

JAPAN FUND W - ACC SHARES

30 JUNE 2019

Portfolio manager: Takuya Furuta

Performance over quarter in GBP (%)

Fund 6.3

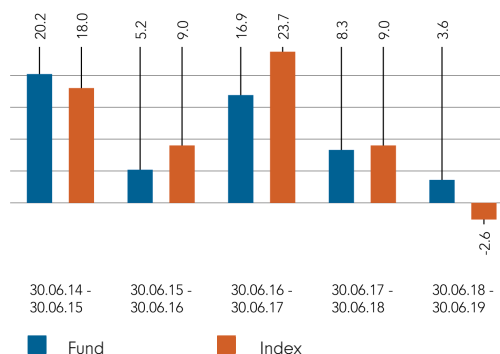
Market index 2.7

TOPIX NUK

Market index is for comparative purposes only.

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

Performance for 12 month periods in GBP (%)



Market Environment

The Japanese equity market declined over the quarter. Much of the downside was concentrated in May, when an escalation in trade frictions between the US and China exacerbated concerns about the outlook for global growth and corporate earnings. Heightened risk aversion and the limited policy avenues open to the Bank of Japan compared with other central banks contributed to the strength of the yen, which generated additional headwinds for Japanese stocks. Mid/small-cap value names were relative laggards during the quarter, while large-cap growth stocks proved more resilient. With the global manufacturing Purchasing Managers' Index (PMI) falling below 50 for the first time since early 2016 and capital goods orders declining, sentiment among Japanese manufacturers deteriorated sharply. Meanwhile, conditions in the non-manufacturing sector remained firm and overall capital expenditure plans were upgraded, reflecting non-cyclical factors such as investment in labour-saving technology.

Fund Performance

The fund outperformed the index over the quarter, supported by the exposure to information technology (IT) services and business outsourcing companies. The underweight stance in banks and expensive defensive sectors also paid off. Conversely, returns were tempered by profit taking in key holdings and the limited exposure to entertainment companies.

The position in Recruit contributed

Recruit Holdings, which provides integrated human resource and staffing services, was a notable contributor to performance. It reported positive fourth-quarter results, supported by the continued growth of its employment search engine Indeed.

Hitachi High-Techologies (HHT) outperformed

Shares in industrial electronics conglomerate Hitachi's subsidiary HHT advanced on reports that listed group companies are to be reorganised based on their synergies with the parent's core businesses. Highly cyclical subsidiaries that do not complement a more stable earnings structure are likely to be sold. Meanwhile, HHT's measurement and analysis technologies offer synergistic benefits in health care and may become a wholly owned subsidiary of Hitachi.

Holdings in Relo and Shimadzu faced profit taking

Relo Group, a leading provider of comprehensive outsourcing services for corporate fringe benefits, was a key detractor from returns amid some short-term concerns over the performance of its non-core resort business. However, the company announced upbeat earnings guidance, centred on the growth of its mainstay corporate fringe benefits and domestic relocation segments. Analytical and measuring instrument maker Shimadzu also succumbed to profit taking after outperforming strongly in the previous quarter.

Fund Positioning

I look for companies that operate in a stable competitive environment, with high and sustainable returns on invested capital, and good earnings visibility. As a result, style distribution shows a consistent growth and quality bias. At a sector level, the main overweight positions are in the services, electric appliances, machinery and information & communication sectors. The exposure to banks and transportation equipment remains limited, and expensive defensive sectors continue to be underweight.

Key holding in Keyence

Keyence is the leading factory automation player in the optical sensors and machine vision systems sub-sector, with more than 50% domestic and 25% overseas market share. The company's direct sales consulting and fabless production puts it in a strong position to gain new customers and maintain high margins, and thereby sustain earnings growth in an uncertain business environment.

Bought Tokyo Electron

During the quarter, I bought a new position in Tokyo Electron, a leading semiconductor production equipment maker. Its shares are at a cyclical trough and it is well positioned to benefit from a recovery in memory-related investment going into 2020. I also added to the existing holding in Fast Retailing, the operator of the UNIQLO brand of apparel stores. It is expanding globally, especially in Asia, and its longer term outlook remains positive.

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.

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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 UK Sterling (GBP)

Three month relative return (%) 3.49

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
RECRUIT HOLDINGS CO LTD	3.8	0.65	SONY CORP	-1.6	-0.35
HITACHI HIGH TECHNOLOGIES CORP	1.9	0.47	RELO GROUP INC	2.8	-0.29
NOF CORP	4.4	0.46	SHIMADZU CORP	1.6	-0.26
OBIC CO LTD	3.5	0.45	NINTENDO CO LTD	-1.0	-0.25
FAST RETAILING CO LTD	1.3	0.29	EIKEN CHEMICAL CO LTD	0.5	-0.22
TAKEDA PHARMACEUTICAL CO LTD	-1.6	0.24	TOYOTA MOTOR CORP	-3.3	-0.18
INFOCOM CORP	0.7	0.22	TOKYO ELECTRON LTD	1.1	-0.17
DAIKIN INDUSTRIES LTD	1.7	0.22	KDDI CORP	-1.0	-0.17
NIDEC CORP	2.5	0.21	KOITO MANUFACTURING CO LTD	3.4	-0.17
ITOCHU CORPORATION	3.1	0.21	OPEN DOOR INC	0.7	-0.12

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

tpx Sector	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
Wholesale Trade	3.5	0.81	-0.01	0.80
Retail Trade	-1.0	0.58	0.03	0.61
Information & Communication	5.1	0.26	0.32	0.58
Chemicals	1.4	0.45	0.02	0.46
Pharmaceuticals	-2.3	0.20	0.17	0.38
Fishing, Agriculture, & Forestry	0.2	0.01	-0.03	-0.03
Metal Products	-0.2	-0.03	0.00	-0.03
Other Products	-2.1	0.00	-0.20	-0.20
Precision Instruments	-0.1	-0.35	0.00	-0.36
Electric Appliances	4.8	-0.92	0.20	-0.72
Total Primary Assets	-1.6	1.40	2.40	3.80
Other*	1.6			-0.31
TOTAL	0.0			3.49

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

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