Fidelity Global Emerging Markets Fund
(Managed Fund) FEMX

Quarterly report

As at 30/09/2021

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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$223.53M
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 (%)

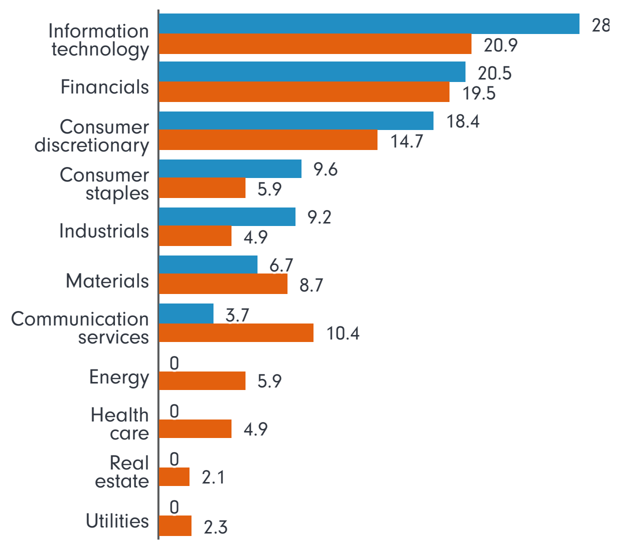
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	7.8	6.5
HDFC Bank Ltd	5.3	0.0
China Mengniu Dairy Co	4.6	0.3
AIA Group Ltd	4.6	0.0
Li Ning Co Ltd	3.8	0.3
Bank Central Asia Tbk Pt	3.6	0.3
Samsung Electronics Co Ltd	3.2	4.4
Tata Consultancy Services Ltd	3.2	0.6
Techtronic Industries Co Ltd	3.2	0.0
Infosys Ltd	2.9	1.0

Performance %

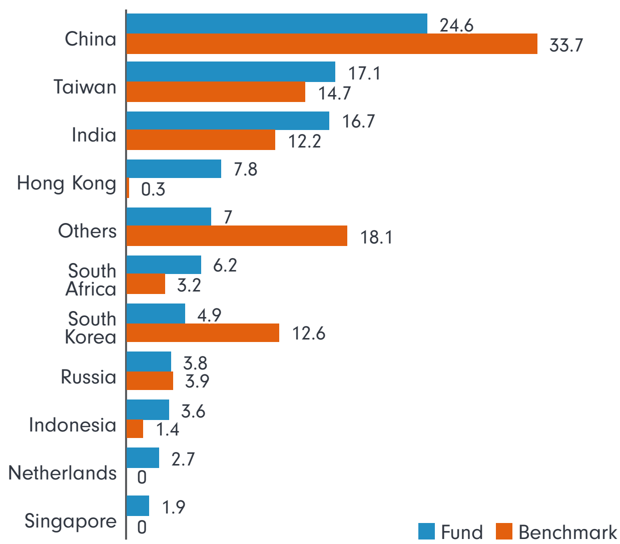
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) FEMX	-4.33	0.42	6.84	26.03	-	-	21.59
MSCI Emerging Markets Index NR	-2.84	-4.48	1.80	17.29	-	-	12.32
Excess return	**-1.49**	**4.90**	**5.04**	**8.74**	**-**	**-**	**9.27**

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

This was the weakest quarter since the pandemic struck in early 2020. Early weakness resulted from worries over the Delta variant of COVID-19 and weakness in Chinese stocks due to increasing COVID-19 cases and regulatory overhang. As the quarter progressed, markets were supported by the strength of Indian equities and the easing of restrictive measures in China. Sentiment was further supported by reassuring commentary from the US Federal Reserve, which said that it plans to maintain an accommodative monetary policy stance for now, despite considering tapering bond purchases this year. However, as the period drew to a close, markets were badly hurt by the sell-off in the property and banking sectors after beleaguered property developer China Evergrande warned that its cash position was worsening. The series of events in China hampered investor sentiment, which was reflected at both the country and regional level, where emerging Asia disappointed. Bucking the trend in emerging markets, equities in Emerging Europe, Middle East and Africa (EMEA) ended in positive territory. Markets were supported by rising crude oil and gas prices. The easing of lockdown measures in China and supply disruption due to hurricane Ida bolstered equities in the EMEA region. Iron ore collapsed below US$100 for the first time in 14 months in September, as China's efforts to clean up polluting industries impacted steel demand. Evergrande's woes heightened concerns that China's property sector would experience a sharp downturn – a negative for the industrial metal. Copper prices remained relatively stable, though China's decision to release copper, aluminium and zinc from its state reserves to overcome mismatches between supply and demand weighed on prices. Latin America was the worst performer within the broader EM complex.

Fund performance

Consumer discretionary stock aided returns

Limited exposure to Chinese e-commerce company Alibaba Group was the key contributor. Chinese internet stocks came under pressure as regulatory fears resurfaced.

Financials contributed

Among financials, India's HDFC Bank and Taiwanese SME lender Chailease Holding were notable contributors. Indian markets enjoyed a considerable bull run and HDFC Bank received an additional boost as the Reserve Bank of India moved to lift a previously enforced ban on the issuance of new credit cards. Shares in Chailease rallied after reporting strong second quarter results driven by rapid topline growth, cost discipline and lower credit cost.

Key detractors

Across the materials sector, holdings in China's Skshu Paint and Beijing Oriental Yuhong (waterproofing) declined sharply in September amid concerns about the outlook for the property sector. Copper holding First Quantum also disappointed. The lack of exposure to large energy stocks hampered performance. Not holding India's Reliance Industries and Russia's Gazprom was a drag. Gas prices got a boost as Chinese authorities cracked down on the use of coal.

Outlook

Whilst parts of our investment universe are seeing in improvement in the COVID pandemic, the possibility of subsequent waves remain a concern. As a result, volatility is likely to persist for some time, even as markets have increasingly been focussing on economic recovery, and are more likely to look through near term concerns.

The synchronised monetary and fiscal support globally has boosted money supply, which is getting channelled into consumption and capital markets. Whilst we need to be mindful of valuation excesses in certain segments, the current environment is conducive for a wider financial penetration and growth in EM.

China Evergrande has amassed huge debt, with many other Chinese property developers in a similar position with a possibility of contagion, but we do not see it as a systemic risk. Although one cannot be certain, it is extremely likely that the Chinese government will step in to provide stability to the sector, if such as step is required,we will see significantly less residential construction, which will have a bearing on Chinese GDP.

Lower levels of construction will also hit Chinese steel consumption as the country has materially cut back on steel production to address CO2 emissions, the impact will be more meaningful on iron ore prices. Since construction related activity will be impacted, cement, paint suppliers and waterproofing, residential developer software suppliers are the other areas we are mindful of. Since, construction plays a role in stimulating other areas of the economy, it is not beyond comprehension to draw a conclusion that this could also, for example, impact luxury consumption in China.

Beyond China, the pandemic has resulted in unprecedented monetary policy. Although rates are starting to rise in some EMs, which can lift net interest margin, we believe that the developed world we will continue to see low interest rates.

EM has de-rated, and overall, discount to DM remains wide. This provides scope to add to high quality names on a selective basis.

We look forward to managing this high conviction portfolio, focussing on identifying high quality businesses characterised by robust balance sheet and corporate governance structures that can deliver consistently superior returns. We remain optimistic as for the exciting opportunities EM continue to offer to investors and believe the portfolio is well equipped to deliver attractive risk-adjusted performance for our investors.

Major contributors (%)

As at 30/09/2021	Active pos.	Contribution
Alibaba Group Holding Ltd	-2.2	0.8
Chailease Holding Co Ltd	2.3	0.7
Bank Central Asia Tbk Pt	2.9	0.7
HDFC Bank Ltd	4.9	0.7
Havells India Ltd (Demat)	1.6	0.6

Major detractors (%)

As at 30/09/2021	Active pos.	Contribution
Skshu Paint Co Ltd	2.5	-1.1
Reliance Industries Ltd	-1.1	-0.3
Gazprom Pjsc	-0.6	-0.2
Naspers Ltd	2.0	-0.2
Foshan Haitian Flavouring & Food Company Ltd	0.6	-0.2

Signatory of:

PRI Principles for Responsible Investment

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