

Portfolio manager: Alberto Chiandetti, Andrea Fornoni

## Performance over quarter in EUR (%)

Fund -3.0

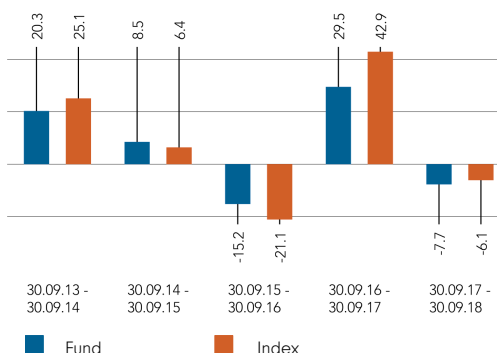
Market index -3.4

FTSE Italia All Share (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.

## Performance for 12 month periods in EUR (%)



## Market Environment

Italian equities fell over the quarter. Italy's coalition government unveiled a higher than expected budget deficit target of 2.4% of GDP for 2019. This hampered sentiment as investors feared that the anti-establishment government lacks the commitment to address the country's high debt load. On a broader front, there were 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. On a positive note, 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. At a sector level, energy and consumer staples were among the key performers, while information technology (IT) and materials 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.

## Fund Performance

The fund reported negative absolute returns over the quarter but outperformed the index, helped by both security selection and sector allocation. Stock picking was particularly rewarding in the energy and consumer discretionary sectors. Certain industrials holdings also added value.

## Stock selection in energy contributed strongly

Shares in energy equipment and services company Saipem, the fund's largest active holding, rose significantly over the quarter. The company reported strong order intake and project pipelines for both its onshore and offshore exploration divisions look very encouraging.

## Industrials and consumer discretionary among top performers

Aerospace and defence company Leonardo announced quarterly results that were above analysts' expectations. The allocation to gaming company Gamenet Group proved favourable. Its shares rose following the acquisition of rival online sports betting business Goldbet. Additionally, an underweight stance in transport infrastructure manager Atlantia added relative value.

## Certain underweights detracted

The lack of exposure to insurer Assicurazioni Generali and FincoBank hurt relative performance. I avoid these companies as they do not match my investment criteria. I continue to prefer financials with higher quality assets.

## Fund Positioning

I prefer companies that are well placed to benefit from an improvement in external drivers such as industry dynamics. I also look for opportunities in companies where the market fails to see future growth potential based on short-term issues. As a result of stock picking, the fund retains an overweight exposure to the consumer discretionary and industrials sectors. During the quarter, I rotated out of the health care sector. The proceeds were used to increase the position in financials.

## Increased exposure to financials

The allocation to financial information services provider Cerved Group was raised as it is competitively positioned and has strong market potential. A new holding was purchased in Banco BPM, which was created by the merger between two Italian banks. The merged entity is well positioned to benefit from cost and revenue synergies.

## Overweight in industrials

Key active positions within the sector include aerospace business Avio and packaging machinery manufacturer GIMA. While the former is preferred for its strong long-term growth prospects, GIMA is held for its high-quality business and technological advantage vis-a-vis peers. A new holding was purchased in electrical equipment company Prysmian as it has an experienced management team and stands to benefit from an encouraging growth environment in high voltage cables.

## 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. This fund invests in smaller markets which can make it more volatile than funds investing in larger markets.



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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         | Euro (EUR) |
| Three month relative return (%) | 0.95       |

## Position Contribution (%)

3 months

|                           | Average<br>Relative<br>Weight | Relative<br>Performance<br>Contribution |                            | Average<br>Relative<br>Weight | Relative<br>Performance<br>Contribution |
|---------------------------|-------------------------------|---|----------------------------|-------------------------------|---|
| TOP CONTRIBUTORS          |                               |   | TOP DETRACTORS             |                               |   |
| SAIPEM SPA                | 4.3                           | 1.42                                    | GIMA TT SPA                | 1.8                           | -0.38                                   |
| ATLANTIA SPA              | -1.4                          | 0.44                                    | ASSICURAZIONI GENERALI SPA | -4.9                          | -0.33                                   |
| LEONARDO SPA              | 1.5                           | 0.34                                    | FINECOBANK SPA             | -1.1                          | -0.22                                   |
| GAMENET GROUP SPA         | 1.1                           | 0.31                                    | ENI SPA                    | -2.9                          | -0.21                                   |
| TELECOM ITALIA SPA NEW    | -1.7                          | 0.25                                    | FERRARI NV                 | -1.3                          | -0.21                                   |
| CAREL INDUSTRIES SPA      | 1.0                           | 0.22                                    | LUXOTTICA GROUP SPA        | -2.3                          | -0.21                                   |
| DE LONGHI SPA             | 1.2                           | 0.16                                    | AVIO SPA                   | 2.0                           | -0.18                                   |
| CREDITO VALTELLINESE S.C. | 1.0                           | 0.15                                    | BUZZI UNICEM SPA           | 1.7                           | -0.17                                   |
| IVS GROUP                 | 1.6                           | 0.14                                    | MEDIOBANCA SPA             | -1.3                          | -0.14                                   |
| BANCO BPM SPA             | -0.5                          | 0.13                                    | PRYSMIAN SPA               | 1.3                           | -0.13                                   |

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<br>Relative<br>Weight | Security<br>Selection | Sector/<br>Industry<br>Selection | Total<br>Relative<br>Contribution |
|------------------------|-------------------------------|-----------------------|----------------------------------|-----------------------------------|
| GICS Sector            |                               |                       |                                  |                                   |
| Energy                 | -2.2                          | 1.46                  | -0.23                            | 1.23                              |
| Consumer Discretionary | 4.5                           | 0.27                  | 0.05                             | 0.32                              |
| Industrials            | 3.7                           | -1.22                 | 1.43                             | 0.21                              |
| Communication Services | -3.1                          | 0.00                  | 0.12                             | 0.12                              |
| Information Technology | 1.2                           | 0.24                  | -0.12                            | 0.11                              |
| Real Estate            | 0.1                           | 0.02                  | 0.01                             | 0.03                              |
| Utilities              | -5.4                          | -0.05                 | -0.06                            | -0.11                             |
| Consumer Staples       | -1.5                          | 0.00                  | -0.11                            | -0.11                             |
| Health Care            | -0.1                          | -0.01                 | -0.14                            | -0.15                             |
| Materials              | 3.8                           | -0.15                 | -0.06                            | -0.22                             |
| Financials             | -3.0                          | -0.54                 | -0.04                            | -0.58                             |
| Total Primary Assets   | -1.8                          | 0.02                  | 0.84                             | 0.86                              |
| Other*                 | 1.8                           |                       |                                  | 0.09                              |
| TOTAL                  | 0.0                           |                       |                                  | 0.95                              |

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

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