

Portfolio manager: Takuya Furuta

Performance over quarter in JPY (%)

Fund 6.9

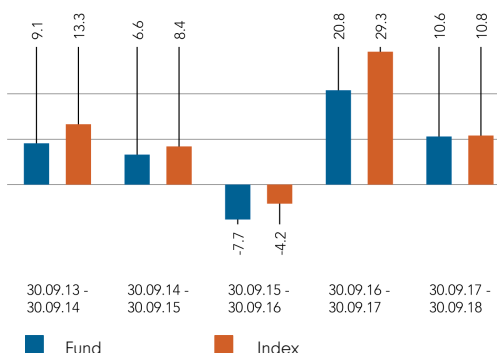
Market index 5.9

Tokyo Stock Exchange TOPIX Total Return Index

Market index is for comparative purposes only.

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

Performance for 12 month periods in JPY (%)



Market Environment

The Japanese equity market advanced over the quarter, as concerns over global trade frictions eased and the yen weakened to ¥113 against the US dollar. Tensions between the US and China dominated market sentiment, but investors appeared to discount near-term disruptions and Japanese stocks rallied towards the end of the quarter. Investor optimism towards US and Chinese equities, and rising US Treasury yields also supported the market. Large-cap, low price-to-earnings and low-beta stocks were the strongest performers over the quarter, while small-cap growth names were conspicuous laggards. Prime Minister Shinzo Abe won a third term as President of the Liberal Democratic Party and later agreed to enter into bilateral trade talks with the US. This precluded the imposition of additional tariffs on automobile imports from Japan. After a slow start to the year, the Japanese economy rebounded strongly in the April-June quarter, led by growth in consumption and capital investment.

Fund Performance

The fund delivered positive absolute returns over the quarter and outperformed the index. Stock selection in the services and information & communication sectors contributed to performance. The overweight stance in insurance also added value. Conversely, selected holdings in machinery-related and retail companies detracted from returns.

Holdings in the services sector contributed

Recruitment and staffing company Recruit reported solid quarterly results, as profits across all business segments rose. Its employment search engine Indeed maintained a high level of growth and the acquisition of Glassdoor is expected to further support earnings. D.A. Consortium, a digital advertising company, was another key contributor. The stock surged following news of a tender offer from parent Hakuodo DY Holdings to acquire all shares of D.A. Consortium.

Makita added value

Shares in the power tool maker rose as concerns over trade frictions eased and foreign exchange rates moved in its favour. As a pioneer in rechargeable battery tools, it is a key beneficiary of rising demand for battery-powered devices in both the power tools and outdoor power equipment markets.

Notable detractors

Shares in SMC, a pneumatic equipment maker, were held back by concerns over falling demand from the semiconductor and automobile industries amid ongoing global trade frictions. The position was reduced. Multiline retailer Ryohin Keikaku also fell as its first-quarter sales and profit came in below estimates due to weaker sales in China and rising personnel costs in Japan.

Fund Positioning

I look for companies that operate in a stable competitive environment, with high and sustainable return on invested capital, and good earnings visibility. As a result, style distribution shows a consistent growth and quality bias.

Key holding in NOF

NOF, a niche chemicals company, continues to make strong progress on earnings, with strong contributions coming from its core surfactants (raw materials for cosmetics) and life science (drug delivery systems) businesses. Its strong fundamentals and proactive approach to shareholder returns suggest further upside potential.

New position in ZOZO

I added a new position in ZOZO, the operator of Japan's largest online fashion mall. Recent share price weakness owing to some concerns over the near-term earnings prospects for its private brand and associated upfront costs presented an investment opportunity. The company's mid-term prospects remain positive on the back of growth in apparel e-commerce and the utilisation of body-size data.

Increased exposure to the services sector

In addition to existing holdings in employment-related companies such as Recruit and Relo Group, I bought a new position in CareerIndex, an online aggregation platform for full-time job search websites. I also raised exposure to security firms Secom and Sogho Security Services. These companies are stable cash generators that are well positioned to capture long-term structural growth in the security industry given shortages in human resources.

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	Yen (JPY)
Three month relative return (%)	1.56

Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
RECRUIT HOLDINGS CO LTD	3.5	0.60	SMC CORP	2.6	-0.54
MAKITA CORP	3.5	0.30	RYOHIN KEIKAKU CO LTD	1.3	-0.29
DAHCHI LIFE HOLDINGS INC	2.3	0.30	SONY CORP	-1.7	-0.27
OBIC CO LTD	2.7	0.30	HAZAMA ANDO CORP	1.3	-0.26
D A CONSORTIUM HLDGS INC	0.7	0.25	NIDEC CORP	2.3	-0.18
ARGO GRAPHICS INC	0.8	0.23	HITACHI HIGH TECHNOLOGIES CORP	0.8	-0.15
RELO GROUP INC	2.5	0.21	SANTEN PHARMACEUTICAL CO LTD	1.1	-0.15
TOYOTA MOTOR CORP	-3.5	0.20	KANSAI PAINT CO LTD OSAKA	1.0	-0.14
YOKOGAWA ELECTRIC CORP	1.2	0.19	EISAI CO LTD	-0.5	-0.14
ITOCHU TECHNO-SOLUTIONS CORP	1.0	0.19	TSURUHA HOLDINGS INC	2.3	-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

tpx Sector	Average Relative Weight	Security Selection	Sector/ Industry Selection	Total Relative Contribution
Services	7.2	0.87	0.13	1.00
Information & Communication	4.6	0.36	0.29	0.65
Foods	-3.7	0.11	0.40	0.51
Insurance	4.8	0.05	0.33	0.38
Transportation Equipment	-3.3	0.29	0.03	0.32
Banks	-6.7	0.01	-0.15	-0.14
Chemicals	3.1	-0.20	0.02	-0.18
Wholesale Trade	2.0	-0.28	0.06	-0.22
Retail Trade	-0.5	-0.46	0.00	-0.46
Pharmaceuticals	-2.5	-0.31	-0.22	-0.53
Total Primary Assets	-1.0	0.76	0.85	1.62
Other*	1.0			-0.05
TOTAL	0.0			1.56

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

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