

Fidelity Global Emerging Markets Fund

(Managed Fund) FEMX

Quarterly report

As at 30/06/2021

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 / Punam Sharma

Benchmark: MSCI Emerging Markets Index NR

Inception date: 29/10/2018

Fund size: AU\$272.02M

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

Sector: Unconstrained

Region: Unconstrained

Country: Unconstrained

Frontier Markets: Up to 20% maximum

Cash: Target range between 0-10%

Top 10 holdings (%)

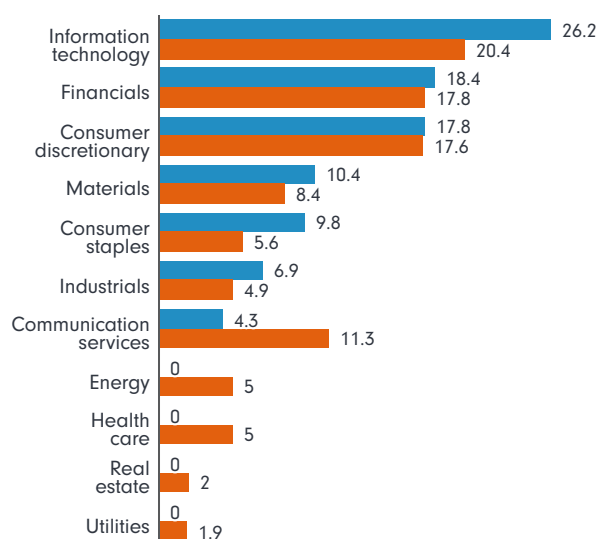
| | Fund | B'mark |
|----------------------------------|------|--------|
| Taiwan Semiconductor MFG Co Ltd | 7.0 | 6.1 |
| AIA Group Ltd | 4.8 | 0.0 |
| HDFC Bank Ltd | 4.7 | 0.0 |
| Li Ning Co Ltd | 4.1 | 0.3 |
| China Mengniu Dairy Co | 4.0 | 0.2 |
| Samsung Electronics Co Ltd | 3.4 | 4.6 |
| Skshu Paint Co Ltd | 3.1 | 0.0 |
| Bank Central Asia Tbk Pt | 3.1 | 0.3 |
| Tata Consultancy Services Ltd | 3.0 | 0.5 |
| Shenzhou Intl Group Holdings Ltd | 3.0 | 0.2 |

Performance %

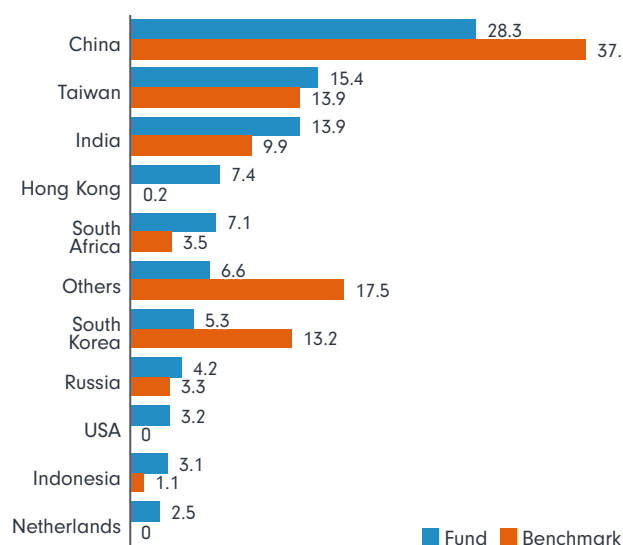
| | 1 mth | 3 mth | 6 mth | 1 yr | 3 yrs p.a. | 5 yrs p.a. | Since Inception p.a (29/10/2018) |
|---|--------------|--------------|-------------|-------------|------------|------------|----------------------------------|
| Fidelity Global Emerging Markets Fund (Managed Fund) FEMX | 2.09 | 6.39 | 10.80 | 36.79 | - | - | 23.65 |
| MSCI Emerging Markets Index NR | 3.28 | 6.57 | 10.44 | 29.22 | - | - | 15.52 |
| Excess return | -1.19 | -0.18 | 0.36 | 7.57 | - | - | 8.13 |

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.

Quarterly report

Market performance

Emerging markets delivered positive returns in the second quarter of 2021. Markets started on a positive note and were supported by weakening US dollar, which was driven by the fall in US treasury yields. However, risk appetite took a hit on worries about rising interest rates as the US Federal Reserve (Fed) indicated that it might raise interest rates sooner than expected. Investor sentiment was also impacted by high numbers of COVID-19 cases particularly related to the highly infectious delta variant. As the period drew to a close, markets rebounded as investors saw the earlier selloff on Fed's hawkish comments was overdone. Additionally, US President Joe Biden embraced a bipartisan Senate infrastructure deal, which further spurred risk appetite. Equities in the Latin America region rallied and outperformed most emerging markets during the quarter. Risk assets were bolstered as local currencies strengthened against the US dollar and given favourable iron ore and energy prices. The benefits of rising commodity prices were felt in the emerging Europe, Middle East and Africa (EMEA) region, as it outperformed broader emerging markets. Oil prices traded higher as vaccination drives in major economies supported hopes for continued demand normalisation. Within EMEA, Russian equities strengthened on rising crude oil prices and a strong rouble. Within emerging Asia, the performance of Indian equities improved as a steady decline in daily COVID-19 cases in the country became evident. Chinese equities were volatile and ended in positive territory. Meanwhile, Chinese policy impacted some commodities and cryptocurrencies, as the government continued to signal greater regulation and intervention. Gold suffered on US dollar's rally given Fed's more hawkish stance. Copper came under pressure after Chinese government ordered state-owned enterprises to control risks, limit their exposure to overseas commodities markets and increased commodity pricing controls. At a sector level, health care and industrials were the best performers. From a style perspective, the rotation from growth into value names continued, with the latter outperforming.

[fidelity.com.au](https://www.fidelity.com.au)

Fund performance

Key detractors

South Africa's internet conglomerate Naspers came under some pressure during the quarter. The stock was negatively impacted by overhanging regulatory concerns, which weighed on its key stake in China's Tencent. Within industrials, truck engine manufacturer Weichai Power was the detractor from returns. While it can continue to grow market share over the medium term, it is exposed to a slowdown in the near term.

Materials delivered mixed performance

Copper miner First Quantum Minerals and painting business SKSHU were among the key contributors to returns. However, the limited exposure to Brazilian iron ore miner Vale held back gains as iron ore prices soared.

Consumer discretionary stock aided returns

Many Chinese consumer holdings, including Li Ning (sportswear), Shenzhou International (clothing) and Zhongsheng Group (automobiles) added value. Shares in Li Ning rallied after it issued a positive profit alert towards the end of the quarter. However, some of these gains were partially offset by internet business VIP Shop, which traded lower alongside the broader industry on the back of the government's focus on anti-trust matters. Midea Group (white goods) also weighed on returns.

Outlook

On a country level, the expected slowdown of the Chinese economy can certainly have ramifications on demand for the industrial and the commodity space, but this is getting priced in.

Digitisation has also clearly accelerated giving us the opportunity to ride the growth in fintech and ecommerce in EM. Private players are disrupting the revenue and profit pool of the incumbent banks in many EM like Brazil which offer the opportunity to play the equitization story across the value chain of financial intermediaries facilitating the same.

We also see opportunities in domestic

consumption in countries like China and India, where we own sportswear, dairy, premium auto dealers as well as digital businesses. The industrial space in China is also exciting, with opportunities across construction chemicals, heavy equipment, Enterprise Value (EV) value chain etc.

Another topical factor we look at is inflation, which continues to inch up across regions. Our focus is to buy businesses with better pricing power, market share gains and valuation comfort to mitigate this pressure: something the breadth and depth of the EM universe allows us to do.

Lastly, given the strong recovery in markets, the overall valuations have moved up and markets trades at 15-20% premium to its long term averages on Price-to-Earnings (P/E) and Price-to-Book (P/B) reflecting continuous recovery and the loose monetary situation and high liquidity across markets. We aim to continue to be selective and bottom up in the portfolio to mitigate some of these risks.

Major contributors (%)

| As at 30/06/2021 | Active pos. | Contribution |
|----------------------------------|-------------|--------------|
| Li Ning Co Ltd | 3.3 | 2.0 |
| Shenzhou Intl Group Holdings Ltd | 2.8 | 0.4 |
| Sea Ltd | 2.1 | 0.3 |
| Skshu Paint Co Ltd | 1.9 | 0.3 |
| First Quantum Minerals Ltd | 2.0 | 0.3 |

Major detractors (%)

| As at 30/06/2021 | Active pos. | Contribution |
|----------------------|-------------|--------------|
| Vipshop Holdings Ltd | 0.9 | -0.4 |
| Midea Group Co Ltd | 2.5 | -0.4 |
| Naspers Ltd | 2.0 | -0.4 |
| Weichai Power Co Ltd | 1.9 | -0.4 |
| HDFC Bank Ltd | 4.7 | -0.3 |



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