Fidelity INTERNATIONAL

Fidelity Global Emerging Markets Fund

(Managed Fund) ASX: FEMX

Quarterly report

As at 30/09/2023

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: Amit Goel
Benchmark: MSCI Emerging Markets Index NR
Inception date: 29/10/2018
Fund size: AU$208.98M
Number of stocks: 30 to 50
Management cost: 0.99% p.a.
iNAV tickers: RIC FEMXAUiv.P
Bloomberg Code: FEMXIV Index

Portfolio guidelines

Stocks: Max 8% at initiation of position
Sector: Unconstrained
Region: Unconstrained
Country: Unconstrained
Frontier Markets: Up to 20% maximum
Cash: Target range between 0-10%

Top 10 holdings (%)

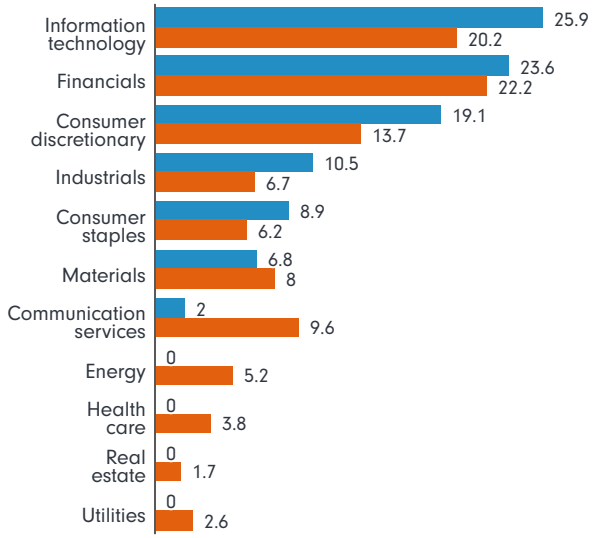
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	7.9	6.1
HDFC Bank Ltd	5.1	0.8
China Mengniu Dairy Co	4.3	0.2
Samsung Electronics Co Ltd	3.9	4.2
Axis Bank Ltd	3.5	0.4
Bank Central Asia Tbk Pt	3.4	0.5
Li Ning Co Ltd	3.4	0.2
Naspers Ltd	3.2	0.5
Infosys Ltd	2.7	0.9
Sk Hynix Inc	2.6	0.7

Performance %

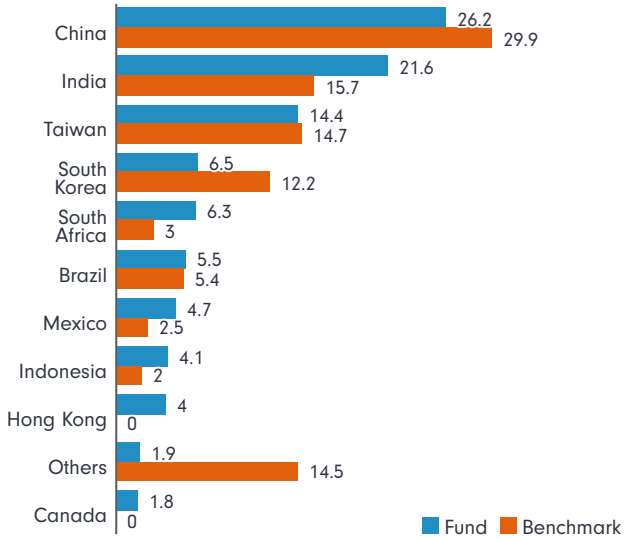
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	-3.53	-4.07	-1.99	9.52	2.59	-	8.83
MSCI Emerging Markets Index NR	-2.28	0.12	1.64	11.28	1.77	-	4.84
Excess return	**-1.25**	**-4.19**	**-3.63**	**-1.76**	**0.82**	**-**	**3.99**

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.

Quarterly report

Market performance

Emerging markets (EMs) declined over the quarter and underperformed global markets. The index rose sharply through July, before selling off significantly in August and weakening in September. China and the US Federal Reserve's (Fed) monetary policy stance continued to drive sentiment. In July, signs that inflation was abating provided a tailwind to markets. Meanwhile, China's Politburo indicated that it would extend measures to support the property sector and bolster consumption resulted in a rally in Chinese stocks. The tide turned in August as an improving US economy raised concerns that the US Fed will keep interest rates higher for longer. Weak economic data from China and problems in the country's financial and property sectors prompted further steps to stimulate the economy. Fears rippled through markets with Latin America emerging as the weakest performer. Heading into September, the US Fed's 'higher for longer' narrative took its toll on the asset class. Against this backdrop, all regions posted negative returns, led by Latin America, followed by emerging Asia and emerging Europe, Middle East and Africa (EMEA).

Fund performance

At the sector level, holdings in financials and consumer discretionary weighed on performance. Stock picking in communication services and materials added value. Chinese consumer names Li Ning (leading domestic sportswear company), Zhongsheng (largest luxury automobile dealer) and China Mengniu Dairy (largest dairy producer) were among the top detractors from performance. Share price moves among these businesses have largely been sentiment-driven and mask some positive fundamental developments at these companies. Hong Kong based insurer AIA Group suffered as investors looked to reduce the exposure to China. the position in HDFC Bank, India's largest private lender, was out of favour as investors waited for its recent merger with HDFC Ltd. to settle. The lender reported weaker than expected pre-provision operating profits (PPOP) in its recently released quarterly results. Nevertheless, the long-term investment rationale and growth expectations for the stock remain intact, supported by strong asset quality, a well-capitalised balance sheet and reasonable valuations. E-commerce player Pinduoduo contributed the most to performance. Its shares rose on the back of higher than expected second quarter results supported by strong growth in revenues and operating profits. The position in Focus Media gained as it enjoys both high earnings visibility in 2023 and a further improvement in its 2024 outlook. It also delivered good results for the first half of the year due to better cost controls and a strong order pipeline. Indian lender Axis Bank outperformed the broader market. The bank has considerable upside potential given its dominant position in its domestic market and improving asset quality.

Outlook

After a significant decline in emerging market headline inflation in the first half of the year, the direction of policy interest rates in the region began to diverge in the third quarter, acting as a tailwind for the emerging market consumer. Similarly, the growth profile of global EMs is superior. China is currently facing several headwinds. First, there is a regulatory risk, especially for businesses with multiple touch points with Chinese consumers. Second, weak consumer confidence is resulting in lower ticket size purchases, more cautious spending and increased emphasis on value-for-money. Consumers are currently opting to pay off mortgages and car loans rather than to borrow and spend. Domestic investors are not ready to look through this cyclical slowdown in consumption, while long standing foreign institutional investors are indiscriminately selling good quality Chinese businesses since they are also wary of the other key risk – the growing geopolitical tussle with the US. Our holdings are concentrated in areas driven by domestic consumption, where we see a long runway of sustainable high growth. The slowdown in consumption has certainly slowed revenue growth, but the adverse impact of weak sentiment and the selloff by global investors looking to reduce their China exposure has been exceptional and disproportionately large on stock prices. Most of our holdings are now trading at historically low valuation multiples, discounting about 15-20% long-term cost of capital, which makes them very attractive investments at these levels. We toured China in May this year, and spent a week with the businesses we hold. Our finding is that consumption is bound to recover from current levels due to pent-up demand and a high savings rate. Hence, we firmly believe these losses are temporary. We are very happy with the companies we own as they are considered winners in their respective categories, doing the right things strategically and taking market share from competitors in a weak operating environment. Rising geopolitical tensions and disrupted supply chains are hastening the end of the era of globalisation and the process of decoupling. Many developed-market companies are redirecting production that was previously outsourced to China to other countries that are closer to home (the trend of nearshoring) or to friendly partner countries (friendshoring). The AI-driven rally in technology stocks has shown that bouts of stronger performance can result in a rapid re-rating, underlining the importance of active management and disciplined position size management.

Major contributors (%)

As at 30/09/2023	Active pos.	Contribution
Pdd Holdings Inc	0.9	0.3
Focus Media Information Technology Co Ltd	2.0	0.2
Havells India Ltd	2.2	0.2
Axis Bank Ltd	2.7	0.2
Tencent Holdings Ltd	-4.0	0.2

Major detractors (%)

As at 30/09/2023	Active pos.	Contribution
Li Ning Co Ltd	3.4	-0.7
Zhongsheng Group Holdings Ltd	2.3	-0.7
AIA Group Ltd	3.3	-0.6
HDFC Bank Ltd	4.9	-0.4
B3 Sa Brasil Bolsa Balcao	2.3	-0.4

Signatory of:

PRI Principles for Responsible Investment

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