

Portfolio manager: Ronald Slattery

## Performance over quarter in JPY (%)

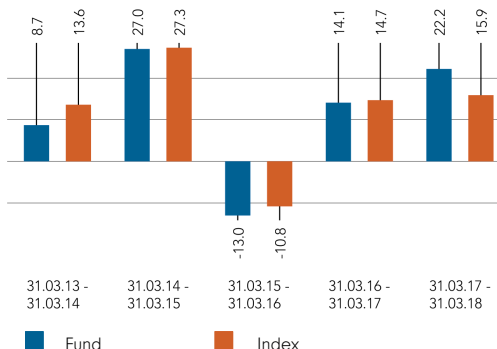
Fund	-5.7
Market index	-4.7

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

Japanese stocks got off to a strong start in 2018, with key indices reaching multi-decade highs amid optimism that global growth would translate into higher corporate earnings. Positive trends in overseas markets also helped to lift sentiment. However, share price movements became more volatile and trended downwards as long-term interest rates in the US continued to rise and the yen strengthened against the US dollar. As inflation expectations gained traction, there were concerns that the US Federal Reserve could be forced to tighten more aggressively. Rising trade tensions between the US and China, and a sell-off in US technology stocks also weighed on the Japanese market. At a sector level, financials and trade-related segments (shipping, materials, resources) experienced the sharpest declines. Conversely, low-beta defensive and domestic industries held up relatively well. Value stocks were conspicuous laggards over the quarter, whereas small-cap growth and high-quality names outperformed.

## Fund Performance

The fund underperformed the index over the quarter. Holdings in cyclical stocks and financials came under pressure amid the increased risk of a trade war between the US and China and a stronger yen. On a positive note, quality names that are relatively resistant to macroeconomic risks outperformed over the quarter.

## Technology-related stocks underperformed

Alps Electric, a key supplier of camera actuators for smartphones, was sold on reduced sales expectations at a major smartphone customer. However, the recent share price action appears excessive. Its automotive-related earnings are recovering and valuations are now close to the bottom of their historical range. Holdings in information technology (IT) services firm Fujitsu and imaging company Konica Minolta also underperformed.

## Financials detracted from returns

Holdings in the sector lost ground amid the macroeconomic-led correction in global markets and accompanying appreciation of the yen, which curbed expectations of higher interest rates. Mega bank Mitsubishi UFJ Financial Group ranked among the quarter's largest detractors, though further downside appears limited in view of both macroeconomic conditions and valuations.

## Stock picks in machinery added value

Power tool maker Makita outperformed given its strong earnings and end-market fundamentals, as well as the nascent growth of its garden tools business. The relatively low cyclicality of the power tool market and the fact that a stronger yen works in Makita's favour (given its large overseas manufacturing base) enhanced its appeal. Daifuku, a play on the rising automation in warehousing and distribution, also added value.

## Fund Positioning

I follow a bottom-up, stock selection focused approach that places emphasis on valuation analysis. The type of stocks that I typically favour are undervalued relative to their balance sheet quality, cashflow and earnings growth potential. Factors such as returns on capital and sustainability of earnings are also important.

## Adjusted positioning in electric appliances

The holding in electronic component maker TDK was increased. Profit growth momentum is steadily strengthening, driven by higher demand and better profitability in passive components, and rising battery sales. Furthermore, the stock trades at an unwarranted discount to the sector average. A new position was purchased in Hitachi as its earnings are improving and it has significant upside as a value stock.

## Remain positive on Komatsu

Sales of construction and mining machinery in China remain strong, and demand for mining-related machinery continues to recover. Its parts business is also recovering strongly, as the ratio of idled mining equipment declines. Komatsu looks attractive from a valuation perspective and earnings multiples have room to move up given its high rate of profit growth.

## Key holding in Shimadzu

The analytical instrument maker is increasingly competitive in high-end chromatograph and mass spectrometers, and has a large market share in Asia. Sustained earnings growth is supported by strong demand and broad applications for measuring instruments, the growth of the company's high-margin services business and its expansion in the health care sector.

## 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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INTERNATIONAL

## JAPAN ADVANTAGE FUND A-JPY

31 MARCH 2018

## 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 (%)	-0.55

## Position Contribution (%)

3 months

	Average Relative Weight	Relative Performance Contribution		Average Relative Weight	Relative Performance Contribution
TOP CONTRIBUTORS			TOP DETRACTORS		
MAKITA CORP	3.5	0.49	KOMATSU LTD	3.7	-0.35
SHIMADZU CORP	2.4	0.47	ALPS ELECTRIC LTD	1.8	-0.27
TDK CORP	2.8	0.28	MITSUBISHI UFJ FIN GRP INC	2.5	-0.24
TOYOTA MOTOR CORP	-1.8	0.23	MISUMI GROUP INC	3.2	-0.18
MARUI GROUP CO LTD	1.7	0.22	FUJITSU LTD	0.6	-0.15
DAIFUKU CO LTD	1.5	0.14	YAMAHA MOTOR CO LTD	1.8	-0.14
JGC CORP	0.8	0.13	DENKA CO LTD	0.7	-0.12
YOKOGAWA ELECTRIC CORP	1.7	0.12	SHISEIDO CO LTD	-0.4	-0.12
TAKEDA PHARMACEUTICAL CO LTD	-0.9	0.12	SUZUKI MTR CORP	0.1	-0.11
SOFTBANK GROUP CORP	-0.6	0.11	ASTELLAS PHARMA INC	-0.6	-0.10

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
Precision Instruments	1.0	0.44	0.03	0.47
Machinery	12.6	0.76	-0.42	0.34
Construction	-0.5	0.33	0.00	0.33
Retail Trade	-1.2	0.19	-0.06	0.13
Foods	-4.3	0.00	0.11	0.11
Services	-2.7	-0.06	-0.14	-0.19
Insurance	4.1	-0.04	-0.16	-0.20
Pharmaceuticals	-4.0	-0.05	-0.27	-0.32
Electric Appliances	9.8	-0.53	0.14	-0.39
Chemicals	-2.2	-0.39	-0.01	-0.39
Total Primary Assets	-2.1	0.08	-0.77	-0.69
Other*	2.1			0.14
TOTAL	0.0			-0.55

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

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