

Fidelity Europe Fund

Quarterly Investment Review

December 31, 2023

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Overview

INCEPTION DATE: January 02, 2001
BENCHMARK: MSCI Europe Index
FUND MANAGER: Matthew Siddle

OBJECTIVE

The Fund seeks to achieve long-term capital growth by investing primarily in equity securities of companies located mainly in the United Kingdom and Continental Europe, including the European Union and the European Free Trade Association.

APPROACH

- A regional equity strategy that aims to offer exposure to companies in the European market.
- Leverages Fidelity's dedicated "on the ground" investment team and global resources.

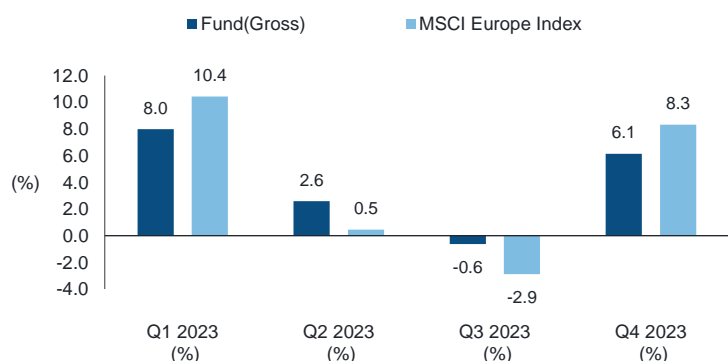
PERFORMANCE RETURNS (%)

	Cumulative					Annualized				
	Q1 2023	Q2 2023	Q3 2023	Q4 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Fidelity Europe Fund - Series O	7.98	2.59	(0.63)	6.13	16.83	16.83	5.44	6.63	5.29	5.20
MSCI Europe Index	10.43	0.45	(2.89)	8.31	16.67	16.67	7.02	8.32	6.40	3.96
Relative Return	(2.45)	2.14	2.26	(2.18)	0.16	0.16	(1.58)	(1.69)	(1.11)	1.24

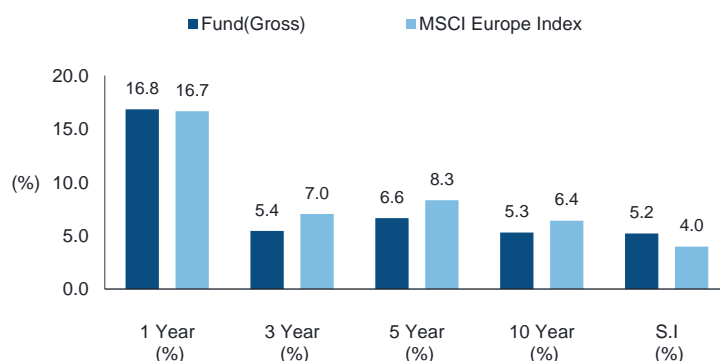
Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

Cumulative Quarterly Performance



Annualized as of December 31, 2023



Overview

PERFORMANCE RETURNS (%): CALENDAR YEAR RETURNS

	Calendar Year Returns									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fidelity Europe Fund - Series O	16.83	(10.90)	12.60	(0.13)	17.74	(6.52)	18.83	(8.79)	21.85	(1.63)
MSCI Europe Index	16.67	(8.89)	15.31	3.53	17.52	(7.20)	17.26	(3.85)	16.52	2.28
Relative Return	0.16	(2.01)	(2.71)	(3.66)	0.22	0.68	1.57	(4.94)	5.33	(3.91)

Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

Quarterly Fund Commentary

- From a sector perspective, the Fund's underperformance was largely due to investments in, and overweight allocations to, the financials and consumer staples sectors.
- In financials, out-of-benchmark exposure to France-based reinsurance company SCOR and an investment in U.K.-based multinational universal bank Barclays detracted from relative returns. In consumer staples, investments in U.K.-based consumer goods business Reckitt Benckiser and Netherlands-based food retail group Ahold Delhaize detracted from relative returns. In other sectors, an investment in France-based pharmaceutical company Sanofi and lack of exposure to a Netherlands-based semiconductor company also detracted.
- Investments in the information technology sector and overweight exposure to the real estate sector contributed to relative returns.
- In information technology, investments in Sweden-based telecommunications company Ericsson and Germany-based software and services firm SAP contributed to relative returns. In real estate, an investment in Germany-based multinational real estate company Vonovia contributed to relative performance. In other sectors, investments in U.K.-based food processing and retailing company Associated British Foods and Irish airline Ryanair Holdings contributed.

Annual Fund Commentary

- Investments in, and overweight exposure to, the financials sector detracted from relative returns, as did a higher-than-benchmark allocation to the consumer staples sector.
- In financials, investments in U.K.-based insurance company Prudential Financial and U.K.-based investment management firm St. James's Place detracted from relative returns. In consumer staples, investments in U.K.-based British American Tobacco and U.K.-based fast-moving consumer goods company Unilever detracted from relative performance. In other sectors, lack of exposure to a Denmark-based pharmaceutical company also detracted.
- Stock selection in the information technology sector and lower-than-benchmark exposure to, and investments in, the consumer discretionary sector contributed to relative returns.
- In information technology, investments in Germany-based software and services firm SAP and U.K.-based software company Sage Group contributed to relative returns. In consumer discretionary, investments in Spain-based clothing company Industria de Diseño Textil (Inditex) and Sweden-based automotive company Autoliv contributed to relative performance. In other sectors, investments in U.K.-based food processing company Associated British Foods and lack of exposure to a Switzerland-based food and beverages company also contributed, as did allocations to Irish airline Ryanair Holdings.

Positioning and Outlook

- Overall, Fund managers Helen Powell and Matt Siddle prefer quality companies trading at attractive valuations. The Fund typically does well when the valuation gap between the most and least expensive stocks narrows, given that the Fund tends not to own the priciest companies in the market.
- The market appears increasingly confident that we are near the peak in interest rates and that the global economy will make a soft landing. Macroeconomic risks remain elevated, however, and the portfolio is positioned to reflect this.
- The Fund continues to hold attractive cyclical ideas but in prudent position sizes that provide scope to add to them if conditions deteriorate before improving. The portfolio management team is very wary of companies with weak balance sheets, given tightening credit availability. Although this is a factor the managers always monitor, it is even more critical today.
- Overall, this focus should lead to a portfolio with more defensive characteristics heading into any downturn. This defensiveness is visible in the portfolio's beta, the defensive versus cyclical exposure, at 0.95, and through the portfolio's volatility, which is lower than that of the market.
- Looking at the portfolio's characteristics in aggregate, the Fund remains overweight in higher-quality and growth areas, but with continued valuation discipline. Overall, the team believes the portfolio is well positioned as we possibly enter a more recessionary environment.
- There appear to be three central drivers of the market's optimism for peak rates and a soft landing.
 1. First, in the U.S., the Inflation Reduction Act (IRA) and industries reshoring will likely spur substantial capital expenditure, fostering another growth phase rather than a recession. While IRA stimulus has boosted the economy this year, construction is expected to persist at this elevated level without additional stimulus next year.
 2. Second, destocking is coming to an end, possibly leading to a cyclical acceleration through restocking. The portfolio management team is sceptical about the end of destocking, though, lacking clear evidence from real data and with many companies still seeing rising inventories. Macroeconomic aggregates suggest we have not truly reached a destocking point overall.
 3. The third factor is that a fall in interest rates will accelerate end demand for goods. Lower inflation combined with improved wage growth would increase real wages, driving consumer spending. For this reason, the team has positioned the Fund modestly overweight in consumer cyclical areas, focusing on compelling valuations. This approach is reflected in large positions in companies, such as Inditex, with strong balance sheets (often in net cash).
- While these factors suggest a more optimistic 2024, the team recognizes that European equity markets continue to face challenges and they believe corporate revenue and earnings expectations for fiscal 2023 and 2024 will remain pressured for many companies.
- There are more challenges to navigate, with many corporations facing a refinancing wall in 2024–25. The degree of leverage facing both businesses and consumers is something the management team is watching closely, given that the real impact of the higher-rate environment has not yet been felt by those benefitting from low fixed-rate debt.

- There do remain opportunities to find decent businesses that have turned into value stocks that are very cheap compared with both their financial potential and market/growth stocks. The managers believe the medium-term investment case is strong for these firms.
- While value stocks may exhibit more volatility and macroeconomic sensitivity, the portfolio management team focuses on value stocks with robust fundamentals for resilience in challenging macroeconomic conditions. The team also focuses on valuation to mitigate derating risks.

Performance Attribution

SECTOR ATTRIBUTION SUMMARY - 3 MONTHS

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
INFORMATION TECHNOLOGY	10.61	6.98	3.63	20.32	20.89	(0.57)	58	(19)	39
REAL ESTATE	2.55	0.82	1.73	27.95	25.74	2.21	1	32	33
COMMUNICATION SERVICES	2.75	3.19	(0.43)	16.73	6.73	10.00	14	13	27
HEALTH CARE	12.05	15.74	(3.69)	(0.08)	1.44	(1.53)	(22)	31	8
ENERGY	4.87	6.16	(1.28)	(2.63)	(1.42)	(1.21)	(9)	14	5
UTILITIES	4.20	4.27	(0.08)	13.48	12.34	1.14	17	(13)	4
CONSUMER DISCRETIONARY	10.44	10.68	(0.24)	5.66	7.44	(1.78)	(48)	28	(20)
MATERIALS	0.92	7.06	(6.14)	12.35	12.14	0.20	0	(27)	(27)
INDUSTRIALS	6.79	15.23	(8.44)	19.39	15.24	4.15	50	(82)	(32)
CONSUMER STAPLES	23.24	12.00	11.24	0.50	2.64	(2.14)	(41)	(74)	(115)
FINANCIALS	19.30	17.87	1.43	2.59	9.21	(6.62)	(100)	(29)	(129)
SUBTOTAL	97.73	100.00	(2.27)	6.22	8.31	(2.09)	(80)	(126)	(206)
CASH AND OTHER	2.27	-	-	-	-	-	-	-	(12)
TOTAL	100.00	100.00	0.00	6.13	8.31	(2.18)	-	-	(218)

Note: Differences may be due to rounding.

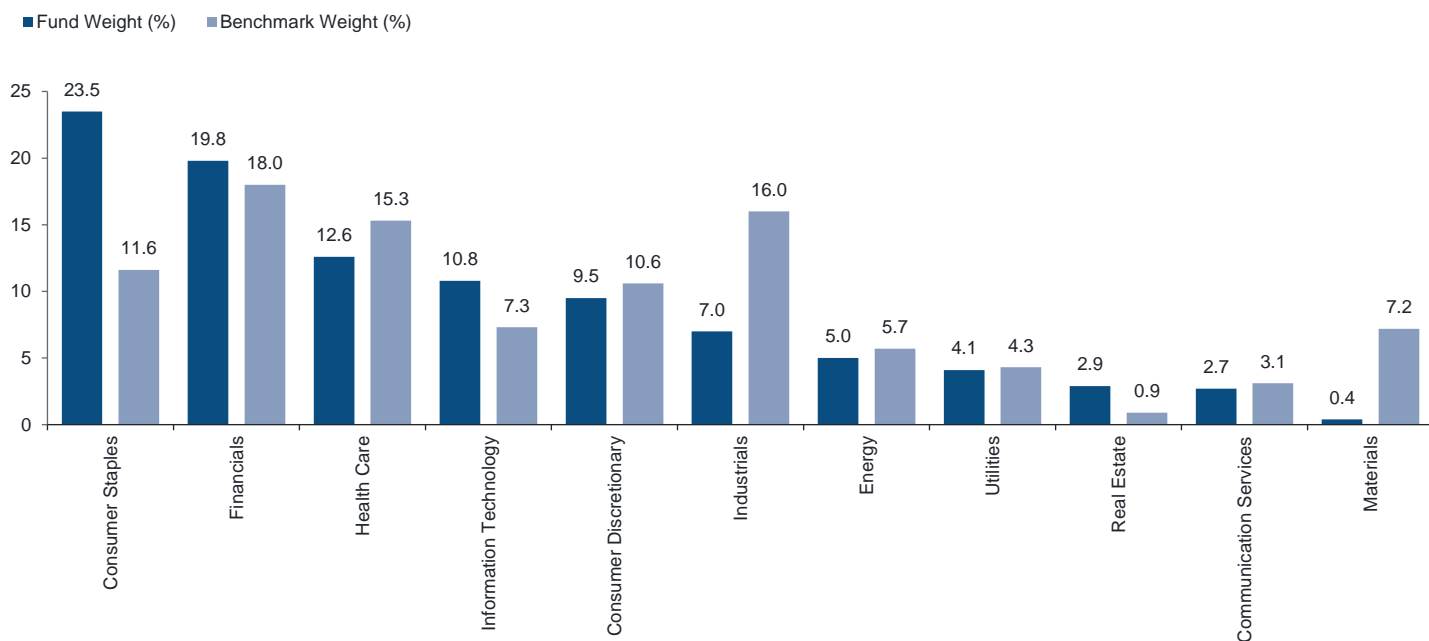
SECTOR ATTRIBUTION SUMMARY - 1 YEAR

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
INFORMATION TECHNOLOGY	10.33	6.70	3.63	40.00	36.74	3.26	93	1	94
CONSUMER DISCRETIONARY	10.57	11.24	(0.67)	25.23	17.90	7.34	13	61	73
COMMUNICATION SERVICES	3.05	3.25	(0.20)	37.81	16.56	21.25	4	59	62
REAL ESTATE	2.19	0.81	1.37	37.03	24.90	12.12	14	30	44
UTILITIES	4.00	4.27	(0.27)	20.42	14.93	5.49	(13)	48	35
MATERIALS	0.81	7.06	(6.25)	11.81	13.81	(2.00)	(2)	29	26
ENERGY	5.12	6.03	(0.91)	12.68	10.44	2.24	50	(37)	12
HEALTH CARE	11.66	15.71	(4.06)	6.41	9.80	(3.40)	(68)	65	(4)
INDUSTRIALS	6.68	14.93	(8.26)	40.89	28.70	12.20	167	(184)	(18)
CONSUMER STAPLES	23.13	12.46	10.67	8.05	2.82	5.23	148	(171)	(23)
FINANCIALS	19.31	17.52	1.79	6.72	23.42	(16.69)	(285)	(31)	(316)
SUBTOTAL	96.84	100.00	(3.16)	17.30	16.67	0.63	118	(132)	(14)
CASH AND OTHER	3.16	-	-	-	-	-	-	-	30
TOTAL	100.00	100.00	0.00	16.83	16.67	0.16	-	-	16

Note: Differences may be due to rounding.

Fund Positioning

SECTOR ALLOCATION



Sector breakdowns are only applied to equities and convertibles and the allocation percentages may not add to 100%.

Fund and benchmark weights are based on end weights as at each quarter end.

TOP 10 HOLDINGS

Holding	Sector
ROCHE HOLDING AG	HEALTH CARE
NATIONAL GRID PLC	UTILITIES
INDITEX SA	CONSUMER DISCRETIONARY
ERICSSON (LM) TELE CO CL B	INFORMATION TECHNOLOGY
RECKITT BENCKISER GROUP PLC	CONSUMER STAPLES
SANOFI	HEALTH CARE
KONINKLIJKE AHOLD DELHAIZE NV	CONSUMER STAPLES
ASSOCIATED BRITISH FOODS PLC	CONSUMER STAPLES
SAP SE	INFORMATION TECHNOLOGY
BRITISH AMERICAN TOBACCO	CONSUMER STAPLES

Investment Process

Investment process

- Bottom-up approach focused on high quality companies trading on an attractive valuation.
- Favours well-managed, cash-generative businesses with high and sustainable returns.
- Employs a wide range of resource: extensive company meetings, Fidelity research, and proprietary framework.
- Long-term perspective, low turnover of investment ideas.

Investment style

- Portfolio managers Matt Siddle and Helen Powell follow a “Quality at an attractive price” investment style.

Quality focus:

- Look to invest in high return, cash generative businesses.
- Focus on quality of business and structural drivers, not short-term EPS growth.

Valuation discipline:

- Look for attractive value on a cross-cycle basis.
- Choose best opportunities based on quality/value matrix.
- Monitor momentum, liquidity and conviction to size positions and avoid excessive risk.

Risk management

- Regular use of Barra and FactSet to analyze portfolio.
- PM team use proprietary tool to carry out stock by stock analysis of key factor exposures.
- Tool measures risk versus fundamental exposures, not arbitrary sector or country of listing classifications.
- Enables identification and measure of exposures that stock picking has driven.
- Ensures portfolio remains true to investment approach.

Portfolio construction

- Generally, 50-80 holdings.
- Exposures monitored at the style, factor, sector and fundamental macro economic level to ensure stock selection and quality bias remain key drivers of risk and return.
- Typical position size 0.5-5% at purchase.

Buy discipline

- Focus on companies with high quality franchises.
- Identify stocks where valuation is attractive for the quality of the franchise.
- Assess risk profile before investing in the company, and the impact on the portfolio.

Sell discipline

- The long-term outlook for the business deteriorates.
- Valuation no longer provides an attractive risk/reward payoff.
- The stock is replaced with a higher conviction idea.

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The value of a strategy's investments will vary day to day in response to many factors, including in response to adverse issuer, political, regulatory, market or economic developments. The value of an individual security or a particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. Nearly all accounts are subject to volatility in foreign exchange markets.

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