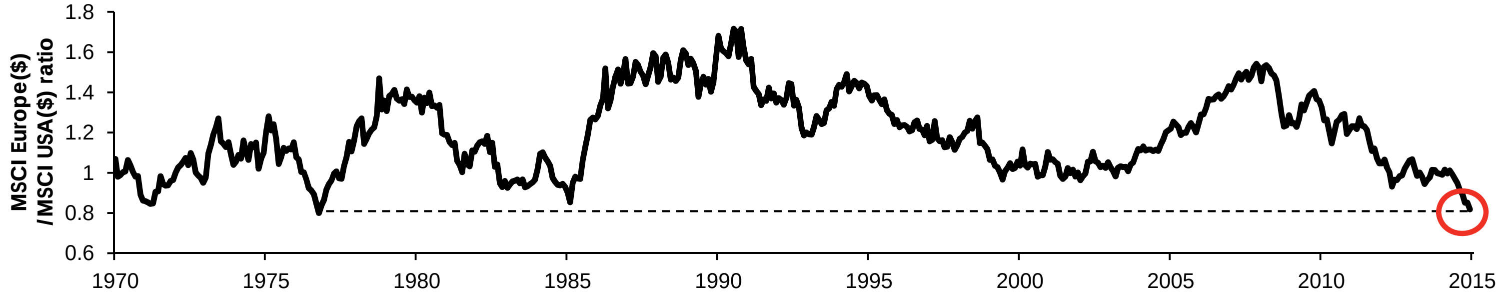
A bullish case for European equities
Reasons to be positive

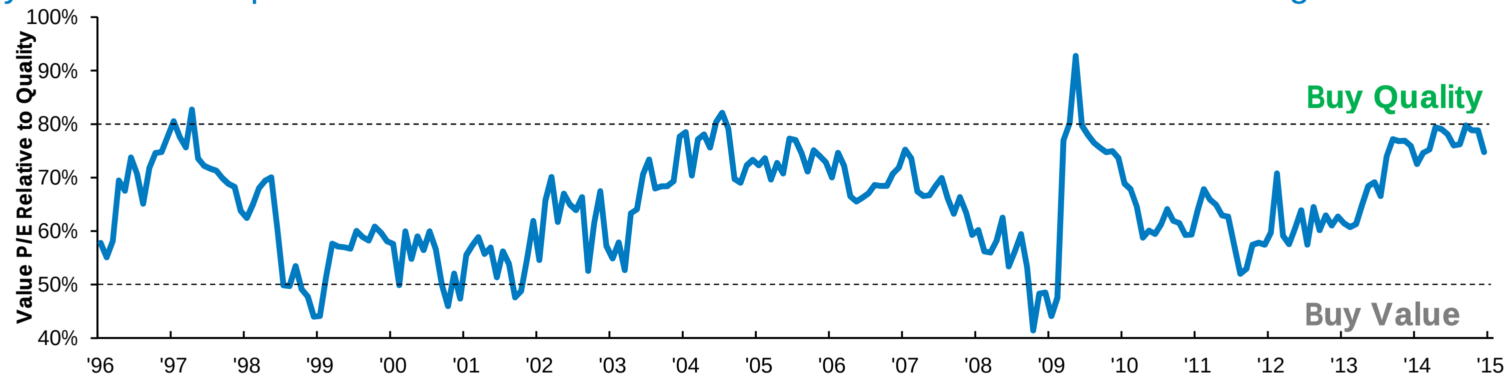
PERSPECTIVES

Some powerful factors now support the outlook for European equities
- Weaker Euro
- Lower oil price
- ECB QE will support financial markets & stimulate lending

Plus: Relative divergence with US market has hit a 38-year low
A contrarian indicator for European outperformance - time to buy Europe?



Plus: Attractive valuations for 'Quality' stocks
Quality stocks cheap vs. value stocks as investors have not been discriminating. Time to buy quality?



Source: Top chart: MSCI, DataStream 28 January 2015. Bottom chart: Citi Research 31 December 2014 (see slide 7 for Value/Quality factors)

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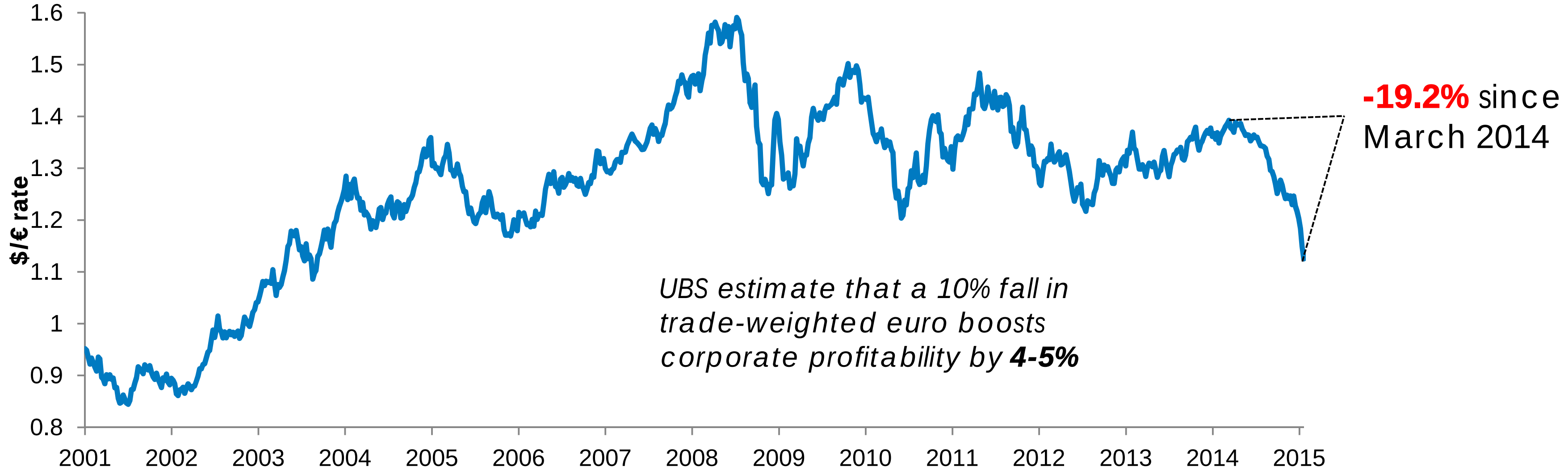
A bullish case for European equities

1. Weaker Euro supports exporters

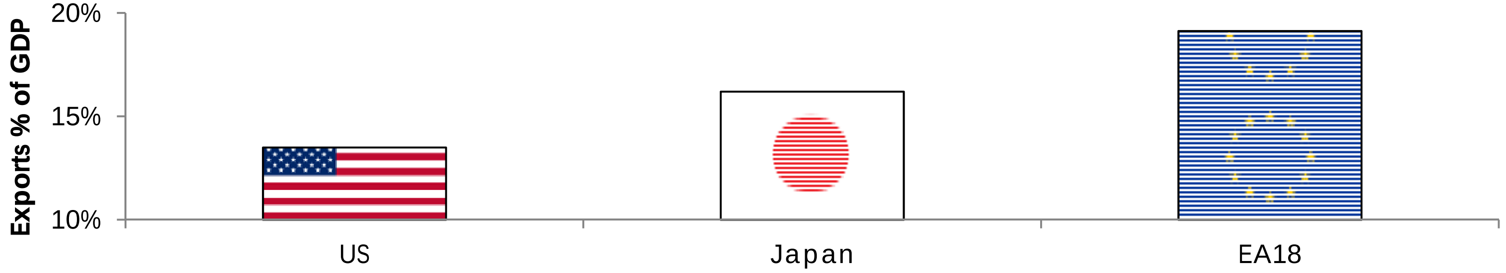
11-year low for Euro vs Dollar

Hit $1.12/€ in late September, now lowest since September 2003



Weaker euro is good news for exporters

This is powerful as exports to outside the EA18 make up around 20% of Eurozone GDP



Sources: WM/Reuters, Eurostat, US Bureau of Economic Analysis, Japan Cabinet Office

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2. Lower oil price – a net positive

Eurozone economy

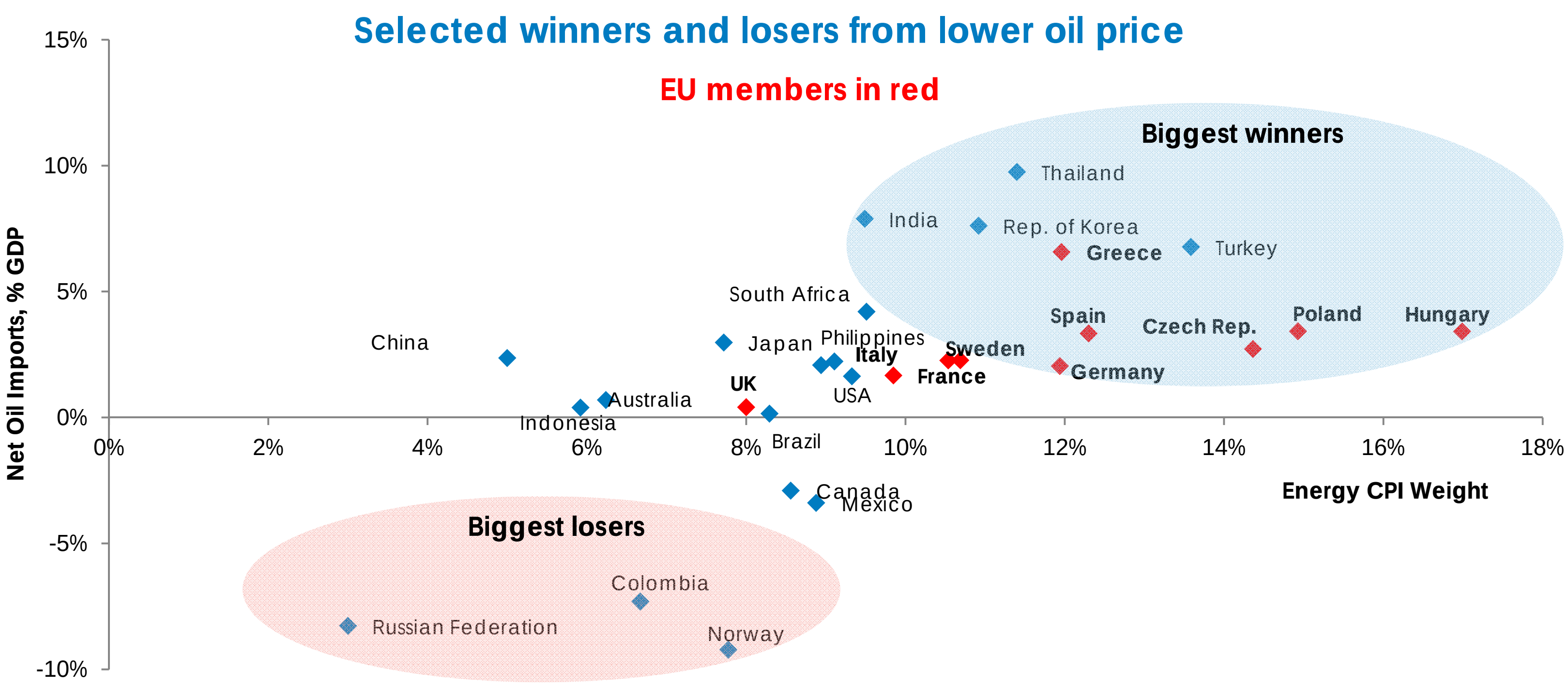
Total energy import bill was over $500bn in 2013, lower prices will see this drop significantly.
e.g. France is estimated to see 0.3% GDP boost by summer 2015*

Benefit 1: Consumers

Wealth redistributed from commodity producers to commodity consumers. Acts as a 'tax cut' for consumers, boosting consumption

Benefit 2: Corporates

UBS analysis of oil supply shocks in 1986 &1990 found that for each 10% fall in the oil price, earnings at European companies rose 2%



Source: *GDP estimate: INSEE model in 'Five Corners', Gavekal Dragonomics, January 2015. Oil winners/losers: Fidelity Solutions, December 2014

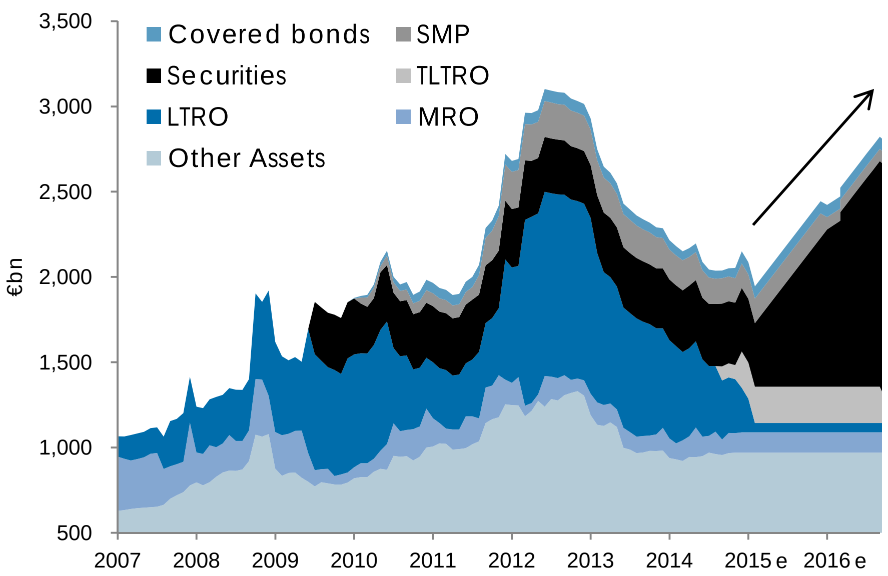
A bullish case for European equities
3. ECB QE policy will support rising demand for credit

PERSPECTIVES

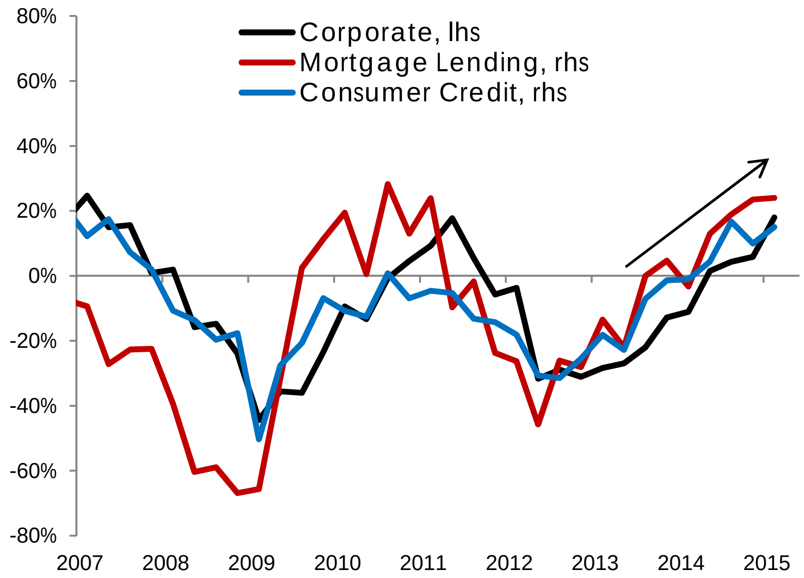
QE in the eurozone

- Starting in **March 2015**, the ECB will purchase **€60 billion per month** of euro area debt, pushing down yields and stimulating demand for equities.
- The purchases will **last until the end of September 2016**, or until inflation hits the ECB target of below, but close to, 2% over the medium term.
- The **€1tn+ total** announced was larger and more open-ended than expected, supporting equity markets at a time when the lending environment is improving

QE expected to push assets towards prior peak



EMU corporate/consumer loan demand is rising



Source: Fidelity Worldwide Investment Credit Research estimates, Bloomberg, *EMU (European Monetary Union) : Eurostat 22 January 2015

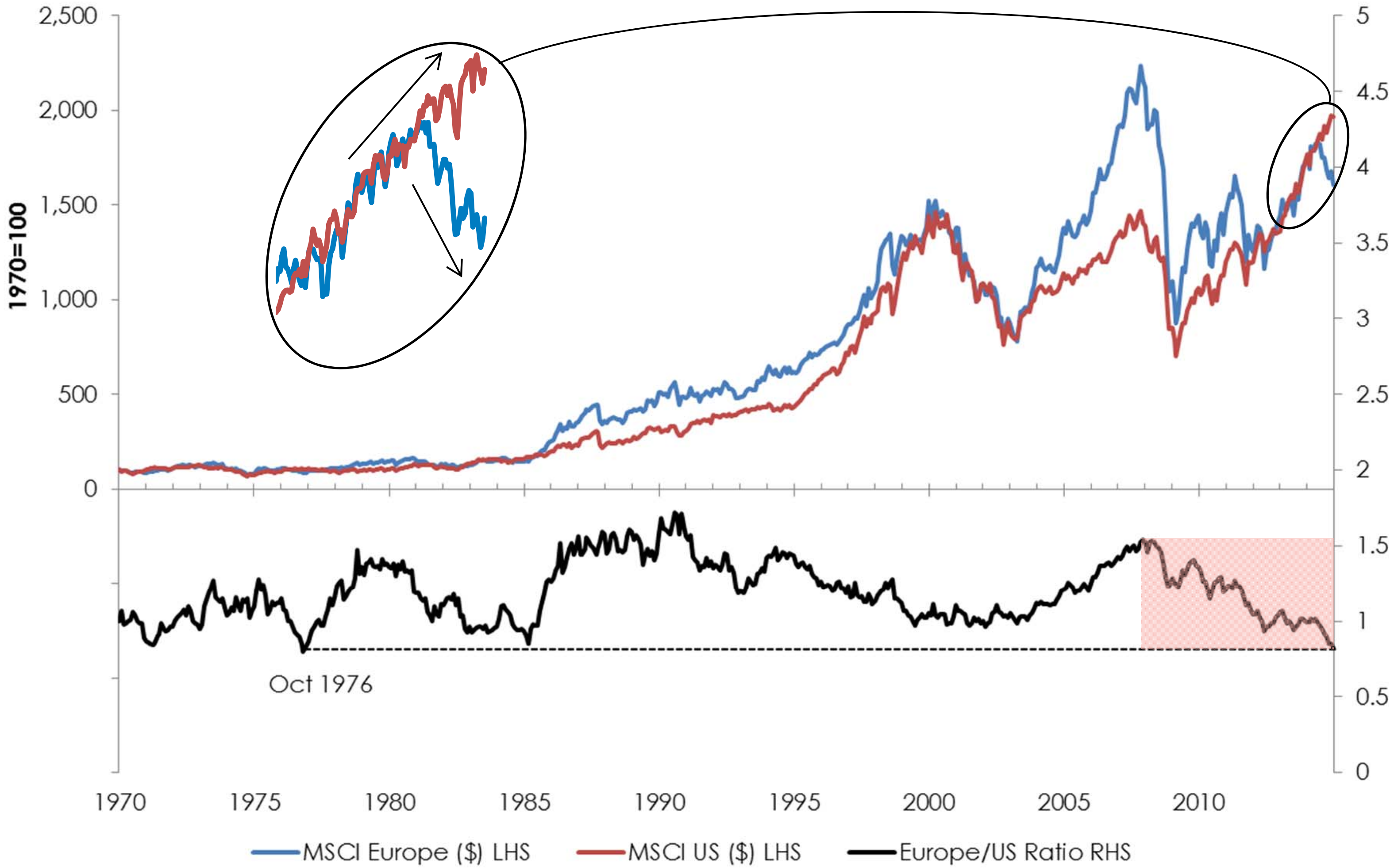
A bullish case for European equities

4. Technicals have become interesting…

PERSPECTIVES

Time for a reversal of fortunes? Europe divergence with the US at highest level since the 1970s

Ratio has been decreasing since 2008, pushed to historical lows by strong US outperformance



Source: MSCI, DataStream 28 January 2015

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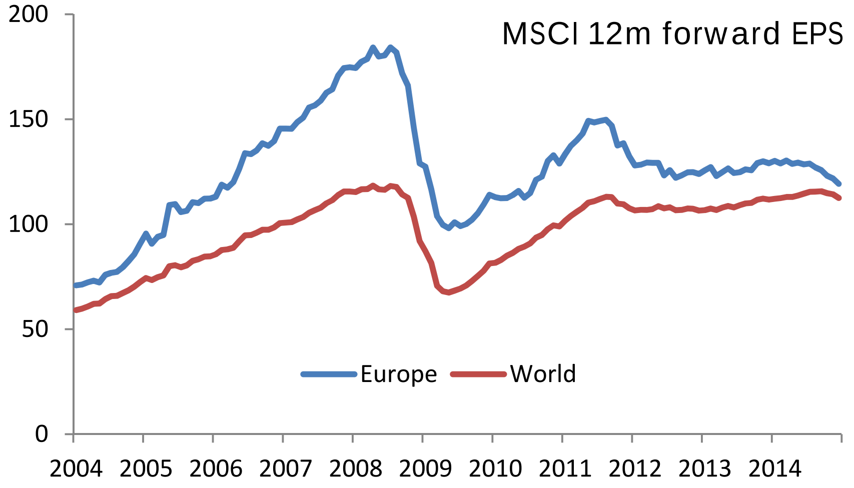
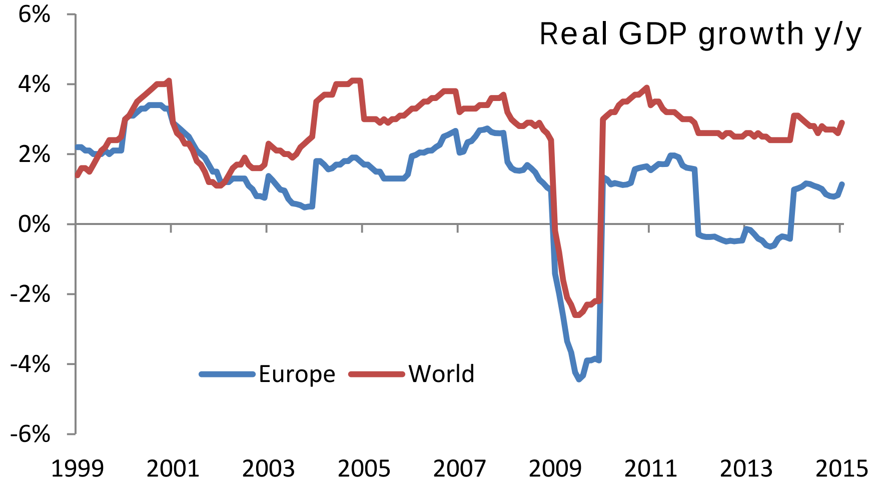
5. Focus on companies, not countries

PERSPECTIVES

European earnings are consistently higher...

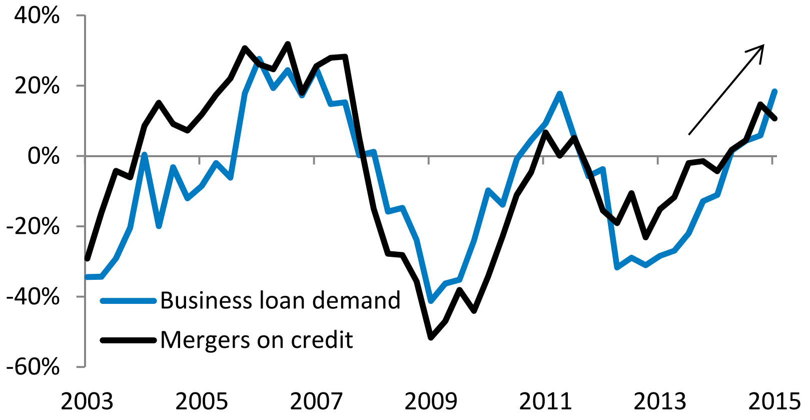


...despite GDP growth still lagging



A recovering corporate sector...

Loan demand for restructuring has increased



...stronger balance sheets and payouts...

Dividend growth in Europe in 2015 y/y is expected to be around 5%*

...but an active approach is needed

Identifying attractively valued companies with strong fundamentals

Source: Top: DataStream , Consensus Economics. Bottom: ECB Bank Lending Survey Jan 2015. Dividend growth estimate: Shore Capital 2015

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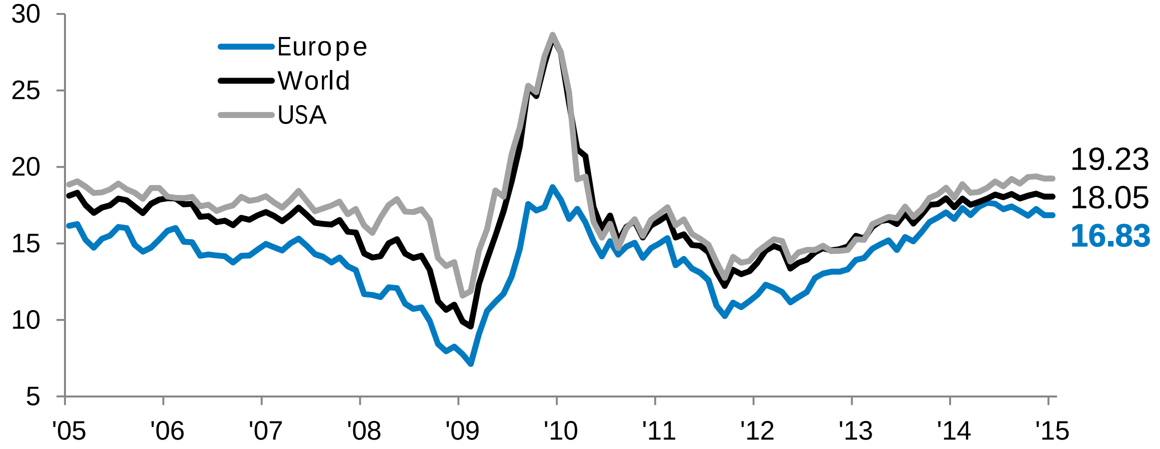
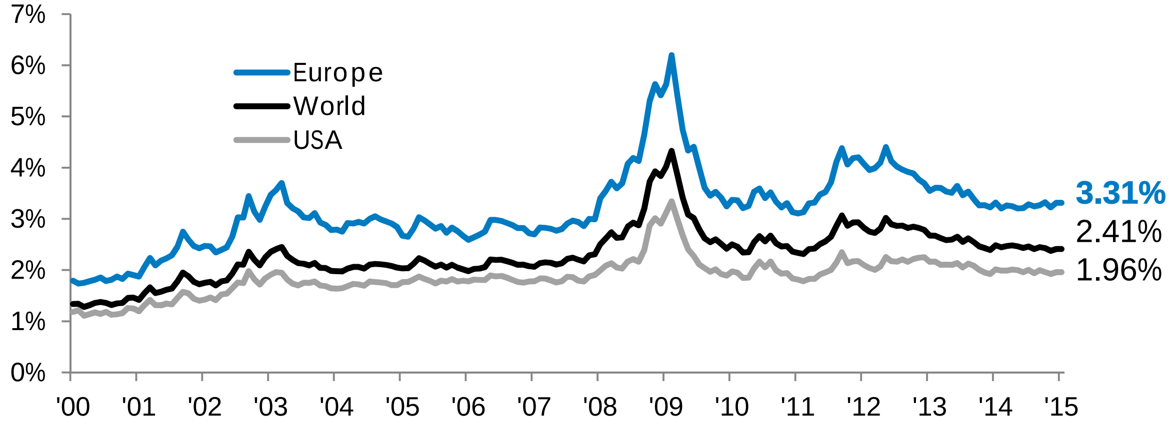
A bullish case for European equities
6. Europe has attractive valuations

PE Ratios
Remain **low** compared to World and US



Dividend Yields
Remain **high** compared to World and US



Source: MSCI, DataStream 28 January 2015

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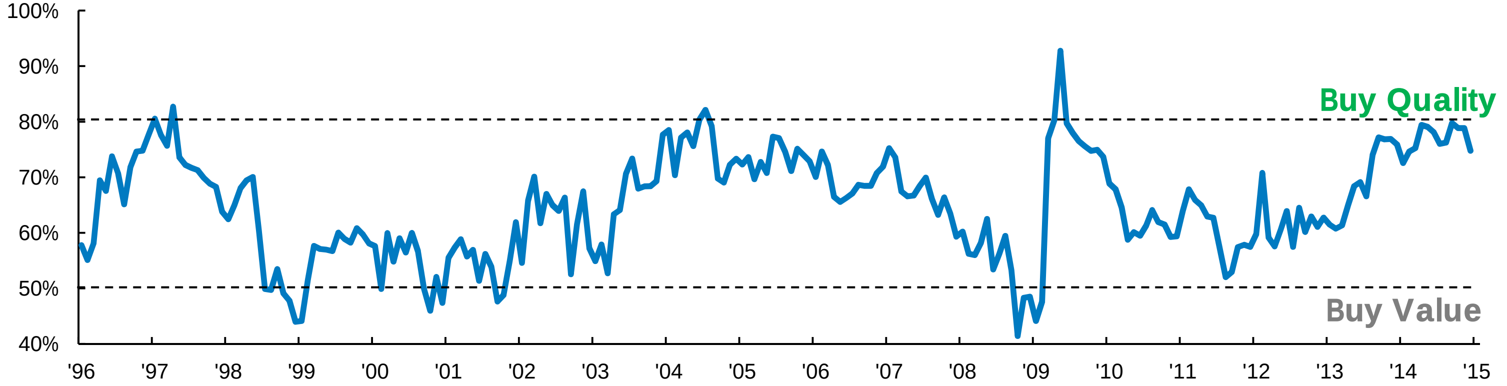
7. Plenty stock opportunities - yet investors underweight

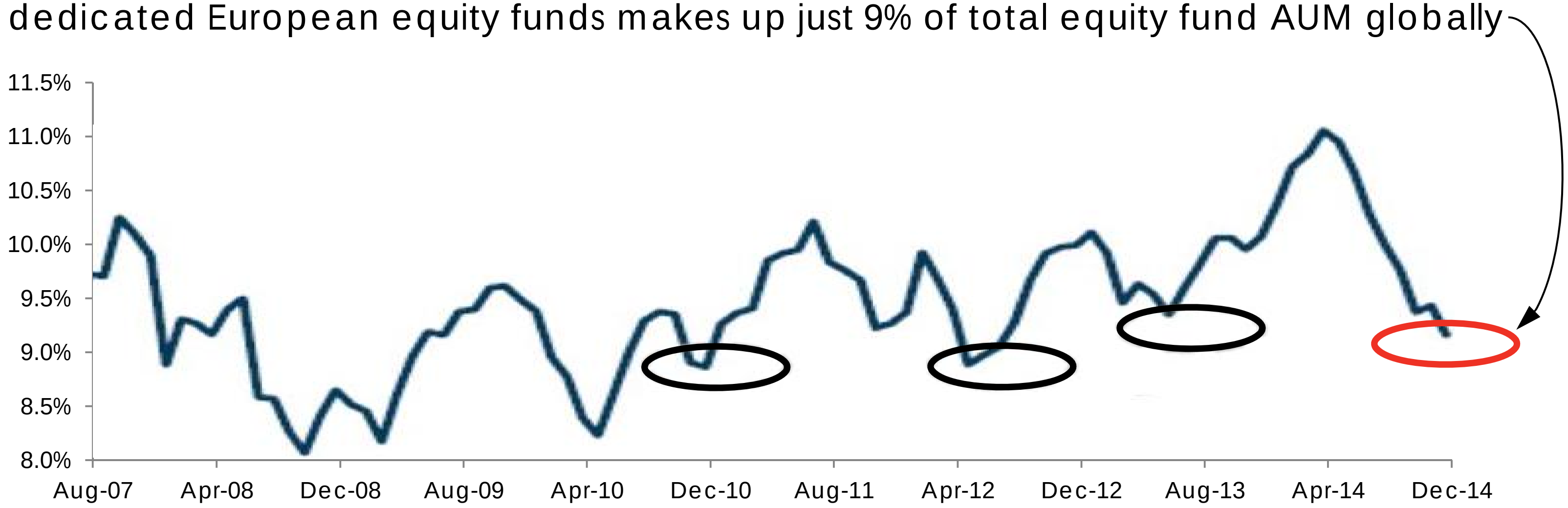
Lack of discrimination

Value vs Quality* (P/E Relative) for European equities



…but allocations are near post-crisis lows

AUM in dedicated European equity funds makes up just 9% of total equity fund AUM globally



***Value factors**: 12m forward earnings yield, 12m historical earnings yield, dividend yield, Sales/P, Sales/EV, CF/P, B/P, EBITDA/EV
Quality factors: Earnings certainty, NPM on sales, Accruals ratio (inverted), RoE, margin growth, NOA (inverted)

Source: Top chart: Citi Research 31 December 2014. Bottom Chart: EPFR, Haver Analytics, Barclays Research

A bullish case for European equities

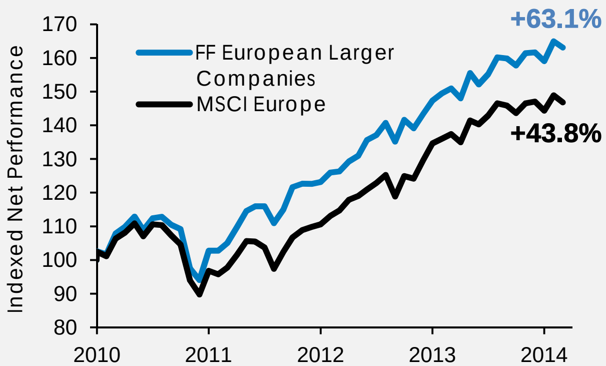
The Fidelity pan-European equity range: a few examples

PERSPECTIVES

FF European Larger Companies
FF European Growth

Quality at an attractive price

Matt Siddle

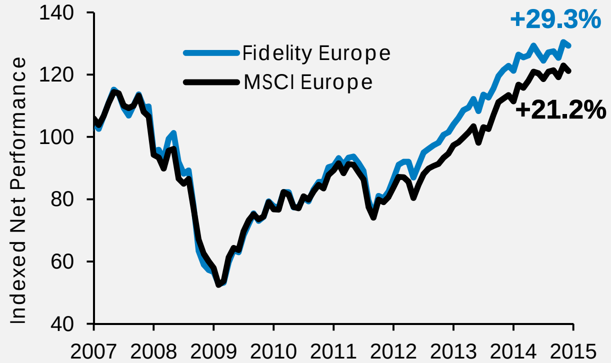


Performance is from PM tenure date (1 October 2010)

FF European
Fidelity Europe

Core, diversified

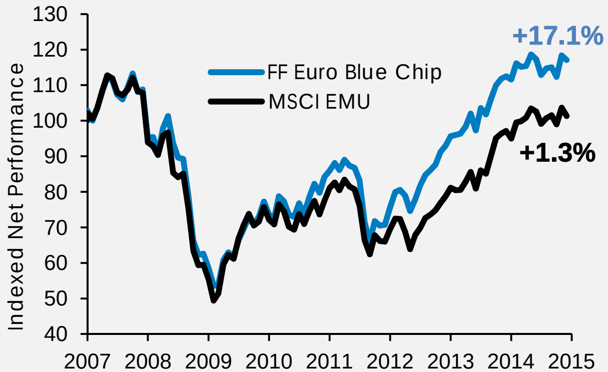
Victoire de Trogoff



Performance is from PM tenure date (1 January 2007)

FF Euro Blue Chip

Delivering 'growth from within'

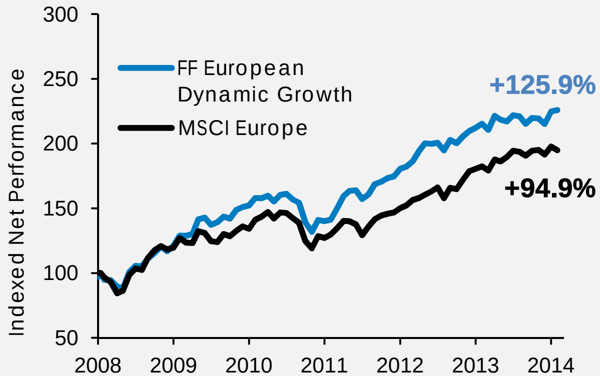


Alexandra Hartmann

Performance is from PM tenure date (1 January 2007)

FF European Dynamic Growth

Quality structural growth



Fabio Riccelli

Performance is from PM tenure date (17 November 2008)

Source: FIL Limited/Morningstar Workstation. Performance Basis: Nav-Nav, Net Income reinvested in Euros to 31 December 2014. Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

Views from our investment teams

PERSPECTIVES

"From a cyclical perspective, the Euro area economy is in a decent position. Over the next few months, this region should continue to benefit from low oil prices, a less pronounced fiscal drag, a weaker currency and supportive ECB policy, which we saw confirmed by Mario Draghi's announcement of QE on January 22nd. For markets, this environment is helpful for both equities and fixed income assets, while the euro could see further weakness."

Anna Stupnytska, Global Economist, Fidelity Solutions

"The financial sector across Europe is in a significantly more robust position today than it was at the last 'peak' of the sovereign crisis in 2011. Over the last few years we have seen the major financial institutions across the region rebuild capital, reduce cross-holdings and undergo a rigorous stress test which implies that the ability for the sector to absorb shock is now substantially greater.

That is not to say that tail risks within the Eurozone have evaporated entirely, it is just to emphasise that the degree to which localised issues have the capacity to materially and immediately alter the risk premium throughout the region has clearly reduced. To that end, it suggests that returns are more likely to be driven by fundamentals than has been the case in various periods over the last few years."

Paras Anand, Head of European Equities

"The fall of the Euro against the US dollar and renminbi should help many companies in export markets, while European companies with business operations in the US should see the strength of the US dollar provide a lift to translated revenues (almost 20% of continental European revenues are generated in the US).

In addition, with bank debt more available and the cost of borrowing declining, there should be help from liquidity in Europe. These positive factors mean that, while many of the structural issues that Europe faces have not been magically solved, the economic outlook for 2015 should be better. "

Matt Siddle, Portfolio Manager - FF European Growth, FF European Larger Companies

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