Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX

Quarterly report

As at 31/03/2024

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$221.11M
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 (%)

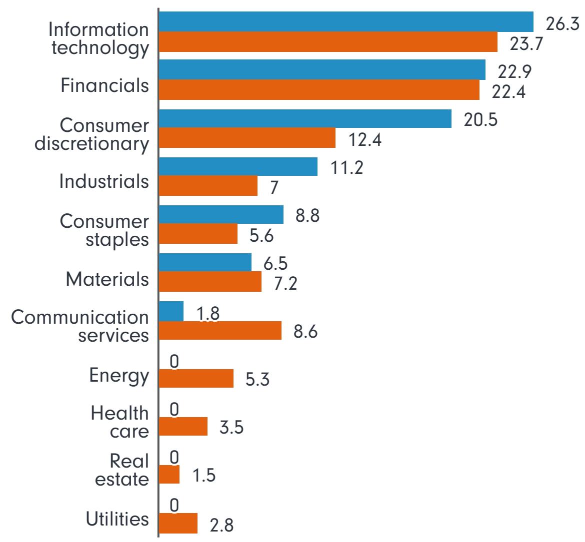
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	8.8	8.3
Samsung Electronics Co Ltd	5.6	4.6
Naspers Ltd	4.7	0.5
HDFC Bank Ltd	3.6	0.7
China Mengniu Dairy Co	3.5	0.1
B3 Sa Brasil Bolsa Balcao	3.2	0.2
Li Ning Co Ltd	3.1	0.1
Axis Bank Ltd	3.1	0.4
Localiza Rent A Car Sa	2.6	0.1
ICICI Bank Ltd	2.6	0.9

Performance %

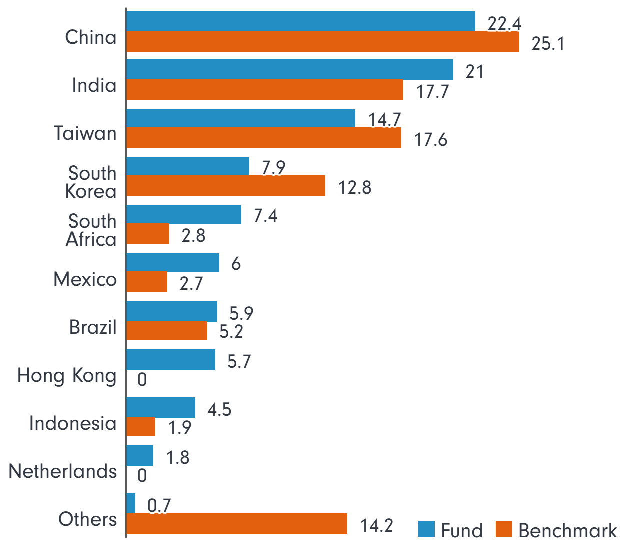
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	2.68	5.07	5.95	3.84	-1.02	6.52	9.14
MSCI Emerging Markets Index NR	2.28	7.07	9.23	11.03	-0.02	3.97	6.10
Excess return	**0.40**	**-2.00**	**-3.28**	**-7.19**	**-1.00**	**2.55**	**3.04**

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 market (EM)s posted positive returns over the quarter but underperformed developed markets. Sentiment oscillated as markets globally grappled with the likelihood of recession, the timeline for interest rate cuts, and the pace of the economic recovery in China. In January, EMs fell as US economic data gave rise to fears that the Fed may keep interest rates higher for longer, while concerns about the Chinese economy were not eased by initial attempts by policy makers to support markets. February saw a reversal of this trend, as emerging markets outperformed developed markets, driven by Asian economies, and in particular China, which rallied as investors reacted positively to better-than-expected consumption trends during the Lunar New Year. This positive momentum continued into March, with markets globally rallying after the Fed indicated it was on course to start cutting interest rates this year, while it also appeared that recessionary fears were receding in economies such as the US. In this environment, emerging Asia was the best performer. EMEA was broadly flat, while Latin America declined over the period, paring back gains after a strong 2023. Performance among sectors was mixed, with IT, energy and utilities leading the gains, while materials and real estate were the weakest.

Fund performance

Over the quarter, regional semiconductor names rallied, including the Netherlands's ASML Holding and Taiwan's TSMC, both of which play a critical role in the value chain of high-performance chips, and South Korea's SK Hynix, which is the leading provider of high bandwidth memory to chipmakers such as Nvidia. Elsewhere, industrial position in Hong Kong's Techtronic Industries (machinery) added value. It reported solid FY23 results, which reassured our conviction in the name. B3 Sa Brasil Bolsa Balcao announced weaker-than-expected top-line in the fourth quarter, as equity market volumes remained low due to high real interest rates in Brazil. In the third quarter of fiscal year 2023, HDFC Bank's margins came in below estimates. The recent merger with HDFC Life also impacted its deposit growth, but this is a short-term challenge. AIA Group also declined due to the lack of visibility on whether it would renew its share buyback program, despite announcing earnings that indicated strong growth in the value of new business over the quarter. Encouragingly, Indonesia's Bank Mandiri also contributed to performance. It reported a big beat in its fourth quarter net profit, driven by an acceleration in loan growth, a jump in recovery income and Treasury income, broad based asset quality improvement and operating expenditure control. Consumer names in China announced in-line results but continued to be impacted by muted consumption in the country. After a weak January, many of these names rebounded in February, but lagged the broader market rally. Detractors include dairy producer China Mengniu Dairy and premium automobile dealer Zhongsheng Group.

Outlook

Unlike previous interest-rate hiking cycles, EM central banks were among the most proactive in the world when it came to raising rates early and bringing inflation under control. Brazil is the poster child of this trend, with inflation in the country falling and interest rates now also coming down. The strong fiscal position of emerging economies also stands the asset class in good stead, with lower levels of debt-to-GDP in many EM countries relative to developed economies, and particularly compared to the US. China is currently facing several headwinds and consumers are opting to pay off mortgages and car loans rather than to borrow and spend. Domestic investors have become myopic, not ready to look through cyclical slowdowns, while long standing foreign institutional investors are indiscriminately selling out of Chinese businesses. We have been in constant touch with the companies we hold, and our finding is that consumption is bound to recover from current levels due to pent-up demand and a high savings rate. Even if foreign investors don't return to the market, domestic Chinese investors have the capacity to fill in the gap as valuations in good quality businesses become hard to ignore. Hence, we firmly believe our losses in China are temporary. We are very happy with the companies we own as they are 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 emerging market countries that are closer to home (nearshoring) or to friendly partners (friendshoring). India continues to offer structural growth opportunities in consumption, improved government finances and more efficient use of capital in infrastructure build-up. The ruling party's win in three out of four state elections has lowered the risk of it losing the general elections in the first quarter of 2024. We expect infrastructure build-up alongside production-linked incentives for manufacturing is a key positive for the medium to long-term sustainability of India's economic growth through higher consumption and employment. Valuations in most global EMs are much more reasonable and the Index is trading at a discount to the developed markets Index, which is close to the highest level in 20 years. One exception is India. Valuations here are high, particularly in the small-to-mid-cap space, but areas such as banks and IT services firms still trade at reasonable multiples.

Major contributors (%)

As at 31/03/2024	Active pos.	Contribution
Taiwan Semiconductor MFG Co Ltd	1.6	0.6
Asml Holding Nv	2.0	0.5
Sk Hynix Inc	1.5	0.3
Techtronic Industries Co Ltd	2.0	0.3
Bank Mandiri Persero Tbk Pt	1.6	0.2

Major detractors (%)

As at 31/03/2024	Active pos.	Contribution
China Mengniu Dairy Co	3.4	-0.9
B3 Sa Brasil Bolsa Balcao	3.3	-0.8
HDFC Bank Ltd	3.5	-0.7
AIA Group Ltd	2.4	-0.7
Zhongsheng Group Holdings Ltd	1.8	-0.7