

Portfolio manager: Meeyoung Kim

## Performance over quarter in USD (%)

Fund 12.6

Market index 13.8

KOSPI capped at 8%

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 income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.

## Approach and Style

Meeyoung Kim follows a fundamental bottom-up stock selection approach, primarily based on independent proprietary research. Meeyoung favours companies with high quality business models and strong cash flows, as they tend to offer better risk-adjusted returns. Typically, these companies show improving fundamentals that are not reflected in their share price; high quality management; strong free cash flows; and high barriers to entry. When Meeyoung has strong conviction in stocks and sectors from a bottom-up basis, larger overweight positions will follow. Importantly, 'top down', macro-driven decisions will not be the primary driver of portfolio construction.

## Market Environment

The South Korean market advanced over the quarter. Strong quarterly earnings from selected companies and an improvement in earnings forecasts lifted domestic stocks, while a recovery in global investor sentiment also proved supportive. On the economic front, better exports coupled with fading political uncertainties resulted in an improvement in consumer and business sentiment for February and March. Meanwhile, GDP retreated in the fourth quarter of 2016 due to a slowdown in construction investment and private consumption. Against this backdrop, the Bank of Korea (BoK) cut its 2017 growth forecast, citing that the direction of the new US government's economic policies, pace of normalisation in interest rates and increasing trade protectionism are likely to weigh on global economic recovery. Policymakers also kept interest rates unchanged at their January and February meetings in view of external uncertainty and high levels of household debt. Nonetheless, rating agency Moody's issued an optimistic view of the Korean economy, citing that household debt poses limited risk in light of government measures to mitigate the challenges faced by households to service debt repayments. At a sector level, all sectors ended in positive territory. Of note, the information technology sector rose, aided by an improved earnings outlook. The financials and consumer discretionary sectors also advanced on optimism surrounding earnings expectations for 2017.

## Fund Performance

The fund delivered strong absolute returns over the quarter, but underperformed the index. Selected consumption-led holdings were impacted by political uncertainty, which clouded their short-term earnings prospects. Encouragingly, security selection in the health care sector contributed to performance.

### Selected consumer stocks came under pressure

The position in Handsome declined as investors did not fully appreciate its margin improvement prospects and potential for scalability in its acquisition of the fashion arm of SK Networks. I sold the holding in supplements producer Nutribiotech due to weaker sales at its multi-level-marketing channel, coupled with a slower than expected ramp-up of its US operations. Meanwhile, political uncertainty with China weighed on the earnings prospects of cosmetics firm Amorepacific Group and automotive parts manufacturer Hyundai Mobis.

### Conviction positions proved rewarding

The exposure to leading botulinum toxin producer Medytox contributed to returns. Its shares rose on robust earnings expectations for the first quarter, in view of the launch of its next-generation Innobotin and growing domestic sales of botulinum toxin. Its well diversified portfolio, in terms of region and product mix, also continued to attract investors. Elsewhere, convenience store operator BGF Retail supported gains. Its earnings exceeded expectations due to growth in same store sales, a decline in low-margin cigarette sales and an expansion in its line-up of lucrative food offerings and private label products.

## Fund Positioning

I focus on companies that are consistent market share gainers with clear competitive strengths. I also look for companies that benefit from structural changes in the operating environment, and for those that are out of favour and undervalued.

### Opportunities in consumer space

I bought new holdings in Hwaseung Enterprise, Modetour Network and Korea Kolmar. Hwaseung Enterprise is a supplier to Adidas. Its production efficiencies in Vietnam, capacity expansion and broad product range support its upbeat earnings outlook. Korean travel operator Modetour Network trades at discounted valuations. Its outbound tour operations are likely to benefit from an expected increase in seasonal long haul travel in 2017. Cosmetics original development manufacturer (ODM) Korea Kolmar has been increasing its footprint in US and Canada, and is expected to attract strong ODM demand from global brands. I also retain my conviction holding in Mando given the rising adoption of advance driver assistance systems in vehicles.

### Conviction holdings retained

GS Engineering & Construction is a preferred holding in the portfolio. I believe Korean infrastructure companies are likely to see a recovery in overseas orders, particularly from the Middle East as demand appears to be bottoming out amid rising commodity prices. The fund remains overweight in organic light-emitting diode (OLED) equipment manufacturer SFA Engineering and energy holding SK Innovation.

## 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	US Dollar (USD)
Three month relative return (%)	-0.69

## Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
<b>TOP CONTRIBUTORS</b>			<b>TOP DETRACTORS</b>		
MEDY-TOX INC	2.5	0.59	HANDSOME CO LTD	1.9	-0.58
BGF RETAIL	1.4	0.29	NUTRIBIOTECH CO LTD	1.4	-0.46
GS ENGINEERING & CONSTR CORP	2.6	0.27	AMOREPACIFIC GROUP INC	2.0	-0.35
CJ E&M CORP	1.6	0.22	KOREA ZINC CO LTD	1.6	-0.27
KB FINANCIAL GROUP INC	2.2	0.22	KOREA AEROSPACE INDUSTRIES LTD	1.1	-0.25
SFA ENGINEERING CORP	2.5	0.21	LG ELECTRONICS INC NEW	-0.9	-0.22
SK INNOVATION CO LTD	2.3	0.20	HYUNDAI MOBIS	1.2	-0.22
SK HYNIX INC	1.6	0.18	WONIK IPS CO LTD	1.8	-0.21
SAMSUNG ELECTRONICS CO LTD	1.6	0.18	KCC CORP	0.4	-0.17
KIA MOTORS CORP	-1.4	0.17	SAMSUNG SDI CO LTD	-0.8	-0.16

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
<b>GICS Sector</b>				
Health Care	0.3	0.53	0.24	0.77
Financials	-3.1	0.26	-0.02	0.23
Utilities	-3.2	0.00	0.09	0.09
Energy	0.8	0.02	0.06	0.08
Real Estate	-0.2	0.00	0.01	0.01
Consumer Discretionary	6.6	0.16	-0.17	0.00
Information Technology	0.4	-0.36	0.26	-0.11
Industrials	-4.1	-0.03	-0.17	-0.20
Telecommunication Services	-2.9	0.00	-0.24	-0.24
Materials	-5.0	-0.53	0.16	-0.37
Consumer Staples	5.0	0.23	-0.76	-0.53
<b>Total Primary Assets</b>	<b>-5.5</b>	<b>0.27</b>	<b>-0.56</b>	<b>-0.28</b>
Other*	5.5			-0.40
<b>TOTAL</b>	<b>0.0</b>			<b>-0.69</b>

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

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