Fidelity INTERNATIONAL

Fidelity Global Emerging Markets Fund
(Managed Fund) FEMX

Quarterly report

As at 30/09/2020

Fund description

Invests in a portfolio of 30 to 50 emerging markets securities that we believe are positioned to generate returns through market cycles and have demonstrated a track record of strong corporate governance.

Fund facts

ASX Code: FEMX
Portfolio manager: Alex Duffy
Benchmark: MSCI Emerging Markets Index NR
Inception date: 29/10/2018
Fund size: AU$103.59M
Number of stocks: 30 to 50
Management cost: 0.99% p.a.
iNAV tickets: RIC FEMXAUiv.P
Bloomberg Code: FEMXIV Index

Portfolio guidelines

Stocks: Max 5% at initiation of position
Industry: Unconstrained
Region: Unconstrained
Country: Unconstrained
Frontier Markets: Up to 20% maximum
Cash: Target range between 0-10%

Top 10 holdings (%)

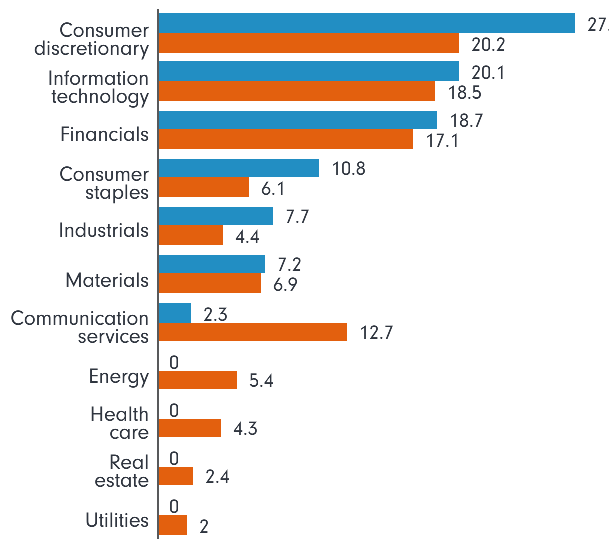
	Fund	B'mark
Taiwan Semiconductr MFG Co Ltd	6.0	5.8
AIA Group Ltd	5.0	0.0
Techtronic Industries Co Ltd	4.1	0.0
Alibaba Group Holding Ltd	3.9	8.7
HDFC Bank Ltd	3.9	0.0
Li Ning Co Ltd	3.9	0.2
Naspers Ltd	3.5	1.2
Midea Group Co Ltd	3.5	0.0
Samsung Electronics Co Ltd	3.4	4.3
Tata Consultancy Services Ltd	3.4	0.5

Performance %

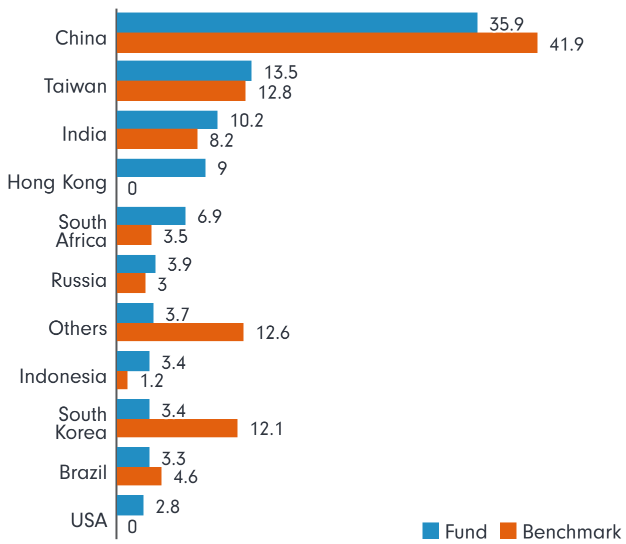
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) FEMX	2.11	9.00	16.84	8.68	-	-	19.34
MSCI Emerging Markets Index NR	1.53	5.24	10.47	4.02	-	-	9.82
Excess return	**0.58**	**3.76**	**6.37**	**4.66**	**-**	**-**	**9.52**

Total net returns represent past performance only. **Past performance is not a reliable indicator of future performance.** The Fund is subject to the risk of stock market fluctuations. Total returns (net) have been calculated using the net asset value of the Fund from one period to the next. The returns include any re-invested distributions and are after fees and expenses. No allowance has been made for taxation. For periods of less than one-year returns are not annualised. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed.

Industry breakdown %



Geographic breakdown %



Units in Fidelity Global Emerging Markets Fund (Managed Fund) (ASX:FEMX) are available for trading on the ASX. For further information, please visit fidelity.com.au or call Client Services on 1800 044 922.

The Fund is unhedged and is subject to the risk of fluctuations in stock markets and currencies. Management costs are current as at the date shown above but may be subject to change in the future. Management costs include GST but exclude abnormal expenses and transactional and operational costs. Any apparent discrepancies in the numbers are due to rounding.

Market performance

Emerging markets delivered strong absolute returns in the third quarter. Risk-on sentiment increased on news of vaccine developments and signs of an economic recovery in China, suggesting that the impact of the COVID-19 pandemic has moderated. However, some of the gains were offset as the US Federal Reserve said it would keep interest rates at historical lows. In emerging Asia, Chinese equities were positive after the country reported better-than-expected second quarter GDP numbers and a slew of new listings during the quarter. However, gains were limited by renewed tensions between the US and China, as US President Donald Trump ordered a ban on transactions with TikTok and WeChat, and announced a tightening of restrictions on Chinese telecommunications giant Huawei Technologies in a bid to limit its access to electronic components. Indian equities continued their upward trend as more businesses resumed operations after a relaxation in lockdown measures. The Taiwanese market crossed its previous three-decade high, supported by a surge in technology stocks. Latin American securities posted negative returns and underperformed the wider emerging markets complex. The Brazilian market traded lower as its economy experienced the sharpest quarterly decline on record due to lockdown measures, which took a heavy toll on economic activity. Oil prices ended the quarter higher, as economies started to emerge from lockdowns, while on the supply side, members of the Organization of the Petroleum Exporting Countries implemented production cuts. However, oil prices during the quarter were volatile. In September, new concerns emerged as Saudi Arabia slashed its official selling price to Asia and the US, leading to a sharp decline in prices. At the sector level, consumer discretionary and information technology were the best performers. Growth and quality names outpaced value stocks.

Fund Performance

Chinese holdings contributed strongly

Holdings in sports goods retailer Li Ning and leading soy sauce manufacturer, Foshan Haitian Flavouring and Food were among top contributors, as robust demand recovery from the COVID-19 pandemic drove share price strength. Both companies benefit from changing consumer behaviour and the preference for local brands. Stock prices were further supported as both companies reported better-than-expected earnings. Elsewhere, the new fund addition - paint manufacturer SKSHU Paint's - also added value during the period on the back of a new government driven country-wide refurbishment cycle.

Consumer discretionary names detracted

The structural underweight exposure to the Alibaba Group hurt relative performance. News that the e-commerce giant could invest in Zhaopin was well received by investors. The Fund was negatively impacted by the lack of exposure to a number of consumer discretionary stocks such as Meituan Dianping, Nio Inc and JD.com. Some of the losses in the sector were offset by the position in Chinese textile manufacturer Shenzhou International. The company reported encouraging results for the first half of the year as sales picked up.

Key detractors

Concerns over a near-term slowdown in credit due to subdued economic growth weighed on the financials sector, including the holding in Bank Central Asia. Elsewhere, not holding Indian conglomerate Reliance Industries hurt relative returns. The stock advanced after Silver Lake announced an investment of approximatelyUSD$1bn into its retail ventures.

Outlook

Short term, we expect volatility levels to persist, as market participants closely watch countries' ability to navigate the current health crisis as well as its economic fallout. In this regard, a regional dislocation remains evident, with North Asia, led by China, having staged a sharp rebound. Furthermore, as the adoption of technological and digital trends accelerates as a result of the pandemic, the region is well-positioned to reap benefits from changed consumer and enterprise behaviour, as it is home to many of the world's largest market-leading technology companies. In this regard, the structure of the market is also more favourable, as there is a huge preponderance of companies operating in the 'new' economy. These technology leaders and online giants can offer the investor more stable growth and profits than cyclical index heavyweights of the past.

The macroeconomic backdrop in South Asia remains more challenging. Many countries are still behind the curve in controlling the outbreak. From an economic standpoint, governments in India and ASEAN have limited capacity to compensate for the economic impact of the pandemic. The picture in Latin America remains mixed. Brazil and Mexico, its largest economies, have lagged behind in implementing a strategy for dealing with the pandemic. However, their central banks have sought to play a role by cutting rates and providing liquidity. Medium-term, they are likely to raise rates under inflationary pressures. As these pressures mount, many commodities can provide a natural inflationary hedge in the portfolio construction process, thus supporting the case for selective exposure to these regions.

The long-term investment case for EM equities remains strong, supported by structural growth drivers. These should drive demand for different goods and services in underpenetrated markets. However, selectivity is paramount. Our focus remains on identifying high-quality businesses characterised by strong corporate governance and balance sheet structures. We believe that these are companies that can weather a more challenging economic environment and add significant value for investors over the long term.

Major contributors (%)

As at 30/09/2020	Active pos.	Contribution
Li Ning Co Ltd	3.0	1.0
Techtronic Industries Co Ltd	3.7	0.9
Foshan Haitian Flavouring & Food Company Ltd	3.4	0.8
Skshu Paint Co Ltd	1.3	0.7
Shenzhou Intl Group Holdings Ltd	2.1	0.6

Major detractors (%)

As at 30/09/2020	Active pos.	Contribution
Alibaba Group Holding Ltd	- 4.2	- 1.0
Bank Central Asia Tbk Pt	3.5	- 0.6
Vipshop Holdings Ltd	1.7	- 0.6
Lojas Americanas Sa	2.1	- 0.5
Meituan Dianping	- 1.6	- 0.4

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