one sector over the other. In this fund, I have the mandate and the flexibility to invest in both consumer staples and discretionary stocks, with only the best ideas making it into the fund.

WHAT ARE YOUR VIEWS ON EMERGING MARKET CONSUMPTION TRENDS?

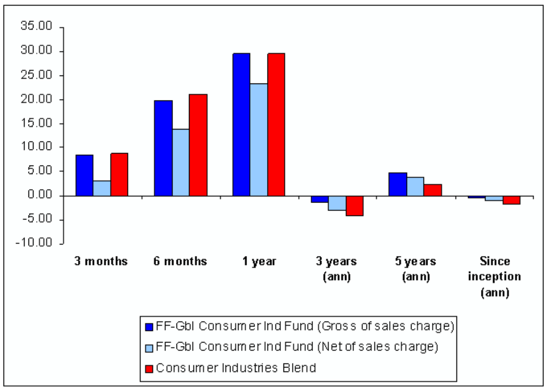
There is clearly huge potential in emerging markets as they undergo rapid urbanisation and industrialisation, particularly in China and Brazil. Incomes are rising and these markets will become steadily more important in the next 10 to 20 years as further wealth creation and trade development spurs increased levels of consumption. For retailers, these under-penetrated markets offer a source of largely untapped but increasingly attractive growth potential.

Within emerging markets, I have a positive view on China in particular, and an overweight position in the fund. It is important for me to invest at the right valuation levels, however. I increased my exposure to Chinese consumer companies in the fourth quarter when valuations briefly became very attractive in the aftermath of the credit crunch. I bought into some Chinese electrical stocks as well as Chinese sportswear firms, such as China Dongxiang and Anta. In Brazil, I favour Drogasil, a company exposed to increasing personal healthcare spend, and I am also playing this theme indirectly through US companies such as Avon, which has significant exposure to emerging markets.

I have also been increasing my indirect exposure to Eastern Europe recently, on the basis of a positive medium-term view. These countries were hit hard by the fall-out from the credit crunch, but represent excellent value now that the downside risk has reduced significantly. Their consumer markets are also under-penetrated and offer western firms excellent growth potential. For instance, I have invested in Carlsberg, which is a leading Western European brewer that has established a market-leading position in Russia that promises excellent growth potential.

FUND RETURNS (%)

as at 31.12.09



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

Since inception:01.09.00

Benchmark: MSCI All Countries World Consumer Discretionary & Staples

Fidelity INTERNATIONAL

FundPerspective:

TOP TEN OVERWEIGHT POSITIONS (%)

as at 30.11.09	Fund	Index	Relative
DANONE	2.2	0.8	**1.4**
CVS CAREMARK	2.4	1.1	**1.3**
LOWES	1.9	0.8	**1.1**
KELLOGG	1.5	0.3	**1.1**
WYNDHAM WORLDWIDE	1.1	0	**1.1**
FAMILYMART	1.0	0	**1.0**
NESTLE	5.1	4.2	**1.0**
SAFEWAY (US)	1.2	0.2	**0.9**
STAPLES	1.3	0.4	**0.9**
BEIERSDORF	1.0	0.1	**0.9**

Source: Fidelity
Benchmark: MSCI All Countries World Consumer Discretionary & Staples

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.

WHAT IS YOUR VIEW ON THE AUTOMOBILE SECTOR?

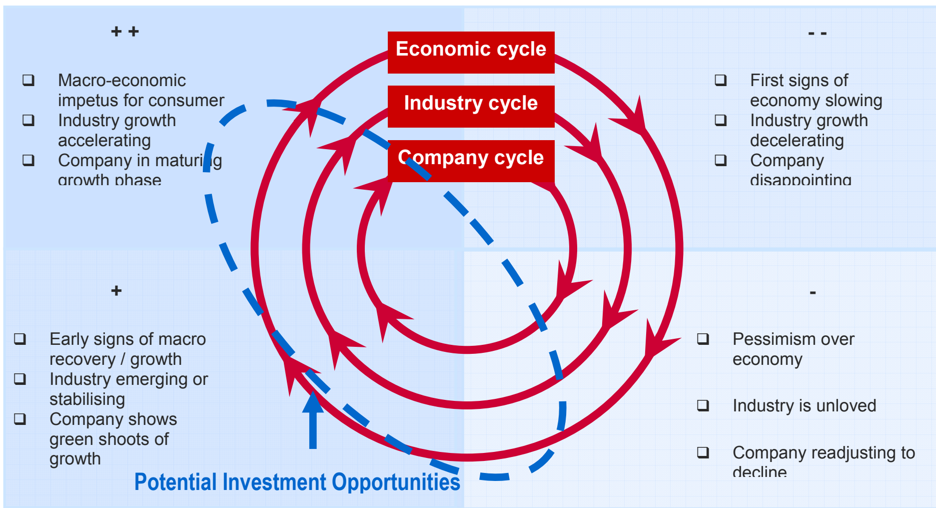
I am positive on US automobile consumption and am playing this theme through select Japanese manufacturers. I own Toyota and Mazda, which should both increase their market share in the US as domestic producers continue to struggle.

I am also finding opportunities in automobile component makers such as Denso in Japan, a key supplier to Toyota, which will benefit disproportionately from the replenishment of automobile inventories. Bridgestone, the tyre manufacturer, is another supplier that I expect to benefit from the replacement cycle, providing a significant boost to earnings.

CAN YOU PROVIDE AN INSIGHT INTO YOUR INVESTMENT PROCESS?

My investment process combines a top-down approach with bottom-up stock selection. I consider economic cycles as well as industry and company cycles in order to identify investment opportunities across the globe (see chart below). The fund is predominantly driven by stock selection, although I occasionally favour geographies and sub-sectors which I think have structural advantages. When looking for the best stocks to exploit my insights, I put particular importance on company and industry earnings growth drivers, operational leverage, restructuring potential as well as valuation. My strongest ideas are researched further via one-to-one meetings with companies' senior management and industry peers, industry analysis, and occasionally the commissioning of third-party consumer surveys to verify my assumptions.

MY FRAMEWORK FOR CONSIDERING ECONOMY, INDUSTRY AND COMPANY FACTORS



Source: Fidelity

WHAT DO YOU SEE AS THE KEY THEMES FOR 2010?

I think M&A activity will be an important theme. A lot of companies, particularly in the consumer staples segment, have healthy balance sheets with high free cash flows. Now that financial markets have stabilised, I think we will see more consolidation in the sector, as companies effectively try to acquire growth, or distressed assets, in what is expected to be a low growth environment. Some interesting candidates in this area are the Mexican duopoly breweries, Grupo Modelo and FEMSA, which I think are fundamentally attractive companies that also benefit from bid potential. Indeed, FEMSA has already announced that it is in talks with interested parties.

Another key theme in 2010 will be the re-emergence of inflation, which has positive implications for food retailers. While deflation has been the dominant force in retailing recently, commodity prices are rising for oil, dairy, meat and fresh produce. I favour companies with the pricing power to pass on these price rises, such as Kroger and Safeway in the US and FamilyMart in Japan.

"After a period of extreme sector-led performance, starting with consumer staples in 2008, rotating into discretionary stocks in much of 2009, I think 2010 will be a year where fundamental stock-picking will be more richly rewarded."

Nicola Stafford, Portfolio Manager

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