

EUROPEAN DIVIDEND FUND A-ACC-EURO

30 SEPTEMBER 2013

Portfolio manager: Michael Clark

Approach and Style

Performance over quarter in EUR (%)

Fund 4.7

Market index 9.1

MSCI EUROPE (N)

Michael Clark believes companies that consistently deliver dividend growth will outperform strongly over the long term. Therefore, he looks to invest in companies that have the strength to withstand tough economic times as well as the ability to generate high cash flows that are sufficient to fund both future growth and that can be used to pay out increasing dividends over time. This investment style can be summarised as safety of income at a reasonable price.

Market index is for comparative purposes only.

These figures relate to the fund's past performance, which is not a reliable indicator of future results. 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. Source of fund performance is Fidelity. Basis: nav-nav with gross income reinvested, in EUR, net of fees.

Market Environment

European equities rebounded strongly over the quarter, buoyed by encouraging economic data from Europe and China, indicating that the global economic recovery is on track. In a surprise move, the US Federal Reserve decided against immediately tapering its asset purchase programme, which also boosted sentiment. Markets were further supported by news of an alternative solution emerging to the Syrian crisis that could avert a possible Western military strike. However, there was intermittent volatility due to the possibility of a shutdown of US government institutions given the deadlock over the funding of the US government. Political uncertainty in Italy and Portugal also weighed on sentiment. At a sector level, telecommunications and consumer discretionary were among the leading gainers as investors preferred attractively valued stocks and cyclical equities. Meanwhile, the health care and consumer staples sectors lagged the broader market. The eurozone's economy expanded after 18 months of contraction, with the GDP increasing by 0.3% in the second quarter. The UK's economy also grew by 0.7%. Latest data from key constituents of the economy, such as manufacturing, retail and housing, also showed improvement. On the policy front, both the Bank of England and the European Central Bank kept their main interest rate unchanged at 0.5%.

Fund Performance

The fund underperformed the index during the quarter. Increasing investor risk appetite led to a rotation away from income generating stocks, where the fund is largely overweight, to more cyclical sectors.

Holdings in defensive stocks held back returns

I tend to focus on companies that deliver consistent dividend growth, which has driven strong returns over the longer term. However, against the prevailing market backdrop, some of the holdings underperformed the broader market. For instance, US tobacco company Philip Morris was a notable detractor from returns.

Health care positions detracted from performance

Shares in Fresenius Medical Care, which focuses on dialysis care, fell as the US Medicare programme proposed lowering the rate it pays to dialysis centres. European pharmaceuticals group Sanofi also held back gains. It lowered its earnings guidance for 2013 following a drop in second-quarter net profits. Nevertheless, I remain confident about Sanofi's long-term prospects given its strong product portfolio and dividend growth potential.

French utilities added value

The position in Electricité de France (EDF), an electrical utility company, rose after the government allowed an increase in regulated prices for households. GDF Suez, a power and gas utility, also advanced after it issued a positive outlook for 2013 earnings. Stock valuations of both companies are attractive and they remain a good source of income.

Fund Positioning

I am cautious on the overall outlook for stock markets despite the fact that we have seen an upward trend recently. Whilst Europe has seen a return to GDP growth, it remains to be seen how strong the recovery is. If the progress is not as strong as expected by the market, stock prices could witness some volatility. I believe that we are likely to witness a period of low economic growth in the medium term, and in such an environment, income stocks should perform well.

Added positions with dividend growth potential

I continue to focus on international businesses with strong brands and entrenched market shares, cash generation and good balance sheets. There are lots of such businesses in Europe and they form the basis of the fund. During the quarter, I added a new position in G4S, a global integrated security solutions provider, which has good dividend growth potential. I also initiated a holding in Atlantia, the owner of the largest concessionaire on the Italian autostrade network, which should benefit from the economic recovery in Italy. It is also a high yielding stock.

Maintained overweight in utilities

Utilities in Europe still have very attractive valuations, and I maintained the overweight stance towards the sector. Apart from EDF, GDF Suez and Snam, the portfolio is overweight in German groups RWE and E.ON. These companies have significantly reduced their capital spending, which should allow them to generate cash and repair their balance sheets over the next two years.

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Attribution

Performance attribution is produced in the currency shown below. For hedged share classes 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 ten individual sectors/industries or countries. For funds investing in more than ten 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 (%) -3.95

Position Contribution (%)

3 months

TOP CONTRIBUTORS	Average Relative Weight	Relative Performance Contribution	TOP DETRACTORS	Average Relative Weight	Relative Performance Contribution
GDF SUEZ	2.6	0.35	FRESENIUS MED CRE AG & CO KGAA	1.7	-0.38
ELECTRICITE DE FRANCE	1.3	0.26	PHILIP MORRIS INTL INC	2.5	-0.34
BP PLC	-1.7	0.18	MUNICH RE GROUP	2.8	-0.21
SECURITAS AB	1.2	0.18	SANOFI	1.3	-0.20
AXEL SPRINGER AG	1.1	0.16	GLAXOSMITHKLINE PLC	1.6	-0.20
HENNES & MAURITZ AB (H&M)	0.8	0.14	DELHAIZE GROUP SA	1.3	-0.20
SAP AG	-0.9	0.11	SVENSKA HANDELSBANKEN AB	2.9	-0.17
BAE SYSTEMS PLC	1.0	0.11	VODAFONE GROUP PLC	-1.9	-0.17
UNILEVER PLC	-0.7	0.10	UNILEVER NV	1.2	-0.17
ATLAS COPCO AB	1.1	0.08	BANCO SANTANDER SA	-1.0	-0.17

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
Utilities	7.0	0.52	-0.07	0.45
Consumer Discretionary	-2.0	0.30	-0.06	0.24
Energy	-3.9	0.04	0.12	0.17
Industrials	-4.8	0.25	-0.25	-0.01
Information Technology	-3.2	0.00	-0.11	-0.11
Materials	-2.5	0.03	-0.39	-0.36
Telecommunication Services	-4.3	-0.14	-0.33	-0.47
Consumer Staples	9.0	-0.42	-0.62	-1.04
Health Care	9.6	-0.23	-0.90	-1.13
Financials	-6.6	-1.33	-0.25	-1.59
Index / Unclassified	0.4	0.00	0.00	0.00
Total Primary Assets	-1.2	-0.99	-2.85	-3.85
Other*	1.2		-0.11	-0.11
TOTAL	0.0			-3.95

CONTRIBUTIONS TO RELATIVE RETURN

	Average Relative Weight	Security Selection	Country Selection	Total Relative Contribution
Sweden	3.8	0.18	0.05	0.23
Norway	-1.0	-0.01	0.05	0.04
Portugal	-0.3	0.00	0.01	0.01
Ireland	-0.4	0.00	0.00	0.00
Greece	-0.1	0.00	-0.02	-0.02
Italy	-0.2	-0.25	-0.02	-0.27
USA	2.3	0.17	-0.47	-0.30
Spain	-4.3	-0.01	-0.45	-0.47
Germany	1.7	-0.63	-0.02	-0.64
United Kingdom	-2.5	-1.15	0.02	-1.13
Other Countries	-0.5	-1.20	-0.11	-1.31
Index / Unclassified	0.4	0.00	0.00	0.00
Total Primary Assets	-1.2	-2.90	-0.95	-3.85
Other*	1.2			-0.11
TOTAL	0.0			-3.95

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

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