FF - Sustainable Eurozone Equity Fund

Q4 2020
• Fund Update •

ESG
LUXFLAG Label

Important information

- The value of investments and the income from them can go down as well as up and investors may not get back the amount invested.
- Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.
- The fund does not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.
- Investors should note that the views expressed may no longer be current and may have already been acted upon.
- Past performance is not a reliable indicator of future returns.
- The Investment Manager's focus on securities of companies which maintain strong environmental, social and governance ("ESG") credentials may result in a return that at times compares unfavourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time.
- This fund has, or is likely to have, high volatility owing to its portfolio composition or the portfolio management techniques.

Fund overview

The FF Sustainable Eurozone Equity fund is a high conviction equity fund (35-45 stocks), with a focus on long-term sustainable financial and non-financial returns. We select companies with the best sustainable models, both in terms of financial and non-financial performances and we strive to positively influence and engage with all companies in the portfolio through an active ownership framework.

The strategy undertakes bottom-up analysis to select companies in terms of quality-growth characteristics and an ESG analysis at stock and sector levels to select companies that have the best practises, sustainable developments, high ESG scores and low controversy risks.

To achieve this strategy, we use the FIL global research platform composed by teams of research analysts and ESG specialists and build a 'best ESG investment universe', implying an approximate c30% exclusion from the respective investment universe.

Portfolio Manager

Vincent Durel

Fund facts

Managers tenure start date	30/10/2019
Index	MSCI EMU
AUM	€349m
Number of holdings	42

Source: Fidelity International, 7 January 2021.

Market backdrop

During the quarter, the European Union confirmed its leading position on climate change. It set the path to decarbonisation with renewed greenhouse gas (GHG) emissions targets and new opportunities were established for renewable energy companies in the region.

The European Parliament voted in favour of raising the current EU 2030 GHG emissions target from -40% to -60%, compared to 1990 levels. This is more ambitious than the European Commission's previous intention of raising the target from -40% to -55%.

The new target is aimed at ensuring that the EU and all member states become carbon neutral by 2050. The Commission will propose a trajectory on how to reach carbon neutrality by 2050 in line with the Paris Agreement. Member states must also phase out all direct and indirect fossil fuel subsidies by 2025.

In addition, the European Parliament has suggested to set up an EU Climate Change Council (ECCC) as an independent scientific body, to assess whether the policy is consistent and to monitor progress.

To help meet its climate neutrality goal, the European Commission published the EU Strategy on Offshore Renewable Energy. The strategy proposes to increase Europe's offshore wind capacity from its current level of 12 GW, to at least 60 GW by 2030 and to 300 GW by 2050. This should provide new opportunities for the renewables industry. The Commission aims to complement this with 40 GW of ocean energy and other emerging technologies, such as floating wind and solar, by 2050. The Commission estimates that investment of nearly €800 billion will be needed between now and 2050 to meet its proposed objectives.

Fidelity INTERNATIONAL

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Top contributions

Company	Relative return (bps)
1. Prada	+74
2. Solaria Energia	+63
3. Vestas Wind Systems	+55
4. Sanofi (not owned)	+53
5. Neoen	+52

Top detractors

Company	Relative return (bps)
1. Deutsche Boerse	-64
2. SAP	-58
3. Symrise AG	-46
4. Banco Santander (not owned)	-38
5. Beiersdorf AG	-34

Source: Fidelity International, 31 December 2020. Index: MSCI EMU Index. Actual Relative contribution figures in bps. Attribution is based on gross returns. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. Past performance is not a reliable indicator of future results. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Financial performance

Over 2020, the fund outperformed the MSCI EMU Index by +820bps (net of fees), beating more than 90% of its peers (Morningstar EAA Fund Eurozone Large-Cap Equity)**.**

Over Q4 2020, the fund outperformed the MSCI EMU Index by +20bps (net of fees), in an environment where global markets continued to rally. Positive news flow on COVID-19 vaccines, Joe Biden's victory in the US presidential election, the signing of the Brexit deal and additional stimulus measures, were key positives that drove markets and facilitated a strong cyclical value rotation. The Eurozone equity markets rose by +12.7% throughout the quarter. This was mainly driven by sectors which had been impacted most by the pandemic, such as energy, banks, consumer discretionary and REITs, while defensive sectors underperformed, such as healthcare and non-discretionary consumption.

At the stock level, holdings within the renewable energy sector (**Solaria Energia, Neoen** and **Vestas Wind Systems**) were significant contributors to returns over the quarter. The stocks have benefitted from both the EU's green deal (which is set to support 15 GW of tenders for renewables over the next two years) and a possible green US fiscal stimulus, which aims to decarbonize the US electricity sector by 2035. This supportive regulatory environment should accelerate growth over the long term. In addition, the stocks have had little impact from the global pandemic.

Luxury brand **Prada** outperformed significantly both the broader market and the luxury sector. This reflects the company's superior sales and earnings growth profile expected in the medium term, as well as a solid margin recovery. Since 2019 the company has undergone an operational turnaround, driven by structural changes implemented in the group's development strategy around premiumisation, digitalization, retail and e-commerce focus, strict control of cash and cost.

Finally, not owning pharmaceuticals company **Sanofi** also led to positive returns.

In terms of detractors, software and technology solutions company **SAP** has been one of the largest over the quarter, caused by a severe profit warning. The 2020 targets were downgraded, 2023 targets were scrapped and a major new investment scheme was announced. The 2020 revenue guidance was cut to reflect a significant deceleration in transactions and a more conservative outlook. In addition, SAP has decided to migrate customers currently on legacy 'on premise' platforms to the cloud, under a unified offering. This is in response to competitive pressures and accelerated demand from clients for cloud solutions. SAP therefore revised its 2023 targets, as revenue and profits will be harmed over the short term to increase investments into the business and transition clients. Whilst this was concerning for investors, our long-term focus allows us to maintain conviction that SAP is following the right strategy to provide sustainable growth and returns.

The holding in European exchange **Deutsche Boerse** also detracted from value. The stock is suffering from a tougher than expected H2 compared to a strong H1, given low rates and trading volume normalisation. In addition, **Symrise,** the natural ingredient manufacturer, underperformed significantly, suffering from profit taking by investors and a cyberattack. Finally, German personal care company **Beiersdorf** underperformed. 2020 sales and margin guidance has been disappointing, notably caused by increasing COVID-19 induced restrictions in Europe, despite better than expected Q3 organic sales growth. Finally, not owning Spanish diversified back **Banco Santander,** detracted from returns.

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Over Q4, the fund initiated a new position in a leading Portuguese renewable operator **EDP Renovaveis**. The company has an ambitious expansion program to be achieved by 2025. The company should be able to achieve these goals whilst maintaining strong fundamentals, by annually divesting some of its assets (which represent around half of its annual growth capex) and limiting financial leverage. The group has a high exposure to the US market, where it could benefit from a potential green fiscal stimulus deal. Finally, the group has an attractive valuation compared to its peers.

The fund remains concentrated (42 stocks), with a relatively defensive stance (beta of 0.94) and a strong focus on growth and quality stocks.

ESG and carbon metrics

MSCI ESG Ratings

Fund: **FF Sustainable Eurozone Equity Fund**	AA
Benchmark: **MSCI EMU**	A

ESG quality scorecard

	Portfolio	Benchmark	Active
ESG Quality Score (0-10)	8.2	7.0	15.9%
Environmental Score	7.2	6.7	7.7%
Social Score	5.8	5.4	7.2%
Governance Score	5.6	5.1	9.6%

Source: MSCI ESG, ESG portfolio extended summary report, 4 January 2021. Based on portfolio and index holdings as at 4 January 2021.

Non-financial performance

The fund's MSCI ESG Score reached 8.2 at the end of Q4 2020, representing an AA rating with 15.9% overweight exposure to ESG Leaders (AAA/AA MSCI ESG Rating) and beating 94% of its Eurozone peers1.

The fund's Morningstar Globe Rating stayed at five globes, beating 99% of global peers2.

The fund was awarded a new ESG Label over the quarter: the FNG Label from Germany. This brings the total number of European ESG Labels awarded to the fund to four (additional labels include Label ISR from France, Febelfin from Belgium and Luxflag label from Luxembourg).

The fund's carbon footprint (Scope 1 and 2 Trucost estimates) is 85% below its benchmark in terms of the carbon intensity metric, 91% below in terms of the carbon invested metric and 73% below in terms of the carbon intensity metric (when including Scope 1, 2 and 3) 3. In terms of carbon intensity, the fund is beating more than 95% of its Eurozone peers1.

In addition, the fund's energy consumption weighting (1.5GW) is covered by 70% of renewable energies, of which 15% is from sourcing of renewable energy and 55% by production of renewable energy[6]

According to an ISS analysis at end of September 2020, **the fund**, in its current state, is aligned with a **2-degree scenario for the full analysed period (until 2050)[5].**

On the **EU Taxonomy**, according to FIL analysis, we estimate[4] that **about 36% of the fund is exposed to activities covered by the EU taxonomy** for sustainable activities. Given the current state of companies' disclosure, we consider **alignment with the taxonomy can be demonstrated for 8.8% of the fund** (e.g. Solar PV and wind power) and **a further 5.4% of the fund is potentially aligned with the taxonomy** (e.g. ***Umicore*** as a manufacturer of low carbon products and ***Getlink*** as a provider of rail transport).

Looking at our relative impact investing approach, the fund remains 80% below its benchmark in terms of environmental indicators (CO2, Waste and Water intensities), while its **social** (promoting women managers) and **governance indicators** (pay gap), still show superior relative performances.

Source: 1. MSCI ESG, ESG portfolio extended summary report, 4 January 2021. Based on portfolio and index holdings as at 4 January 2021 2. Morningstar, as at 31 October 2020, in the Eurozone Large-Cap Equity category. 3. TruCost, company data, MSCI, FIL Estimates, as at 4 January 2021. Fidelity International, S&P Trucost Limited © Trucost, 4 January 2021. FOR ILLUSTRATIVE PURPOSES ONLY. All rights in the Trucost data and reports vest in Trucost and/or its licensors. Neither Trucost, nor its affiliates, nor its licensors accept any liability for any errors, omissions or interruptions in the Trucost data and/or reports. No further distribution of the Data and/or Reports is permitted without Trucost's express written consent. Based on data available for 100% of the portfolio and 100% of the MSCI EMU Index holdings as of 4 January 2021. 4.Fidelity estimates, based on portfolio holdings as at 4 January 2021. 5. ISS, Fidelity International. Based on data available for 95% of the portfolio, holdings as of 30 September 2020. 6. FIL analysis and company reporting.

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Stock in focus

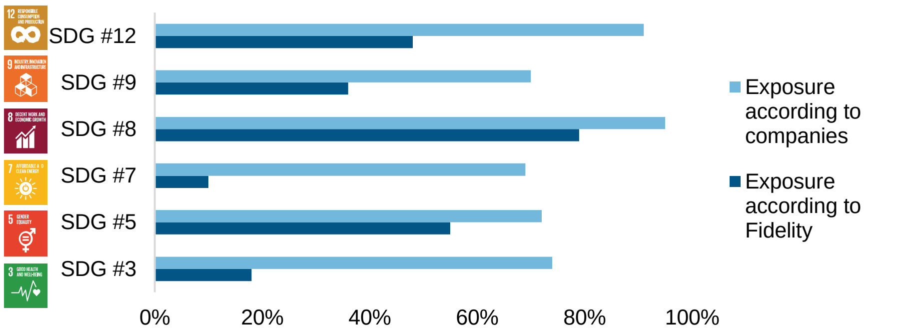
Symrise is a flavour, nutrition and fragrance company with strong sustainability practices. The company aims to reduce its environmental footprint through a multitude of sustainability targets covering aspects such as energy efficiency, waste and water. Notably, its objective is to become climate positive (scope 1 and 2) by 2030, thanks to its energy efficiency and 100% of electricity coming from renewables from 2025. Its target was validated by the Science-Based Target initiative and is in line with reductions required to keep global warming to 2°C. In 2020, the company required 90% of its suppliers to define carbon emissions reduction targets. This will help Symrise reduce 'scope 3' upstream emissions, for which it is developing a related target.

Symrise has long been encouraging sustainability practices in its supply chain and aims to procure all its main agriculture and aquaculture raw materials from sustainable sources by 2025. The company has created a unique integrated vanilla supply chain, which it now wants to use as a blueprint for other materials. In Madagascar, Symrise sources vanilla beans directly from nearly 7,000 farmers and has established a fermentation and extraction plant. This ensures that the vanilla is of high quality, fully traceable and that cultivation and extraction benefits local communities. Symrise provides training on sustainable agriculture practices, seedings, healthcare options and it encourages farmers to diversify crops.

Symrise is exposed to structural sustainable growth drivers. The company should grow its top line by 5-7% per annum organically, which could be boosted by selective acquisitions, on which management has a solid track record. The group's profitability should remain high with an EBITDA margin above 20%, as well as its FCF generation. Finally, the company's activity is diversified in terms of regions, categories, channels and brands. Since October 2020, the stock has underperformed the MSCI EMU Index by more than 18%[1], which is not justified by fundamental reasons.

Source: Fidelity International, 31 December 2020. Past performance is not a reliable indicator of future results. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. [1]Bloomberg, 2021.

Fund's contribution to investable SDGs (% of funds market cap)



Source: Fidelity International, as of 4 January 2021, represents % of the fund's market cap. Exposure according to Fidelity indicates portfolio managers subjective assessment of SDG exposure after engagement and analysis with companies. Exposure of the fund is adjusted for market cap. The Portfolio Manager considers only 10 SDGs as investable SDGs - #3, #4, #5, #6, #7, #8, #9, #11, #12 & #1. The Portfolio has exposure to SDGs #3, #5, #8, #9 & #12. This may change from time to time in order to ensure desired investment characteristics are achieved in-line with the fund's investment objective as stated in the prospectus.

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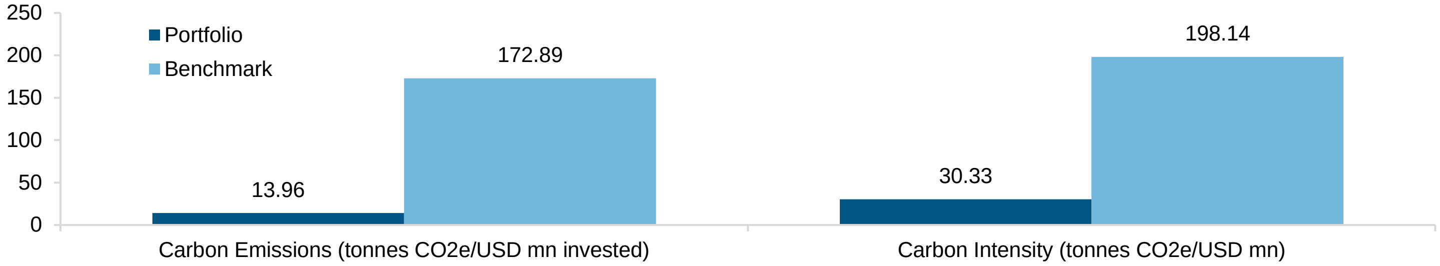
Carbon profile of the fund vs index



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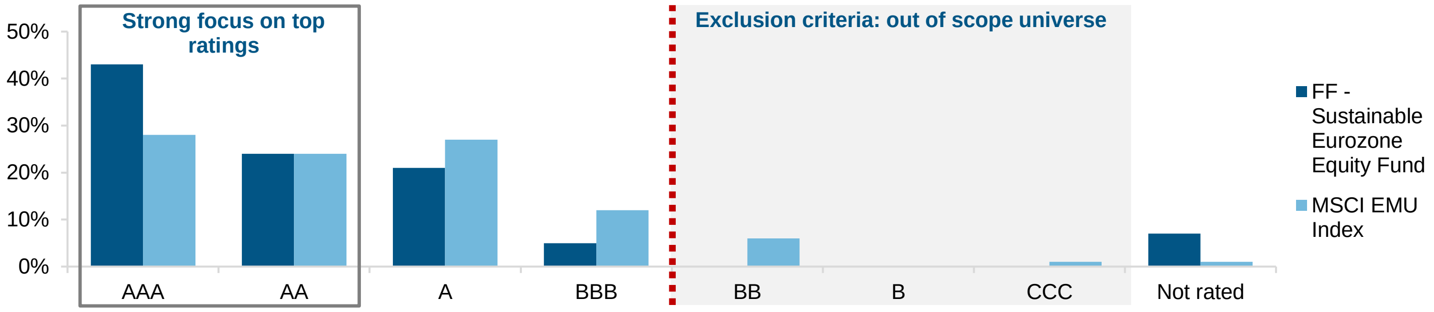
MSCI ratings distribution



Source: MSCI ESG Research, based on portfolio and index holdings as of 4 January 2021. MSCI rates issuers on a AAA-CCC scale according to their exposure to industry specific ESG key issues and their ability to manage those issues relative to peers. The ESG ratings distribution is based on Net Asset Value of holdings excluding cash, liquidity funds, derivatives and ETFs, and is rebased to 100%. *Please see appendix for more.

Relative impact investment for $1M investment

	Outcome for the strategy vs index	Real world' equivalent
Environmental indicators		
Carbon Efficiency Source: Trucost	**158** tons of GHG emissions **saved**	**>100** new cars' CO2 emissions[1]
Water Efficiency Source: Impact-Cubed	9.6K m3 of fresh water **saved**	9.6K m3 of fresh water **saved**[2]
Water Efficiency Source: Impact-Cubed	**36.6 tons** of waste generation **saved**	**>70** individual' annual waste production[3]

	Outcome for the strategy vs index
Social indicators	
Gender Equality Sources: Impact-Cubed & Fidelity estimates	**% more female executive managers** **$ 550K** directly invested in firms with best practises in terms of women employment (>50% employees & >30% managers)
Governance indicators	
Executive Pay Source: Impact-Cubed	**6.5x lower** executive-to-employee pay ratio ↔ **better revenues distribution**
Board Independence Source: Impact-Cubed	3% less independent board members ↔ higher representation of family owned companies

Source: Fidelity International, Impact Cubed, based on holdings as at 31 October 2020. [1]CO2 120g/km x 12K km = 1.44 t/CO2 p.a. [2]Water saved of 10.3km3 t / 124m3 (=150 litres per day consumed per European habitant (avg.) x 360 days x 2.3 persons per household on avg.) p.a. [3]Waste saved of 15.8t / 400kg consumed per European habitant UE-28 (avg.) p.a. For illustrative purposes only. No representation nor warranty is made with respect to the accuracy or completeness of information and data provided by external ESG data providers. Past impact is not a guarantee for future impact.

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12 month rolling, PM tenure, YTD & 1 month returns, net of fees, EUR (%)

	31.12.15 31.12.16	31.12.16 31.12.17	31.12.17 31.12.18	31.12.18 31.12.19	31.12.19 31.12.20	PM tenure (Ann)	YTD	Q4 2020
Fidelity Funds - Sustainable Eurozone Equity Fund A-ACC-Euro	-0.5	9.4	-11.4	31.0	7.2	**9.7**	**7.2**	**12.9**
MSCI EMU	2.6	10.2	-10.6	24.9	-1.0	**2.0**	**-1.0**	**12.7**

Source: Fidelity International, 31 December 2020. Performance shown net of fees (OCF 1.93%) in EUR with gross income re-invested. With effect from 30 October 2019, the FF - European Fund, managed by Victoire De Trogoff was repurposed to FF - Sustainable Eurozone Fund, managed by Vincent Durel. The repurposed fund has a focus on sustainable investing and is part of the Fidelity Sustainable Family. With effect from 30 October 2019 the fund changed its characteristics due to changes in the investment objective. After this date the performance will be achieved under other circumstances. Performance is shown for illustrative purposes to demonstrate the portfolio managers past track record. The track record does not represent the performance of a strategy which applies ESG criteria as per its investment objective. Past performance is not a guarantee of future returns. Returns may increase or decrease as a result of currency fluctuations. The value of investments can go down as well as up and you may get back less than you invested.

Important information

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