

Real opportunities for 2010

Amit Lodha is the portfolio manager of Fidelity Funds Global Real Asset Securities Fund.

Amit joined Fidelity as an equity analyst in 2003. Initially covering a number of sectors in the Indian market, Amit took on responsibility for coverage of pan-European natural resources stocks and commodities at the start of 2007. He was promoted to the role of portfolio manager in April 2008.

Before joining Fidelity, Amit worked as an equity analyst for Citigroup Smith Barney in India.

Amit has both Bachelors and Masters degrees in Commerce and Economics from the University of Mumbai. He is also a qualified chartered accountant and a CFA Charterholder.

Fidelity Funds Global Real Asset Securities Fund invests in equities backed by physical or identifiable assets - such as copper, gold, oil, land, factories and the like. Portfolio manager Amit Lodha looks for assets that are not easily replaced or that are in short supply, where the equity is trading at reasonable valuations. What are the most attractive opportunities now and why?

THE INFLATION/ DEFLATION QUESTION IS MUCH-DISCUSSED THESE DAYS AND, WITH IT, EXPECTATIONS FOR GOLD. WHAT'S YOUR VIEW ON GOLD?

I believe the medium-term investment case for gold is clearly backed by the fact that the emerging market central banks have less than 10% of their foreign exchange reserves in gold while, for example, the US has more than 60% of their reserves in gold. This will change over time and central bank buying will continue to underpin a strong gold price. However, in the near term, if the economic recovery is strong, equities will do better than gold.

On the wider subject of precious metals, I prefer platinum to gold as it gives you the best of both worlds: it shows a close correlation to gold but is also used in auto catalytic convertors to reduce vehicle emissions. Consequently, platinum will do well when gold does well but also if the economic recovery drives increased car demand.

AND INFLATION...?

Higher interest rates are the price investors pay for a better economic growth outlook. Given the fragile banking sector and muted growth outlook, I expect western central banks to be quite cautious in raising rates. With significant excess capacity in the system, commodity inflation is also less of a worry for them. However, emerging markets do not have that much excess capacity and have a structurally better economic outlook. This may result in pre-emptive hikes by central bankers in emerging markets to rein in inflation expectations.

WE TALKED ABOUT GOLD. WHAT ABOUT BASE METALS?

I am cautious on the outlook for base metals. On average, commodity prices have now rebounded more strongly than the historical average over the last 40 years. Our demand/ supply analysis suggests that the average commodity price is now 60% or more above its marginal cost of production. Consequently, the margin of safety in commodity investments is much reduced.

While I like the long-term dynamics of copper, I am cautious on it in the near-term. My preference is currently for platinum, steel, iron-ore manganese and nickel.

AS MUCH DISCUSSED AS THE GOLD PRICE IS OIL. DO YOU SEE IT BACK AT, OR NEAR, \$100/ BARREL?

Commodity prices, especially oil, are very difficult to forecast in the near term. Currently, oil prices are trading in a range from \$70 to \$80 which seems like a 'fair' value to me. Below \$50, companies are not incentivised to increase oil production to meet the needs of growing economies like China and India. However, if oil were to rise significantly above \$100, it would become a big tax on growth. Above \$100, OPEC would also have an incentive to increase production to balance the market. Longer term, non-OPEC oil supply is constrained and the world needs to continue to invest in new sources of energy, especially clean energy technologies like solar.

WHAT IS YOUR VIEW OF REAL ESTATE MARKETS?

The emerging market property sector has always been one of the beneficiaries of rising incomes and growing credit penetration. However, investing in the sector from an equity investor's perspective is challenging, given the lack of clear legal titles and the quick boom/ bust cycles. Moreover, at its core, property development is a very local business which makes scalability a big issue. Consequently, I am more in favor of investing in sectors which are secondary beneficiaries of the growth in the sector, like cement, steel and construction companies.

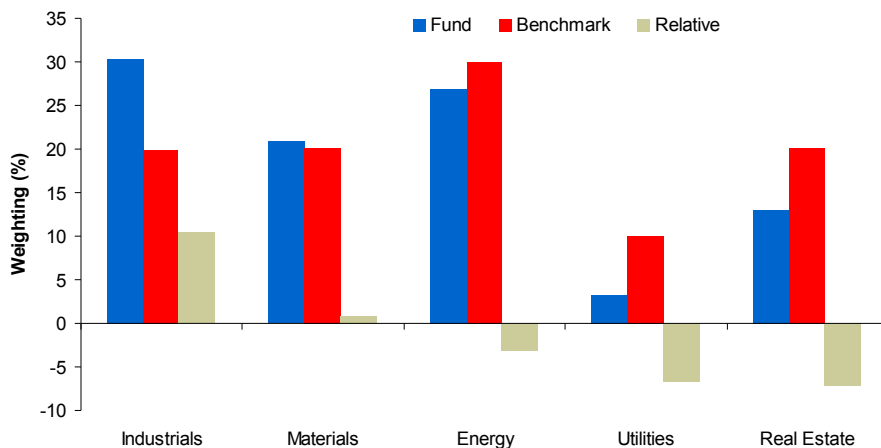
TOP TEN HOLDINGS (%)

as at 31.12.09	Fund	Benchmark
Royal Dutch Shell	4.0	1.1
Pacific Rubiales Energy	3.1	0.0
China Overseas Land & Investment	2.7	0.3
Arcelormittal	2.6	0.4
XTO Energy	2.0	0.3
Total	1.8	1.4
Mitsui	1.7	0.2
St Joe	1.7	0.0
BG Group	1.7	0.6
Frontier Oil	1.6	0.0

Source: Fidelity
Benchmark: MSCI All Countries World Real Asset Composite

SECTOR ALLOCATION

as at 31.12.09



Source: Fidelity
Benchmark: MSCI All Countries World Real Asset Composite. Cash = 3.3% and "Other" = 2.3%

CONSIDERING ALL THE VIEWS YOU HAVE EXPRESSED, WHICH SECTORS DO YOU FAVOUR MOST THIS YEAR?

I continue to invest in sectors which I think will gain from the growth that we are seeing in China, India and other emerging markets – especially oil, fertilizers and precious metals. My highest conviction lies in the lagged impact of the stimulus programme. In the US, only 20% of the stimulus spending outlined by President Obama back in January 2009 has actually hit the economy. The portfolio is therefore tilted towards transportation, energy and infrastructure stocks which have the potential to be big gainers from stimulus spending in 2010.

"I expect 2010 to be a year in which stock picking is more important. The cheap valuations and obvious anomalies that we saw post March 2009 have all but disappeared. Now is the time for the best companies to show their true colours. I want to own the ones that have restructured aggressively, have taken market share during the recession and are now ready to build on that strong position."

Amit Lodha, Portfolio Manager



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