

Portfolio manager: Fred Sykes

Performance for 12 month periods in EUR (%)

Performance over quarter in EUR (%)

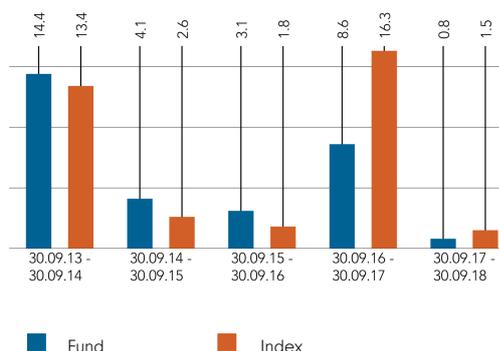
Fund 2.0

Market index 1.3

MSCI EUROPE (N)

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in EUR, net of fees. Other share classes may be available. Please refer to the prospectus for more details.



Market Environment

European equities ended a volatile quarter in positive territory. Markets were aided by easing trade tensions between the US and Europe, and strong corporate earnings. The European Central Bank's (ECB) continued accommodative monetary policy stance also supported equities. It left key interest rates unchanged and announced that it expects to completely phase-out its quantitative easing programme by the end of 2018. There were intermittent periods of volatility, primarily due to continued concerns over a trade war between the US and China, as well as the banking crisis in Turkey. Additionally, hopes of a softer Brexit suffered a setback, which added to volatility. Italy's higher than expected budget deficit target also hampered sentiment as investors feared that the anti-establishment government lacks the commitment to address the country's high debt load. At a sector level, health care and energy were among the key performers, while real estate and communication services declined the most. Overall, Europe continues to grow, albeit at a slower pace. Data released in August showed that the eurozone's GDP grew 0.4% in the second quarter of 2018 (latest figures available as GDP is a lagging economic indicator). The economy grew despite negative net trade as business and other investments rose sharply. Meanwhile, the UK's GDP grew by 0.4%, driven by robust growth in the services sector. Higher oil prices lifted the headline inflation above 2.0% in September, but core inflation declined to 0.9%, well below the ECB's 2% target.

Fund Performance

The fund generated positive returns and outperformed the index over the quarter. Sector allocation was positive, as was stock selection, particularly in financials and energy. These sectors were supported by strong earnings and higher oil prices, respectively. On the downside, a stock-specific 'outlier' event during the period weighed on relative returns.

Strong stock selection in financials contributed

Re-insurer Hannover's half-yearly results were strong, with broad-based beats across major business verticals. The company is supported by its structural cost advantage over peers. The position in Nordea Bank was boosted by good second quarter results, reflecting strong momentum across key business areas. The Nordic bank has a well-diversified income stream and is supported by its strong wealth management platform.

Selected positions added value

Oil and gas explorers Aker, BP and Total advanced on higher oil prices. Pharmaceuticals company Sanofi continued to rally during the year, notably after a difficult 2017, which was driven by weakness in its diabetes franchise. The company trades at an attractive valuation with a stabilising market share and good growth expected from new focus areas. Its quarterly results were in line with expectations.

Key detractors

Italy-based infrastructure operator Atlantia's shares were sold-off after the Genoa bridge collapse. Political and litigation uncertainties are an overhang on the company, which has led the market to severely discount the stock. Fashion-house Inditex was weighed down by negative sentiment after a major downgrade in consensus earnings expectations.

Fund Positioning

The near-term outlook for the eurozone is positive, driven by an accommodative monetary policy, supportive labour market conditions and a relatively favourable global growth environment. While the region is expected to continue to expand, the pace of expansion is likely to be moderate. The global growth outlook has been negatively impacted by escalating trade concerns between the US and its major trading partners, which remains a key downside risk. As such, I continue to favour stocks in the energy and financials sectors that are supported by reasonable valuations and expectations for stable earnings and dividend growth. I am underrepresented in the materials and technology sectors.

Focus on dividend growth

I invest in companies that are likely to offer sustained dividend and earnings growth under a wide range of economic conditions. Businesses with stable earnings growth and high free cash flows are rewarded over the full market cycle.

Bought a new position in Next

Next is a cash generative, well-managed multi-line retailer. It stands out from peers due to its transition to online platforms, which has been very well executed, and is supportive of its outlook.

Sold some holdings to consolidate on stronger ideas

I sold Fuchs Petrolub as its valuations were no longer attractive. I also sold positions in Philip Morris and Legal & General Group to invest in stronger ideas.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund.

Attribution

Performance attribution is produced in the currency shown below. For funds with multiple share classes, the attribution return reflects the aggregate performance across all the share classes. It may therefore deviate from the published return for a particular share class. When using the analysis for hedged share classes, please consider that the attribution is shown before the impact of hedging.

The contributions shown in the tables are before the impact of charges. If charges are applied, their effect is captured in the "Other" category in the tables and will also be reflected in the fund return.

All investments, including derivatives, linked to a particular issuing company have been combined to form a total percentage for each issuing company.

The sector/industry and country contribution tables (where relevant) display a maximum of eleven individual sectors/industries or countries. For funds investing in more than eleven sectors/industries or countries, only top five and bottom five are listed, with the contribution from other sectors/industries or countries shown in the "Other Sectors" or "Other Countries" category.

Currency of attribution	Euro (EUR)
Three month relative return (%)	1.16

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
HANNOVER REINS CORP	3.4	0.40	ATLANTIA SPA	2.2	-0.78
SANOFI	2.6	0.25	INDUSTRIA DE DISENO TXTL IN SA	2.7	-0.34
NORDEA BANK AB	1.9	0.22	NOVARTIS AG	-2.0	-0.25
AKER BP ASA	1.5	0.21	ASSOCIATED BRITISH FOODS PLC	0.9	-0.20
TOTAL SA	2.9	0.20	HOWDEN JOINERY GROUP PLC	1.2	-0.20
WOOD (JOHN) GROUP PLC	0.8	0.17	NESTLE SA	-2.8	-0.20
HSBC HOLDINGS PLC	-2.0	0.14	ASTRAZENECA PLC	-1.0	-0.12
AMUNDI SA	1.8	0.14	RELX PLC	0.2	-0.09
ANHEUSER BUSCH INBEV SA NV	-0.8	0.12	HEINEKEN NV	1.2	-0.09
SAMPO OYJ	2.3	0.12	BAYER AG	0.3	-0.07

Positions in other funds - including ETFs (Exchange Traded Funds) - can appear in this table, but index derivatives form part of an "Index / Unclassified" category which will appear in the table(s) below when relevant.

Sector/Industry Contribution (%)

3 months

Country Contribution (%)

3 months

CONTRIBUTIONS TO RELATIVE RETURN

GICS Sector	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
Financials	7.5	0.80	0.67	1.47
Energy	7.3	0.40	0.20	0.60
Materials	-7.0	0.10	0.14	0.23
Information Technology	-2.8	0.01	0.20	0.21
Communication Services	-5.1	0.00	0.16	0.16
Real Estate	1.6	0.07	0.06	0.13
Utilities	-0.4	0.08	0.02	0.10
Consumer Discretionary	-3.4	-0.20	0.01	-0.19
Health Care	-3.6	-0.16	-0.11	-0.26
Consumer Staples	-1.5	-0.16	-0.29	-0.45
Industrials	6.5	-0.55	-0.27	-0.82
Total Primary Assets	-0.8	0.38	0.80	1.18
Other*	0.8			-0.02
TOTAL	0.0			1.16

CONTRIBUTIONS TO RELATIVE RETURN

	Average Relative Weight	Security Selection	Country Selection	Total Relative Contribution
Germany	1.5	0.84	-0.02	0.82
France	-3.1	0.67	-0.06	0.61
Norway	1.9	0.15	0.11	0.26
Netherlands	2.6	0.23	0.00	0.23
United Kingdom	4.7	0.27	-0.04	0.22
Sweden	-2.0	0.12	-0.12	0.00
United States	0.7	-0.07	0.05	-0.02
Spain	3.5	0.06	-0.11	-0.05
Switzerland	-10.1	0.02	-0.62	-0.60
Italy	-1.4	-0.69	0.06	-0.63
Other Countries	1.0	0.10	0.25	0.35
Total Primary Assets	-0.8	1.69	-0.51	1.18
Other*	0.8			-0.02
TOTAL	0.0			1.16

*Other includes portfolio components not already listed such as cash, expenses and other miscellaneous items.

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