

Fidelity European Values PLC

Final Results for the year ended 31 December 2018

Financial Highlights:

- Fidelity European Values PLC recorded a net asset value ("NAV) per share total return of -4.8% for the year ended 31 December 2018, while the Benchmark Index, the FTSE World Europe (ex UK) Index, returned -9.5%.
- The discount widened from 8.6% to 10.7%, as a result of the share price total return of -6.8%.
- The Board recommends a final dividend of 6.28 pence per share for approval by shareholders at the AGM on 13 May 2019. In addition, the Board has decided from the 2019 financial year to pay both an interim and a final dividend.
- In a difficult year for equities, the Portfolio Manager's strong stock selection capabilities were once again the significant drivers of performance with several high-conviction holdings contributing positively to returns.

Contacts

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Chairman's Statement

Fidelity European Values PLC (the "Company") aims to be the cornerstone long term investment of choice for those seeking European exposure across market cycles.

The Portfolio Manager, Sam Morse's, approach in managing the Company's portfolio is to look beyond the economic and political noise and concentrate on the real-life progress of listed businesses across this large and diverse region. In running the portfolio, he focuses on researching and investing in stocks he believes can grow their dividends consistently, irrespective of the prevailing backdrop. Companies with the cushion of a healthy and growing dividend also tend to be resilient during periods of macroeconomic uncertainty. By investing in solid and sustainable dividend-paying companies, Sam believes that the Company provides core defensive exposure to European equities with the potential to outperform indices over the long term.

Performance

The Company recorded a net asset value ("NAV") per share total return of -4.8% for the year ended 31 December 2018, while the Benchmark Index, the FTSE World Europe (ex UK) Index, returned -9.5%. The share price total return over this period was -6.8%. In a difficult year for equities, Sam's strong stock selection capabilities were once again the significant drivers of performance with several of our high-conviction holdings contributing positively to returns. In addition, the Company's NAV total return performance over three and five years remains ahead of the Benchmark.

Investor sentiment took a turn for the worse last year, particularly in the second half, as markets faced twin headwinds of trade tensions and rising interest rates. The market movements in Europe were in line with larger global trends in general, but the environment was further aggravated by the chronic government budget deficit in Italy and political unrest in Spain, while the possibility of a disorderly Brexit and its implication for the European economy remains a concern. As the Company is a UK business with predominantly UK investors and no overseas suppliers, the Board's focus is on the impact of market and investment risk. At the time that this statement was written, it was still not clear whether the Prime Minister's proposed Brexit agreement would eventually be ratified by Parliament, whether there might be an exit without any form of agreement or whether Brexit might be delayed by way of an extension to Article 50, which governs secession by individual states. How markets will react depends largely on what they have already discounted, and in the Portfolio Manager's Review, Sam gives a more detailed view on which European sectors and stocks held in the portfolio might prove vulnerable in those circumstances. The outlook in this respect is still finely balanced. This is why Sam looks beyond these shorter term uncertainties and positions the portfolio for the longer term, by which time Brexit will be history, for better or worse.

These factors coupled with rising borrowing costs owing to normalisation of monetary policy by various central banks, most notably in the US, resulted in a sharp sell-off towards the end of the year. It was also a contrast to the relative calm which had prevailed over the last few years. Underlying the market movements was an increased number of earnings downgrades given slowing global growth. Europe has many of the world's biggest exporters and the economy is particularly exposed to global trade. This also resulted in a significant de-rating of equities in Europe.

Outlook

Lead indicators for the global economy have slowed, prompting investors to become more cautious. While the region's economic expansion is expected to be supported by favourable domestic demand, the pace of expansion is likely to be moderate. Equity markets are set to face some challenges due to ongoing trade concerns between the US and its trading partners. Concerns around the fiscal challenges in Italy, continuing uncertainty over Brexit and the current slowdown in global economic growth, may negatively impact investors' preference for risk assets. Nonetheless, an uncertain market environment is likely to create buying opportunities for long term investors, and in these circumstances your Portfolio Manager's concentration on fundamentally strong businesses should continue to help performance.

OTHER MATTERS

Management Fees

With a view to reducing costs for our shareholders, the Board agreed a new tiered fee structure which was effective on 1 April 2018. The previous fee of 0.85 per cent per annum only applies to the first £400 million of the Company's net assets and a lower rate of 0.75 per cent per annum applies to net assets in excess of £400 million. Given the value of shareholders' funds of £955.3m as at 31 December 2018, this represents an important saving for shareholders.

Allocation of Fees and Finance Costs

As mentioned in last year's Annual Report, and effective from 1 January 2018, 75% of the Company's management fees and finance costs are now charged to capital and 25% to revenue. This better reflects the balance of the capital and revenue elements of total return experienced historically over the longer term. Previously, these costs were charged in their entirety to revenue. The change does not affect the total return although relative rates of taxation of income and capital gains may be a consideration for some investors. As a result of this change, the revenue return for this reporting year is higher than in prior years and this is reflected in the final dividend proposed.

Dividends

The Board recommends a final dividend of 6.28 pence per share for the year ended 31 December 2018 for approval by shareholders at the AGM on 13 May 2019. The dividend will be payable on 17 May 2019 to those shareholders who appear on the share register at close of business on 29 March 2019 (the ex-dividend date will be 28 March 2019). 1.79 pence per share of the recommended dividend represents the increased revenue generated from the change in the allocation of the management fees and finance costs as mentioned above. If this element is excluded, the underlying 4.49 pence represents an increase of 3.2 per cent year on year.

While the Board has not sought to influence the Portfolio Manager by imposing any income objective in any particular year – and this remains the case – the investment focus on companies capable of growing their dividend has seen the Company's dividend payments rise over time. Because the Board acknowledges that both capital and income growth are components of performance, as reflected in the change of investment objective approved by shareholders at the Annual General Meeting last year, it considers that this is an appropriate time to move to a more clearly defined progressive dividend practice.

The aim therefore will be to increase the dividend each year. The exceptional circumstances in which this might not prove possible include, first, if sterling were to rise substantially against the euro; secondly, if economic trends prove to be unusually adverse; and thirdly, if the Portfolio Manager shifts the emphasis of companies held to ones with a materially lower overall yield than hitherto.

In order to help realise its aim, the Board has decided gradually to augment revenue reserves by retaining a minor proportion of earnings from year to year. By law this proportion is not permitted to exceed 15 per cent. By way of example, for the 2018 financial year the dividend of 6.28 pence is being paid from earnings of 6.94 pence per share, a retention rate of about 9 per cent. The Board expects that as revenue reserves build up, they will assist, if necessary, in smoothing dividend growth year on year, in the event of the sorts of exceptional circumstances outlined above.

Finally, as the Company has a significant retail shareholder base and in order to smooth the dividend payments throughout the year, the Board has decided from the 2019 financial year to pay both an interim and a final dividend, which it is hoped will be welcomed by shareholders. It is expected that in normal circumstances the interim dividend will represent somewhat under half the total dividend for the financial year, and will be paid in November 2019, following the interim results.

Discount Management and Treasury Shares

The Board operates an active discount management policy, the primary purpose of which is to reduce discount volatility. As of this year, the Board is seeking to maintain the discount in single digits in normal market conditions. Buying shares at a discount also results in an enhancement to the NAV per share. The Board has shareholder approval to hold in Treasury shares repurchased by the Company, rather than cancelling them, and these shares are then available to be sold at a premium to

NAV, facilitating the management of, and potentially enhancing, liquidity in the Company's shares. The Board is seeking shareholder approval to renew this authority at the forthcoming AGM.

As a result of the widening of the discount during the year, the Company repurchased 3,029,351 ordinary shares into Treasury. Since the beginning of the year and as at the date of this report, the Company has not repurchased any further ordinary shares.

Gearing

The Company continues to gear through the use of derivative instruments, primarily contracts for difference ("CFDs"), and the Manager has flexibility to gear within the parameters set by the Board. As at 31 December 2018, the Company's gross gearing was 10.1% (2017: 13.2%) whilst net gearing was 6.1% (2017: 3.6%). In the reporting year, gearing made a small negative contribution to performance, as can be seen from the attribution analysis table in the Annual Report.

The Board monitors the level of gearing and the use of derivative instruments carefully and has defined a risk control framework for this purpose which is reviewed at each Board meeting.

Board of Directors

After serving on the Board for over ten years as a non-executive Director and nearly eight years as Senior Independent Director and Chairman of the Audit Committee, James Robinson stepped down from the Board at the conclusion of the AGM on 14 May 2018. At the same time, James was succeeded as Audit Committee Chair by Fleur Meijs and as Senior Independent Director by Marion Sears.

We continue to review Board composition and Directors' succession on a regular basis to ensure that we have a Board with a mix of tenures and one which provides diversity of perspective together with the range of appropriate skills and experience for your Company. In accordance with the UK Corporate Governance Code, and being a FTSE 350 Company, all Directors are subject to annual re-election by shareholders and put themselves forward for re-election at the forthcoming AGM. Biographical details of each Director are shown in the Annual Report.

Annual General Meeting

The AGM of the Company will be held at midday on Monday 13 May 2019 at Fidelity's offices at **25 Cannon Street, London EC4M 5TA** (nearest tube stations are St Paul's and Mansion House). Full details of the meeting are given in the Annual Report.

This is our opportunity to meet as many shareholders as possible, and I hope therefore that you are able to join us. In addition to the formal business of the meeting, Sam Morse, your Portfolio Manager, will be making a presentation on the year's results and the outlook for 2019.

Vivian Bazalgette

Chairman

14 March 2019

Portfolio Manager's Review

Sam Morse was appointed as Portfolio Manager of Fidelity European Values PLC on 1 January 2011. He has also managed the Fidelity European Fund since 1 January 2010. He first joined Fidelity as a research analyst and covered a range of sectors before becoming an equity income fund manager. He also worked as Head of Equities at M&G.

Question

How has the Company performed in the year under review?

Answer

The Company had a disappointing year in absolute terms with the NAV total return falling by 4.8% and the share price total return falling by 6.8% as the discount widened. I hope it will be some consolation to shareholders that the Company's NAV and share price both fell less than the Benchmark Index which was down by 9.5%.

Question

And what has the market environment been like in the year under review?

Answer

2018 was a year of growing uncertainty, which is never good for stock market returns. As in a suspense movie, investors spent much of the year fearing what might come next. When the year began, the global economy was humming, earnings estimates were rising and there appeared to be few clouds on the horizon. Within a few weeks, however, and just as the ink dried on endless optimistic projections by strategy teams around the City, the angst began. Investors started to worry: 'is this as good as it gets'? Then as the year progressed, 'events' provided more reasons to fear what might come next. We ended the year almost at the other end of the spectrum: fearing the impact of trade wars, higher interest rates in the US, the unpredictability of populist political agendas, etc., and all this just as the European Central Bank ("ECB") finally ended its programme of quantitative easing! December saw a dramatic sell-off and what was touted, at the outset, to be a banner year for stock market investors, turned into a very disappointing year with only cash providing a positive return.

Question

What have been the key contributors to performance? And detractors?

Answer

The focus on reliable dividend growers often means that the Company holds up relatively well when investors grow more nervous and when equity markets struggle and this was the case in 2018. Other factors contributed positively too, such as sector positioning, e.g. being overweight in technology and underweight in automobiles, and the focus on strong balance sheets as investors became increasingly concerned about financial leverage. Stock-picking, however was, as usual, the main determinant of relative performance. The financial sector provided the greatest boost, in aggregate, to relative performance. Deutsche Boerse was a strong individual contributor, as detailed in the interim report, but more generally, avoiding low-return banks, seen early in the year as recovery plays on the back of rising interest rates, helped when it turned out that interest rates in Europe were, as the President of the ECB Mario Draghi confirmed, going nowhere until at least after the summer of 2019. The top individual contributor for the year was Edenred - the global leader in managing employee benefit programs for corporates (remember luncheon vouchers?) - which saw an acceleration in organic and inorganic growth under the stewardship of a relatively new management team. Brazil is the single biggest area for Edenred so optimism about the prospects for that country, following the election of Bolsonaro, gave the stock an extra lift too. As always, there were also disappointments in terms of stock picking. The most notable of these was Iliad Group, the French telecoms company, which suffered from poor execution in an increasingly competitive market and Atlantia, the Italian motorways operator, which had a major setback when the Morandi bridge collapsed with tragic consequences.

Question

There have been a number of challenges for European equity managers this year, not least the high sales exposure to emerging markets of many European companies, rising input prices and political uncertainty. How have you navigated these?

Answer

More than a quarter of sales by European companies are now made in emerging markets which demonstrates their considerable success in expanding outside their domestic markets. Emerging markets may be unfashionable today, having had a difficult 2018, but the longer term growth prospects remain good. My investment approach is to try to make sure that we own the best balance of companies with respect to consistent dividend growth and what is discounted in the share's valuation. I tend not to react to events or changes in stock market fashions but try to make sure that there is a balance in the portfolio across sectors and regions, including emerging markets, which will make sure that the Company can perform consistently in different environments. Rising input prices are a function of where we are in the economic cycle. If a company has pricing power, it is often able to pass these rising input prices on to customers and mitigate any hit to margins. Weaker businesses will struggle to do so. I have always favoured companies with strong pricing power which are often strong business franchises that are capable of growing their dividends consistently. Political uncertainty is, I'm afraid, here to stay. Ultimately, strong businesses which can deliver consistent dividend growth will continue to thrive in difficult times even though political uncertainty may cause the markets to be volatile on a shorter term view.

Question

What have been the major changes to the portfolio over the period?

Answer

I seldom make 'major' changes to the portfolio because my investment horizon is quite long term. I am focused on attractively-valued companies, which I think can grow their dividends consistently on a three to five year view. Indeed, many of the Company's investments have been held throughout my tenure as this Company's Portfolio Manager, which is now more than eight years. As a result, the turnover in the portfolio tends to be quite low and 2018 was no exception to this. Holdings in BIC Group, the lighters to pens company, Elior, the contract caterer, Anheuser-Busch InBev, the beer company, and Aena, the Spanish airports owner and operator, were all sold during the year. The first three were sold on concerns regarding their dividend

outlook given deteriorating fundamentals while Aena, which has been a very rewarding investment since purchase around three years ago, was sold because the valuation was no longer as attractive. I was concerned that the strategy of the company might change for the worse following the election of a new government in Spain. One new holding was added during the year: Grifols, which is one of the global leaders in plasma-derived treatments, where we expect to see earnings growth accelerate beyond expectations as the number of suitable indications grow and as newly-opened collection centres mature.

Question

How has your derivative strategy performed in the year under review?

Answer

Gearing did not help given falling markets and unfortunately, the short portfolio did not really add much value either. Having said that, there have been some soft benefits in terms of meeting companies and analysts with whom I might not formerly have engaged. Assessing performance over one year is also, probably, too short a period to draw a conclusion as to the merits of this shorting strategy. However, I am mindful that time focused on the derivatives strategy may distract from or dilute the main objectives of the Company. I have committed to the Board that, until there is evidence that this strategy works, I will not make it a larger proportion of the Company. Time will tell.

Question

The market seems to be assuming that there will, ultimately, be an agreed withdrawal deal between the UK and the EU. What if there isn't? How would that impact the Trust?

Answer

The UK represents a small proportion of continental European companies' sales and profits: less than 5%. So the direct consequences of a 'no deal' Brexit, and a subsequent devaluation of UK sterling, would be minimal for most companies. Those more affected would be companies with larger businesses in the UK such as the Spanish banks Santander and Sabadell. A number of companies, such as those in the auto sector, might also suffer from short term disruption due to supply chain issues if there is a 'no deal' Brexit. A devaluation of UK sterling in the event of a 'no deal' Brexit would, however, result in exchange rate gains for UK sterling investors in the Company. An appreciation of UK sterling would have an opposite effect. Note 17 in the Financial Statements below provides foreign currency risk sensitivity analysis. There may, of course, also be some indirect consequences, or second order effects, such as a general drop in business confidence which may affect equities negatively.

Question

What should investors remain focused on in the months ahead?

Answer

Focus on the long term. The Russians, I am told, have a proverb that says: 'if your shoes are dirty, point to the horizon'. Well the shoes may be a little dirty as we enter 2019 which could be a tricky year for European stock markets given on-going earnings downgrades, Brexit machinations, continued uncertainty about the impact of US Federal Reserve tightening and the end of quantitative easing in Europe. In the long term it pays to stay invested in equities and, in particular, in those companies that are able to grow their dividends consistently. Valuation is improving but we are far from trough levels. The current dividend yield of the European markets is only about 70% of the highest level seen during my tenure as Portfolio Manager of the Company. Often, in a fundamental downturn, valuations become very cheap in historical terms. Fidelity has pointed out many times, however, that it is extremely difficult to time markets, so my policy is to stay fully invested and ride through the cyclical ups and downs of the market. In the long term, investors are rewarded for taking that risk. For my part, I will continue to focus on attractively valued cash-generative companies, with strong balance sheets, which have the potential to grow their dividends consistently over the next three to five years.

Sam Morse
Portfolio Manager

14 March 2019

Strategic Report

Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2016 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/ the “Manager”), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key risks that the Company faces. The risks identified are placed on the Company’s risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company. There have been no changes to these since the prior year except for the addition of the “Key Person Risk”.

Principal Risks	Description and Risk Mitigation
Market risk	<p>The Company’s assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and exchange rate movements. The Portfolio Manager’s success or failure to protect and increase the Company’s assets against this background is core to the Company’s continued success.</p> <p>Risks to which the Company is exposed in the market risk category are included in Note 17 to the Financial Statements below together with summaries of the policies for managing these risks.</p>
Performance risk	<p>The achievement of the Company’s performance objective relative to the market requires the application of risk such as strategy, asset allocation and stock selection and may lead to underperformance of the Benchmark Index. The Board reviews the performance of the portfolio against the Company’s Benchmark and that of its competitors and the outlook for the market with the Portfolio Manager at each Board meeting. The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long term performance as the Company may experience volatility of performance in the shorter term.</p>
Key person risk	<p>There is a risk that the Manager has an inadequate succession plan for key individuals, particularly with investment trust expertise. The loss of the Portfolio Manager or key individuals could lead to potential performance, operational or regulatory issues. The Manager identifies key dependencies which are then addressed through succession plans. Fidelity has succession plans in place for portfolio managers and these are discussed regularly with the Board.</p>
Economic and political risk	<p>The Company may be impacted by economic and political risks, including from the UK’s departure from the European Union (Brexit). The Chairman’s Statement and the Portfolio Manager’s Review above provide more detail. The Board regularly reviews economic and political risks.</p>
Discount control risk	<p>The price of the Company’s shares and its discount to NAV are factors which are not within the Company’s total control. The Board continues to adopt an active discount management policy. Some short term influence over the discount may be exercised by the use of share repurchases at acceptable prices within the parameters set by the Board. The Company’s share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board at each of its meetings.</p>
Gearing risk	<p>The Company has the option to invest up to the total of any loan facilities or to use CFDs to invest in equities. The principal risk is that the Portfolio Manager may fail to use gearing effectively, resulting in a failure to outperform in a rising market or to underperform in a falling market. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions. The Company currently has no bank loans and gears through the use of long CFDs which provide greater flexibility and are significantly cheaper than bank loans. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Manager must operate.</p>
Derivatives risk	<p>Derivative instruments are used to provide both protection and enhancement of investment returns. There is a risk that the use of derivatives may lead to a higher volatility in the NAV and the share price than might otherwise be the case. The Board has put in place policies and limits to control the Company’s use of derivatives and exposures. These are monitored on a daily basis by the Manager’s Compliance team and regular reports are provided to the Board.</p> <p>Further details on derivatives risk is included below in Note 17 in the Financial Statements.</p>
Cybercrime risk	<p>The risk from cybercrime is significant as it continues to be subject to emerging threats. Cybercrime threats evolve rapidly and consequently the risk is regularly re-assessed and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager’s technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat.</p>

Other risks facing the Company include:

Tax and Regulatory Risks

There is a risk to the Company of not complying with tax and regulatory requirements.

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains.

The Board monitors tax and regulatory changes at each Board meeting and through active engagement with regulators and trade bodies by the Manager.

Operational Risks

The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager’s control systems and those of its service providers with regard to the security of the Company’s assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. The Registrar, Custodian and Depositary are all subject to a risk-based programme of internal audits by the Manager. In addition, service providers’ own internal control reports are received by the Board on an annual basis and any concerns are investigated.

Continuation Vote

A continuation vote takes place every two years. There is a risk that shareholders do not vote in favour of the continuation of the Company during periods when performance of the Company's NAV and share price is poor. At the Company's AGM held on 15 May 2017, 99.84% of shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at this year's AGM on 13 May 2019.

Viability Statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term growth in both capital and income. The Board considers long term to be at least five years and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's NAV and share price performance;
- The principal risks and uncertainties facing the Company and their potential impact;
- The future demand for the Company's shares;
- The Company's share price discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance has been strong for the five year reporting period to 31 December 2018, with a NAV total return of 50.8%, a share price total return of 50.4% and a Benchmark Index total return of 34.4%. The Board regularly reviews the Company's investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Manager's compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The portfolio mainly comprises readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and
- The ongoing processes for monitoring operating costs and income which are considered reasonable in comparison to the Company's total assets.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement below. The Company is also subject to a continuation vote at the AGM on 13 May 2019 and based on the factors mentioned above, the Going Concern Statement below and the Company's performance, the Board has a reasonable expectation that this vote will be approved.

Going Concern Statement

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above. The Company is also subject to a continuation vote at this year's AGM on 13 May 2019 and based on the factors mentioned above and in the Viability Statement above, as well as the Company's performance, the Board has a reasonable expectation that this vote will be approved.

Statement of Directors' Responsibility

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the reporting period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and

- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report that comply with that law and those regulations.

The Directors have delegated responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at: www.fidelityinvestmenttrusts.com to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their own jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 14 March 2019 and signed on its behalf by:

Vivian Bazalgette
Chairman

Income Statement for the year ended 31 December 2018

	Notes	Year ended 31 December 2018			Year ended 31 December 2017		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
(Losses)/gains on investments	10	–	(64,871)	(64,871)	–	152,924	152,924
(Losses)/gains on derivative instruments	11	–	(6,143)	(6,143)	–	1,211	1,211
Income	3	33,763	–	33,763	29,384	–	29,384
Investment management fees	4	(2,030)	(6,090)	(8,120)	(8,281)	–	(8,281)
Other expenses	5	(846)	–	(846)	(802)	–	(802)
Foreign exchange (losses)/gains		–	(17)	(17)	–	22	22
Net return/(loss) on ordinary activities before finance costs and taxation		30,887	(77,121)	(46,234)	20,301	154,157	174,458
Finance costs	6	(448)	(1,345)	(1,793)	(308)	–	(308)
Net return/(loss) on ordinary activities before taxation		30,439	(78,466)	(48,027)	19,993	154,157	174,150
Taxation on return/(loss) on ordinary activities	7	(1,706)	–	(1,706)	(1,840)	–	(1,840)
Net return/(loss) on ordinary activities after taxation for the year		28,733	(78,466)	(49,733)	18,153	154,157	172,310
Return/(loss) per ordinary share	8	6.94p	(18.96p)	(12.02p)	4.37p	37.13p	41.50p

The Company does not have any other comprehensive income. Accordingly the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes below form an integral part of these Financial Statements.

Statement of Changes in Equity for the year ended 31 December 2018

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
Total shareholders' funds at 31 December 2017		10,411	58,615	5,414	929,452	26,156	1,030,048
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	(78,466)	28,733	(49,733)
Repurchase of ordinary shares	14	–	–	–	(6,943)	–	(6,943)
Dividend paid to shareholders	9	–	–	–	–	(18,061)	(18,061)
Total shareholders' funds at 31 December 2018		10,411	58,615	5,414	844,043	36,828	955,311
Total shareholders' funds at 31 December 2016		10,411	58,615	5,414	775,588	25,323	875,351
Net return on ordinary activities after taxation for the year		–	–	–	154,157	18,153	172,310
Repurchase of ordinary shares	14	–	–	–	(293)	–	(293)
Dividend paid to shareholders	9	–	–	–	–	(17,320)	(17,320)
Total shareholders' funds at 31 December 2017		10,411	58,615	5,414	929,452	26,156	1,030,048

The Notes below form an integral part of these Financial Statements.

Balance Sheet as at 31 December 2018

Company number 2638812

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	10	938,826	1,011,114
		-----	-----
Current assets			
Derivative instruments	11	2,391	3,652
Debtors	12	6,405	5,929
Amounts held at futures clearing houses and brokers		4,279	11,127
Fidelity Institutional Liquidity Fund		1,847	3,030
Cash at bank		4,427	4,128
		-----	-----
		19,349	27,866
		-----	-----
Creditors			
Derivative instruments	11	(2,024)	(6,575)
Other creditors	13	(840)	(2,357)
		-----	-----
		(2,864)	(8,932)
		-----	-----
Net current assets		16,485	18,934
		-----	-----
Net assets		955,311	1,030,048
		=====	=====
Capital and reserves			
Share capital	14	10,411	10,411
Share premium account	15	58,615	58,615
Capital redemption reserve	15	5,414	5,414
Capital reserve	15	844,043	929,452
Revenue reserve	15	36,828	26,156
		-----	-----
Total shareholders' funds		955,311	1,030,048
		-----	-----
Net asset value per ordinary share	16	231.77p	248.08p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 14 March 2019 and were signed on its behalf by:

Vivian Bazalgette
Chairman

The Notes below form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Principal Activity

Fidelity European Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2638812, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 Accounting Policies

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", issued by the Financial Reporting Council ("FRC"). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC") in November 2014 and updated in February 2018 with consequential amendments. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value.

a) Basis of accounting – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments.

b) Significant accounting estimates and judgements – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

c) Segmental reporting – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

Derivative instrument income received from dividends on long contracts for difference ("CFDs") are accounted for on the date on which the right to receive or make the payment is established, normally the ex-dividend date. The amount net of tax is credited to the revenue column of the Income Statement.

Interest received on CFDs, bank deposits and money market funds is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

f) Investment management fees and other expenses – Investment management fees and other expenses are accounted for on an accruals basis and are charged as follows:

- With effect from 1 January 2018, the investment management fee is allocated 25% to revenue and 75% to capital. Prior to 1 January 2018, the investment management fee was allocated in full to revenue; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

g) Functional currency and foreign exchange – The Directors, having regard to the Company's share capital, the predominant currency in which its investors operate and the currency in which expenses are paid, have determined its functional currency to be UK sterling. UK sterling is also the currency in which the Financial Statements are presented. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Finance costs – Finance costs comprise interest on bank overdrafts and interest paid on contracts for difference ("CFDs"), which are accounted for on an accruals basis, and dividends paid on short CFDs, which are accounted for on the date on which the obligation to incur the cost is established, normally the ex-dividend date. With effect from 1 January 2018, finance costs are allocated 25% to revenue and 75% to capital. Prior to 1 January 2018, finance costs were charged in full to revenue.

i) Taxation – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Where expenses are allocated between revenue and capital any tax relief in respect of the expenses is allocated between revenue and capital returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantially enacted when the taxation is expected to be payable or recoverable. Deferred taxation assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

j) Dividend paid – Dividends payable to equity shareholders are recognised when the Company's obligation to make payment is established.

k) Investments – The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within (losses)/gains on investments in the capital column of the Income Statement and has disclosed those costs in Note 10.

l) Derivative instruments – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include long and short CFDs and futures. Derivatives are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long and short CFDs – the difference between the strike price and the value of the underlying shares in the contract; and
- Futures – the difference between contract price and the quoted trade price.

Where transactions are used to protect or enhance income, if the circumstances support this, the income and expenses derived are included in net income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the income and expenses derived are included in (losses)/gains on derivative instruments in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or creditors.

m) Debtors – Debtors include securities sold for future settlement, accrued income, taxation recoverable and other debtors and prepayments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

n) Amounts held at futures clearing houses and brokers – These are amounts held in segregated accounts as collateral on behalf of brokers and are subject to an insignificant risk of changes in value.

o) Other creditors – Other creditors include investment management fees and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

p) Fidelity Institutional Liquidity Fund plc – The Company holds an investment in the Fidelity Liquidity Fund plc, a short term money market fund investing in a diversified range of short term instruments. It is readily convertible to cash and is considered a cash equivalent.

q) Capital reserve – The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing ordinary shares.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/10: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date the portfolio of the Company consisted of: investments listed on a recognised stock exchange and derivative instruments, contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash.

3 Income

	Year ended 31.12.18 £'000	Year ended 31.12.17 £'000
Investment income		
Overseas dividends	26,394	22,271
Overseas scrip dividends	1,685	3,094
UK dividends	2,005	1,394
UK scrip dividends	–	611
	-----	-----
	30,084	27,370
	-----	-----
Derivative income		
Income recognised from futures contracts	2,591	434
Dividends received on long CFDs	985	1,525
Interest received on long CFDs*	11	43

	3,587	2,002
Investment and derivative income	33,671	29,372
Other interest		
Interest received on deposits and money market funds	92	12
Total income	33,763	29,384

* Due to negative interest rates during the reporting year, the Company received interest on its long CFDs.

Special dividends of £671,000 (2017: £358,000) have been recognised in capital.

4 Investment Management Fees

	Year ended 31 December 2018			Year ended 31 December 2017		
	revenue*	capital*	total	revenue*	capital*	total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees	2,030	6,090	8,120	8,281	–	8,281

* As disclosed in Note 2 above, investment management fees for the year ended 31 December 2018 were charged 25% to revenue and 75% to capital. For the year ended 31 December 2017 investment management fees were charged 100% to revenue.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"). Both companies are Fidelity group companies. From 1 April 2018, FIL charges investment management fees at an annual rate of 0.85% of net assets up to £400 million and 0.75% of net assets in excess of £400 million. Prior to this date the investment management fees were charged at a rate of 0.85% of net assets. From 1 April 2018, fees are payable monthly in arrears and are calculated on a daily basis. Prior to this date investment management fees were paid quarterly in arrears and calculated on the last business day of March, June, September and December.

5 Other Expenses

	Year ended 31.12.18 £'000	Year ended 31.12.17 £'000
AIC fees	21	21
Custody fees	113	105
Depositary fees	77	66
Directors' fees ¹	161	151
Legal and professional fees	101	96
Marketing expenses	146	144
Printing and publication expenses	112	91
Registrars' fees	67	65
Fees payable to the Independent Auditor for the audit of the Financial Statements ²	25	25
Other expenses	23	38
	846	802

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report in the Annual Report.

2 The VAT payable on audit fees is included in other expenses.

6 Finance Costs

	Year ended 31 December 2018			Year ended 31 December 2017		
	revenue ¹	capital ¹	total	revenue ¹	capital ¹	total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest on bank overdrafts	1	3	4	–	–	–

The returns/(losses) per ordinary share are based on, respectively the net revenue return on ordinary activities after taxation for the year of £28,733,000 (2017: £18,153,000), the net capital loss on ordinary activities after taxation for the year of £78,466,000 (2017: net capital return £154,157,000) and the net total loss on ordinary activities after taxation for the year of £49,733,000 (2017: net total return £172,310,000), and on 413,917,816 ordinary shares (2017: 415,237,930), being the weighted average number of ordinary shares held outside of Treasury during the year.

9 Dividends Paid to Shareholders

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Dividends paid		
Final dividend of 4.35 pence per Ordinary Share paid for the year ended 31 December 2017	18,061	–
Final dividend of 4.17 pence per Ordinary Share paid for the year ended 31 December 2016	–	17,320
	-----	-----
	18,061	17,320
	=====	=====
Dividend proposed		
Final dividend proposed of 6.28 pence per Ordinary Share for the year ended 31 December 2018	25,884	–
Final dividend of 4.35 pence per Ordinary Share paid for the year ended 31 December 2017	–	18,061
	-----	-----
	25,884	18,061
	=====	=====

The Directors have proposed the payment of a final dividend for the year ended 31 December 2018 of 6.28 pence per ordinary share which is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements. The dividend will be paid on 17 May 2019 to shareholders on the register at the close of business on 29 March 2019 (ex-dividend date 28 March 2019). The proposed dividend of 6.28 pence per ordinary share includes 1.79 pence per ordinary share which is a result of the increased revenue generated from the change in the allocation of the management fees and finance costs.

10 Investments

	2018 £'000	2017 £'000
Investments held at fair value	938,826	1,011,114
	-----	-----
Opening book cost	679,196	624,412
Opening investment holding gains	331,918	238,335
	-----	-----
Opening fair value	1,011,114	862,747
Movements in the year		
Purchases at cost	169,608	220,890
Sales – proceeds	(177,025)	(225,447)
Sales – gains	51,947	59,341
Movement in investment holding (losses)/gains	(116,818)	93,583
	-----	-----
Closing fair value	938,826	1,011,114
	-----	-----
Closing book cost	723,726	679,196
Closing investment holding gains	215,100	331,918
	-----	-----
Closing fair value	938,826	1,011,114
	=====	=====
	Year ended 31.12.18 £'000	Year ended 31.12.17 £'000
(Losses)/gains on investments		
Gains on sales of investments	51,947	59,341
Investment holding (losses)/gains	(116,818)	93,583

(64,871)	152,924
=====	=====

Investment transaction costs

Transaction costs incurred in the acquisition and disposal of investments, which are included in the (losses)/gains on investments above, were as follows:

	Year ended 31.12.18 £'000	Year ended 31.12.17 £'000
Purchase transaction costs	212	499
Sales transaction costs	70	176
	-----	-----
	282	675
	=====	=====

The portfolio turnover rate for the year was 17.3% (2017: 23.3%). The portfolio turnover rate measures the Company's trading activity. It is calculated by taking the average of the total amount of securities purchased and the total amount of the securities sold in the reporting year divided by the average investment portfolio value of the Company.

11 Derivative Instruments

	Year ended 31.12.18 £'000	Year ended 31.12.17 £'000
(Losses)/gains on derivative instruments		
Gains on long CFDs positions closed	1,715	683
Gains on short CFD positions closed	1,577	654
(Losses)/gains on futures contracts closed	(12,725)	2,220
Movement in investment holding (losses)/gains on long CFDs	(477)	2,302
Movement in investment holding gains/(losses) on short CFDs	2,849	(3,068)
Movement in investment holding gains/(losses) on futures	918	(1,580)
	-----	-----
	(6,143)	1,211
	=====	=====

	2018 fair value £'000	2017 fair value £'000
Derivative instruments recognised on the Balance Sheet		
Derivative instrument assets	2,391	3,652
Derivative instrument liabilities	(2,024)	(6,575)
	-----	-----
	367	(2,923)
	=====	=====

	2018 fair value £'000	2018 gross asset exposure £'000	2017 fair value £'000	2017 gross asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	1,248	58,843	1,725	36,169
Short CFDs	(219)	19,348	(3,068)	48,990
Long futures	(662)	35,125	(1,580)	69,693
	-----	-----	-----	-----
	367	113,316	(2,923)	154,852
	=====	=====	=====	=====

12 Debtors

	2018 £'000	2017 £'000
Securities sold for future settlement	–	939
Taxation recoverable	5,179	4,261
Accrued income	1,199	702
Other debtors and prepayments	27	27
	----- 6,405	----- 5,929
	=====	=====

13 Other Creditors

	2018 £'000	2017 £'000
Creditors and accruals	840	2,357
	----- 840	----- 2,357
	=====	=====

14 Share Capital

	number of shares	2018 £'000	number of shares	2017 £'000
Issued, allotted and fully paid				
Ordinary shares of 2.5 pence each held outside Treasury				
Beginning of the year	415,202,177	10,380	415,352,177	10,384
Ordinary shares repurchased into Treasury	(3,029,351)	(76)	(150,000)	(4)
	----- 412,172,826	----- 10,304	----- 415,202,177	----- 10,380
	=====	=====	=====	=====
Ordinary shares of 2.5 pence held in Treasury*				
Beginning of the year	1,245,733	31	1,095,733	27
Ordinary shares repurchased into Treasury	3,029,351	76	150,000	4
	----- 4,275,084	----- 107	----- 1,245,733	----- 31
	=====	=====	=====	=====
Total share capital		10,411		10,411
		=====		=====

* Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

The cost of ordinary shares repurchased into Treasury during the year was £6,943,000 (2017: £293,000).

15 Reserves

The share premium account represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital redemption reserve maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital reserve represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. Refer to Notes 10 and 11 above for information on investment holdings gains/(losses) included in the reserve. It can be used to fund share repurchases and it is distributable by way of dividend. The Board have stated that it has no current intention to pay dividends out of capital.

The revenue reserve represents retained revenue surpluses recognised through the revenue column of the Income Statement. It is distributable by way of dividend.

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £955,311,000 (2017: £1,030,048,000) and on 412,172,826 (2017: 415,202,177) ordinary shares, being the number of ordinary shares of 2.5 pence each held outside of Treasury at the year end. It is the Company's policy that shares held in Treasury will only be reissued at a premium to net asset value per share and, therefore, shares held in Treasury have no dilutive effect.

17 Financial Instruments

Management of risk

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, performance, key person, economic and political, discount control, gearing, derivatives and cybercrime risks. Other risks identified are tax and regulatory and operational risks, including those relating to third party service providers covering investment management, marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. Risks identified are shown in the Strategic Report in the Annual Report.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares and bonds held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs and futures on equity indices; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

Market price risk

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has gearing through the use of derivative instruments. The level of gearing is reviewed by the Board and the Portfolio Manager. The Company is exposed to a financial risk arising as a result of any increases in interest rates associated with the funding of the derivative instruments.

Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2018	2017
	£'000	£'000
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	19,129	45,922
Amounts held at futures clearing houses and brokers	4,279	11,127
Fidelity Institutional Liquidity Fund	1,847	3,030
Cash at bank	4,427	4,128
	-----	-----
	29,682	64,207
	-----	-----
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	57,595	34,444
Net exposure to financial instruments that (bear)/earn interest	(27,913)	29,763
	=====	=====

Due to negative interest rates during the year, the Company has received interest on its long CFDs and paid interest on its short CFDs.

Foreign currency risk

The Company's net return/(loss) on ordinary activities after taxation and its net assets can be affected by foreign exchange rate movements because the Company has income, assets and liabilities which are denominated in currencies other than the Company's functional currency which is UK sterling. The Company can also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs.

Three principal areas have been identified where foreign currency risk could impact the Company:

- Movements in exchange rates affecting the value of investments and derivative instruments;
- Movements in exchange rates affecting short term timing differences; and
- Movements in exchange rates affecting income received.

The portfolio management team monitor foreign currency risk but it is not the Company's current policy to hedge against currency risk.

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

		long exposure to derivative instruments	debtors ¹	cash at bank	2018 total
currency	investments at fair value	£'000	£'000	£'000	£'000
Danish krone	38,688	–	438	–	39,126
Euro	617,503	93,968	2,901	4	714,376
Norwegian krone	48,214	–	–	–	48,214
Swedish krona	17,445	–	–	–	17,445
Swiss franc	167,780	–	2,642	–	170,422
UK sterling	49,196	–	6,550	4,423	60,169
	-----	-----	-----	-----	-----
	938,826	93,968	12,531	4,427	1,049,752
	=====	=====	=====	=====	=====

		long exposure to derivative instruments	debtors ¹	cash at bank	2017 total
currency	investments at fair value	£'000	£'000	£'000	£'000
Danish krone	48,322	–	308	–	48,630
Euro	690,319	105,862	3,696	9	799,886
Norwegian krone	42,216	–	–	–	42,216
Swedish krona	8,172	–	–	–	8,172
Swiss franc	164,455	–	1,664	–	166,119
UK sterling	57,630	–	14,418	4,119	76,167
	-----	-----	-----	-----	-----
	1,011,114	105,862	20,086	4,128	1,141,190
	=====	=====	=====	=====	=====

1 Debtors include amounts held at futures clearing houses and brokers and amounts invested in the Fidelity Institutional Liquidity Fund plc.

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise short positions on derivative instruments and other creditors. The currency profile of these financial liabilities is shown below:

	short exposure to derivative instruments	other creditors	2018 total
currency	£'000	£'000	£'000
Euro	19,348	–	19,348
UK sterling	–	840	840
	-----	-----	-----
	19,348	840	20,188
	=====	=====	=====

	short exposure to derivative instruments	other creditors	2017 total
currency	£'000	£'000	£'000
Euro	43,991	–	43,991
Swiss franc	4,999	–	4,999
UK sterling	–	2,357	2,357
	-----	-----	-----

48,990	2,357	51,347
=====	=====	=====

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required.

Liquidity risk exposure

At 31 December 2018, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £2,024,000 (2017: £6,575,000) and other creditors of £840,000 (2017: £2,357,000).

Counterparty risk

Some of the derivative instruments in which the Company invests are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's ("ISDA") market standard derivative legal documentation. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Manager employs, the Manager will seek to minimise such risk by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and by evaluating derivative instrument credit risk exposure.

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 December 2018, £1,125,000 (2017: £3,825,000) was held by the brokers in cash in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised of: HSBC Bank Plc £1,125,000 (2017: £3,825,000) held in cash denominated in UK sterling. At 31st December 2018, £4,279,000 (2017: £11,127,000) was held by the Company in cash, shown as amounts held at futures clearing houses and brokers on the Balance Sheet, in a segregated collateral account on behalf of the brokers, to reduce the credit risk exposure of the brokers. This collateral comprised of: Deutsche Bank AG £590,000 (2017: £1,260,000) in cash denominated in UK sterling, Goldman Sachs International Ltd £520,000 (2017: £3,460,000) in cash denominated in UK sterling, UBS AG £3,169,000 (2017: £6,292,000) in cash denominated in UK sterling and HSBC Bank plc nil (2017: £115,000).

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and derivative instrument contracts and cash at bank.

Derivative instruments risk

The risk management process and ongoing oversight of derivatives activity is covered by the Derivatives & Counterparty Risk Committee.

Derivative instruments are used by the Manager for the following purposes:

- To gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial flow of capital; and
- To position short exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares with the Portfolio Manager believes to be over values. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at the 31 December 2018, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the net loss on ordinary activities after taxation for the year and decreased the net assets of the Company by £70,000 (2017: decreased the net return and net assets by £74,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at the 31st December 2018, a 10% strengthening or weakening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have (decreased)/increased the Company's net (loss)/return on ordinary activities after taxation for the year and the Company's net assets by the following amounts:

If the UK sterling exchange rate had strengthened by 10% the impact would have been:

currency	2018 £'000	2017 £'000
Danish krone	(3,557)	(4,421)
Euro	(63,184)	(68,263)
Norwegian krone	(4,383)	(3,838)
Swedish krona	(1,586)	(743)
Swiss franc	(15,493)	(15,102)

(88,203)	(92,367)
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If the UK sterling exchange rate had weakened by 10% the impact would have been:

	2018	2017
	£'000	£'000
Danish krone	4,347	5,403
Euro	77,225	83,433
Norwegian krone	5,357	4,691
Swedish krona	1,938	908
Swiss franc	18,936	18,458
	107,803	112,893

Other price risk – exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 December 2018, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £93,883,000 (2017: increased the net return and net assets by £101,111,000). A decrease of 10% in share price would have had an equal and opposite effect.

Other price risk – net exposure to derivative investments sensitivity analysis

Based on the derivative instruments held and share prices at 31 December 2018, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the net assets of the Company by £7,462,000 (2017: increased the net return and net assets by £5,687,000). A decrease of 10% in the share prices of the investments underlying the derivative instruments would have had an equal but opposite effect.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Note 2 (k) and (l) above, investments and derivative instruments are shown at fair value. In the case of cash and cash equivalents, book value approximates to fair value due to the short maturity of the instruments.

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Note 2 (k) and (l) above. The table below sets out the Company's fair value hierarchy:

	level 1	level 2	2018
	£'000	£'000	total
	£'000	£'000	£'000
Financial assets at fair value through profit or loss			
Investments	938,826	–	938,826
Derivative instrument assets	–	2,391	2,391
	938,826	2,391	941,217
Financial liabilities at fair value through profit or loss			
Derivative instrument liabilities	(662)	(1,362)	(2,024)

	level 1 £'000	level 2 £'000	2017 total £'000
Financial assets at fair value through profit or loss			
Investments	1,011,114	–	1,011,114
Derivative instrument assets	–	3,652	3,652
	-----	-----	-----
	1,011,114	3,652	1,014,766
	-----	-----	-----
Financial liabilities at fair value through profit or loss			
Derivative instrument liabilities	(1,580)	(4,995)	(6,575)
	=====	=====	=====

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet above, and any gearing, which may be achieved through the use of derivative instruments. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report. The principal risks and their management are disclosed in the Strategic Report in the Annual Report and in Note 17 above.

The Company's gearing at the end of the year is set out below:

	2018			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	938,826	98.3	938,826	98.3
Long CFDs	58,843	6.1	58,843	6.1
Long futures	35,125	3.7	35,125	3.7
	-----	-----	-----	-----
Total long exposures	1,032,794	108.1	1,032,794	108.1
Short CFDs	19,348	2.0	(19,348)	(2.0)
	=====	=====	=====	=====
Gross/net asset exposure	1,052,142	110.1	1,013,446	106.1
	=====	=====	=====	=====
Shareholders' funds	955,311		955,311	
	=====	-----	=====	-----
Gearing²		10.1		6.1
		=====		=====
	2017			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	1,011,114	98.1	1,011,114	98.1
Long CFDs	36,169	3.5	36,169	3.5
Long futures	69,693	6.8	69,693	6.8
	-----	-----	-----	-----
Total long exposures	1,116,976	108.4	1,116,976	108.4
Short CFDs	48,990	4.8	(48,990)	(4.8)
	=====	=====	=====	=====
Gross/net asset exposure	1,165,966	113.2	1,067,986	103.6
	=====	=====	=====	=====
Shareholders' funds	1,030,048		1,030,048	
	=====	-----	=====	-----
Gearing ²		13.2		3.6
		=====		=====

1 Exposure to the market expressed as a percentage of Shareholders' funds.

2 Gearing is the amount by which gross/net asset exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds.

19 Transactions with the Managers and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FIL"). Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report and in Note 4 above. During the year, fees for portfolio management services amounted to £8,120,000 (2017: £8,281,000). At the Balance Sheet date, management fees of £654,000 (2017: £2,185,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £146,000 (2017: £144,000). At the Balance Sheet date, £1,000 (2017: £1,000) for marketing services was accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable benefits relating to reasonable travel expenses paid to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report, £16,000 (2017: £15,000) of Employers' National Insurance Contributions was also paid by the Company.

20 Alternative Performance Measures

Total return is considered to be an alternative performance measure (as defined in the Glossary of Terms in the Annual Report). NAV total return includes reinvestment of the dividend in the NAV of the Company on the ex-dividend date. Share price total return includes the reinvestment of the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 December 2018 and 31 December 2017.

	Net asset value per ordinary share	Share price
2018		
NAV at 31 December 2017	248.08p	226.70p
NAV at 31 December 2018	231.77p	207.00p
Change in year	-6.6%	-8.7%
Impact of dividend reinvestment	+1.8%	+1.9%
	-----	-----
Total return for the year	-4.8%	-6.8%
	=====	=====
	Net asset value per ordinary share	Share price
2017		
NAV at 31 December 2016	210.75p	183.50p
NAV at 31 December 2017	248.08p	226.70p
Change in year	+17.7%	+23.5%
Impact of dividend reinvestment	+2.3%	+2.7%
	-----	-----
Total return for the year	+20.0%	+26.2%
	=====	=====

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 December 2018 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2017 and 2018 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports, and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2017 is derived from the statutory accounts for 2017 which have been delivered to the Registrar of Companies. The 2018 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: www.fidelityinvestmenttrusts.com where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

The Annual General Meeting will be held at 12 noon on 13 May 2019 at 25 Cannon Street, London EC4M 5TA.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

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