

Portfolio manager: Bertrand Puiffe

Performance for 12 month periods in EUR (%)

Performance over quarter in EUR (%)

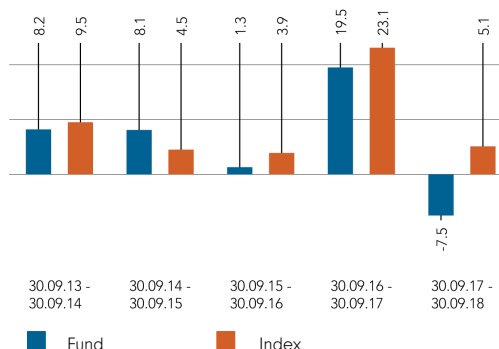
Fund -3.0

Market index 2.9

CAC All-Tradable (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

French equities, in line with the broader eurozone market, 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, energy and industrials were among the key performers, while real estate and communication services declined the most. 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. The eurozone's final composite Purchasing Managers' Index (PMI) declined in the third quarter compared to the previous quarter, as manufacturing sector activity slowed down due to rising trade protectionism and Brexit-related concerns. 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 underperformed the index over the quarter, as both stock selection and sector positioning detracted from returns. The overweight allocation to and stock picking in communication services (renamed from telecommunication services following MSCI's sector reclassification) was the largest detractor from performance. Selected holdings in industrials and consumer staples also weighed on performance. On a positive note, stock picking in health care supported returns.

Communication services holdings disappointed

Media company Altice Europe was a key detractor from performance as it reported disappointing second quarter results. Telecommunication services provider Iliad's shares declined in the run up to its second quarter earnings. Investors expected weak results and a loss of market share after its main competitors Bouygues and Altice reported a healthy increase in subscriptions for their services. Iliad's results were weak, but were not as bad as expected.

Consumer staples held back gains

Alcohol manufacturer Marie Brizard Wine & Spirits was the largest detractor from performance as it reported weak second quarter results. The company's turnover was negatively impacted by a change in the 'route to market' in the US and Poland. Along with its ongoing restructuring programme, the company announced the appointment of a new CEO, industry veteran Andrew Highcock.

Health care added value

Pharmaceuticals company Virbac was the largest contributor to returns, buoyed by its strong second quarter results. It reported an acceleration in organic growth in the second quarter, which should help it to deliver on its 2018 guidance.

Fund Positioning

Since assuming management of the fund, I repositioned the portfolio in favour of a smaller number of attractively valued stocks that are overlooked by the market due to near-term concerns. I believe this selective focus on value stocks is well suited to the prevailing market environment as valuations of growth stocks have expanded significantly, a lot of the good news has already been priced in, and long-term interest rates are starting to rise from unusually low levels.

Key trades

I recently bought a new position in a technology consultancy. The stock was available at attractive valuations after it declined sharply following the discovery of fraudulent activity at one of its recently acquired companies. We believe these issues to be transitory. Elsewhere, I used the recent weakness in Iliad, Eramet, Vallourec and Marie Brizard Wine & Spirits to add to the existing holdings as I remain positive on these names. Conversely, I sold the position in a cable television company after its shares rallied on the back of strong second quarter results and a share buyback announcement. I also took some profits in media company SES.

Positioning changes due to MSCI sector reclassification

The fund moved to underweight position in consumer discretionary (from an overweight stance earlier). The overweight exposure to the communication services sector was increased as holdings in media firms Solocal, Ipsos, Technicolor, SES, Altice Europe and Publicis were reclassified from consumer discretionary to communication services.

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 (%)	-5.43

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
VIRBAC SA (SOCIETE)	3.6	0.65	MARIE BRIZARD WINE & SPIRITS	2.4	-1.39
SES SA	2.8	0.50	ALTICE EUROPE NV	1.8	-0.82
NEOPOST SA	2.0	0.30	ILIAD GROUP SA	3.2	-0.67
LAURENT PERRIER GROUP	2.3	0.25	INGENICO GROUP	3.2	-0.61
SCOR SE	1.2	0.23	SOLOCAL GROUP	4.5	-0.53
LAGARDERE SCA	1.8	0.23	JACQUET METAL SERVICE	1.8	-0.49
KORIAN	3.8	0.21	SRP GROUPE SA	1.6	-0.47
KERING SA	-2.4	0.18	SANOFI	-5.6	-0.44
LINEDATA SERVICES	2.0	0.18	TOTAL SA	-8.6	-0.41
ALTICE USA INC	2.2	0.18	EUROPCAR MOBILITY GROUP	2.9	-0.37

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

CONTRIBUTIONS TO RELATIVE RETURN

	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
icb Industry				
Financials	-8.0	0.18	0.22	0.40
Health Care	-1.7	0.56	-0.19	0.37
Utilities	-1.4	-0.39	0.45	0.06
Oil & Gas	-6.5	-0.03	-0.45	-0.48
Technology	5.8	0.50	-0.99	-0.49
Consumer Services	25.1	-1.08	0.45	-0.64
Telecommunications	-0.1	-0.69	0.01	-0.68
Basic Materials	-2.3	-0.83	-0.05	-0.89
Industrials	-1.1	-0.30	-1.08	-1.38
Consumer Goods	-10.1	-1.70	-0.06	-1.76
Index / Unclassified	0.0	0.00	0.00	0.00
Total Primary Assets	-0.3	-3.79	-1.70	-5.49
Other*	0.3			0.06
TOTAL	0.0			-5.43

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

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