

Portfolio manager: Matthew Siddle, Helen Powell

Performance over quarter in EUR (%)

Fund 4.8

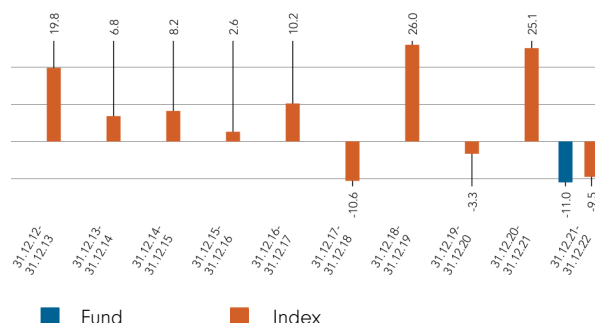
Market index 9.5

MSCI Europe Index (Net)

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.

Performance for 12 month periods in EUR (%)



Market Environment

European equities gained in the fourth quarter. The period started on a positive note after the European Central Bank (ECB) indicated a slightly more dovish stance, with sentiment also supported by healthy Q3 corporate results. Stocks further advanced after the Fed indicated that the pace of interest rate rises would be less aggressive in the US, although the ECB President Christine Lagarde hinted that there would be further hikes in the eurozone. At its December meeting, the ECB raised interest rates by 0.5%, bringing the deposit facility rate to 2%. Over the quarter, markets benefited from signs that inflationary pressures from elevated input prices were starting to ease despite the lingering effects of the energy crisis. The market also reacted positively to news that China had started to ease COVID-19 restrictions. Against this backdrop, all sectors ended in positive territory, with financials and industrials leading the gains. From a style perspective, value stocks outperformed their growth counterparts and small-cap names outperformed large and mid-cap stocks.

Fund Performance

The fund returned 4.8% (A-ACC-EUR share class, net of fees), while the MSCI Europe index returned 9.5% over the quarter. The fund started the quarter with c.56% allocated to long-only European equities. This was increased to 58% by the end of the quarter while the allocation to European Equity Market Neutral was reduced to 31% with 10% allocated to cash. The fund's long-only European equities contributed positively to returns while the market neutral portfolio was a slight detractor (-0.1%).

Disappointing returns from healthcare holdings

Philips declined on the back of weak Q3 results in October and announced a profit warning with a significant cut to EBITA expectations for the full year. Shares in Roche were weak in light of the failure of its Alzheimer's drug trial, with the company announcing that its studies did not show that the drug gantenerumab could effectively treat patients suffering from the early stages of Alzheimer's disease. Bayer declined despite reporting earnings beat, amid concerns about the potential for future litigation that could result in forthcoming liabilities.

Key contributors

Associated British Foods rose on the back of in-line FY 2022 results in November, driven by better-than-expected margins at discount clothing retailer Primark and in the food business. The company also announced a share buyback programme of £500m. Prudential recovered from recent weakness amid news that the severity of lockdowns in China is easing which will prove beneficial for its business given the group's Hong Kong exposure. Autoliv rose after it generated record sales in the third quarter despite inflationary pressures.

Fund Positioning

The fund offers exposure to European equity markets through a selection of up to 30 high conviction ideas and aims to deliver lower expected volatility than European equity indices by:

- 1) Exclusion of the lowest quality, more volatile quintiles of businesses
- 2) Exclusion of good quality businesses that are on unusually expensive valuations
- 3) Measurement of volatility adjusted expected returns with 10% hurdle rate required over 3-5 years.

This reduces equity exposure when the balance of risk / reward on individual stocks deteriorates. By switching alpha generation to a portfolio of analyst long/short ratings (removing beta), we aim to reduce the risk of significant portfolio declines in any subsequent market drawdowns.

The fund's biggest sector exposures are to consumer staples, healthcare and financials.

Trades during the quarter

We initiated a position in a consumer goods company Unilever, as it meets the fund's 10% return hurdle rate. The company's emerging market footprint remains attractive, and management has a credible growth strategy coupled with a focus on the most profitable products. A position was also bought in UK automotive advertising business Auto Trader Group, as it also meets the fund's 10% hurdle rate. The company's core operations business is very strong, and the shares are currently trading at a reasonable valuation. Among key sales, the position in Bayer was closed as the litigation overhang appears at risk of becoming prolonged.

Important Information

Past performance does not predict future returns. The fund's returns may increase or decrease as a result of currency fluctuations. The investment which is promoted concerns the acquisition of units or shares in a fund, and not in a given underlying asset owned by the fund.

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