Fidelity Equity Fund

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Summary

- **Type** Open ended
- **Min. Investment** Rs 5,000
- **Entry Load** 2.25% (Maximum)
- **Issue Opens** Mar 21, 2005
- **Nature** Diversified (Equity)
- **Face value** Rs 10
- **Exit Load** 1.00% on exit before 6 months (2.00% in SIP on exit before 2 yrs)
- **Issue Closes** Apr 19, 2005

Investment Objective

- To generate long-term capital growth from a diversified portfolio of predominantly equity and equity-related securities

Is this fund for you?

Fidelity Equity Fund (FEF), the latest entrant in the Indian mutual fund industry, offers a unique value proposition to investors on two fronts, both related to diversification.

The first level of diversification is at the AMC (asset management company) level. Investors who already own equity funds from existing AMCs still have reason to own FEF because this allows them the benefit to bank upon the fund management expertise of another AMC not already existing in their portfolios.

The second level of diversification is at the mutual fund/scheme level. FEF will pursue a 'free-flowing' fund management style that embraces varying investment styles/approaches like growth and value and also encompasses varying market capitalisations/segments like large cap, mid cap and small cap. To that end, FEF is a truly diversified equity fund.

FEF has some firsts to its credits that are very relevant from an investor's perspective. It slaps an exit load of 1% on investors who exit the fund within 6 months of entry. This group of investors will have incurred 2.25% entry load plus 1% exit load; a move that will ensure only the long-term investor remains with the fund thereby safeguarding his interests from short-term outflow of the fund's assets. From a long-term investor's perspective, FEF makes a clear attempt to punish the short-term investor, thereby giving the fund manager enough time and net assets to make long-term investment decisions.

Another significant first to FEF's credit is the systematic investment plan (SIP) facility during the IPO period. All mutual funds extend this facility but only after the IPO is over and when the mutual fund is available for investment on an ongoing basis. We suggest investors consider the SIP route to invest in FEF during the IPO, as opposed to single, one-time entry. A waiver of entry load on SIPs is another bonus for investors (but an exit before 2 years will attract 2.00% load.).

Although this is Fidelity's maiden launch, they have had exposure to Indian stock markets and have a research base on Indian companies by virtue of their FII which has been in operation for over 10 years.

Portfolio Strategy

FEF will pursue an inclusive investment strategy across the aggressive, 'growth' style as well as the conservative, 'value' style. The fund will invest across the spectrum of stocks from the large cap to the small cap variety. The fund will pursue the bottom-up style of stock selection which means it will choose companies (fitting in FEF's defined parameters) and then factor in the sectoral, economical and political factors affecting those companies. The opposite of this is the top-down approach.

Instrument	Normal allocation	Range of allocation
	(% of net assets)	
Equity and equity related	95%	80-100%
Money market	5%	0-20%

The fund will diversify its equity portfolio across a larger base of about 75 companies. In the Indian context this is an above-average number and it will be interesting to see how the fund's portfolio manages to remain adequately diversified across 75 stocks without appearing fragmented. The fund has not imposed an allocation limit on individual stocks, but has internally set a cap of about 4% (of net assets) on a single stock. So you are unlikely to see any one stock in FEF's portfolio account for more than 4% of the fund's assets. This is an important trait in a fund that seeks to be well-diversified at all times. If all the top 10 stocks in FEF's portfolio have an average weightage of 4%, then the net assets locked across these stocks will amount to 40% of the fund's net assets. At Personalfn, we maintain that a diversified equity fund should not have more than 40% of net assets across the top 10 stocks in the portfolio. To that end, FEF appears to make the grade of a diversified equity fund.

Fund Manager Profile

Mr. Arun Mehra is an electrical engineer and holds an MBA from the University of Chicago. He has been with Fidelity since 1997.

AMC Profile

Fidelity Investments was founded in 1946 in Boston, USA. As at June 30, 2004, it had over US$ 1.2 trillion under management and more than 20 m investors worldwide.

Outlook

We believe FEF's strong focus on diversification will be its best ally in lowering risk to the investor during market downturns. During a market slide and volatility, a fund that is diversified across a larger number of stocks is likely to see lower erosion in net assets vis-à-vis a fund that is heavily concentrated across fewer stocks. On the flipside, a fund that is as heavily diversified as FEF, could find it a challenge to post impressive returns vis-à-vis peers (with concentrated portfolios) during a rally in stock markets. In other words, FEF is most likely to tread the middle path, which from a long-term investor's perspective, can be very comforting.