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

Quarterly report

As at 31/12/2021

Subscribe now

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$226.65M
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 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 (%)

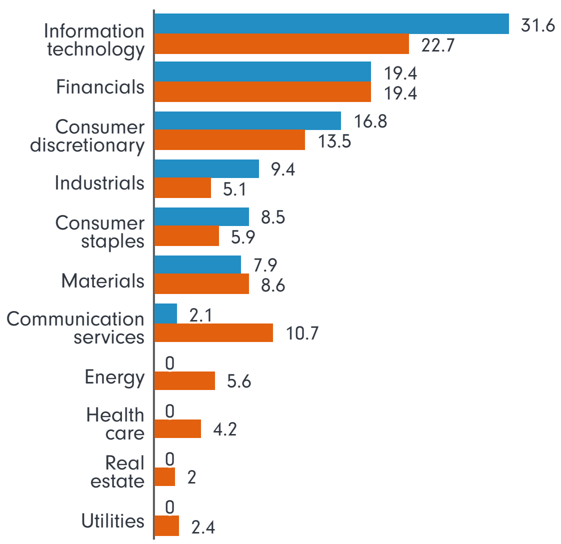
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	8.1	7.0
HDFC Bank Ltd	4.8	0.0
China Mengniu Dairy Co	4.2	0.2
AIA Group Ltd	4.0	0.0
Mediatek Inc	3.9	0.8
Infosys Ltd	3.7	1.1
Bank Central Asia Tbk Pt	3.6	0.4
Li Ning Co Ltd	3.6	0.3
Samsung Electronics Co Ltd	3.3	4.6
First Quantum Minerals Ltd	3.1	0.0

Performance %

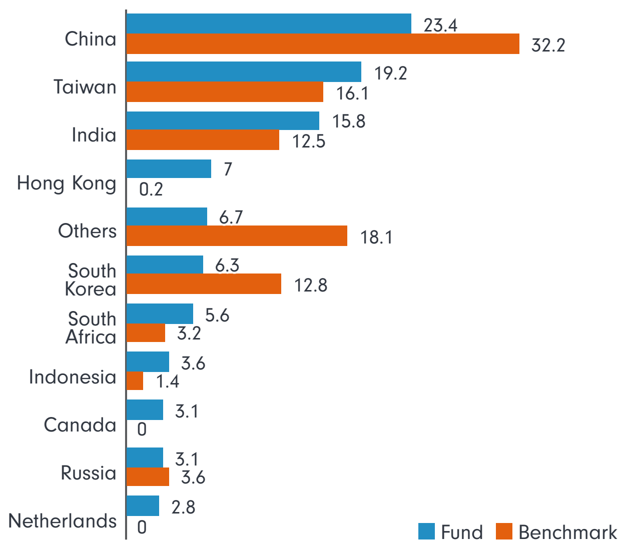
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	1.27	0.24	0.67	11.54	18.80	-	19.81
MSCI Emerging Markets Index NR	-0.65	-1.95	-6.34	3.44	9.76	-	10.60
Excess return	**1.92**	**2.19**	**7.01**	**8.10**	**9.04**	**-**	**9.21**

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 (EM) delivered negative returns in the fourth quarter of 2021. EM equities started on a positive note, bolstered by a decent earnings season, vaccination progress, declining COVID-19 cases and increased mobility. However, markets fell sharply as the period progressed and the US Federal Reserve (Fed) said it would consider faster tapering of asset purchases and an earlier interest rate lift off. However, the Fed's hawkish policy stance towards the tail end of the period generally matched expectations and equities investors appeared relieved as an immediate source of uncertainty has been removed. Meanwhile, pandemic-driven fears returned to the fore of investors' concerns amid surging COVID-19 cases globally and the rise of the Omicron variant. Nonetheless, investors are focusing on reports suggesting that the variant is relatively mild, and appear more confident of ongoing recovery, and continuation of economic expansion. Against this backdrop, all regions ended in negative territory, although emerging Asia fared better than other EM regions. In EM Asia, Chinese equities disappointed as a hawkish Fed stance put tech stocks under scrutiny globally and US President Biden's bill to ban imports from China's Xinjiang region over concerns about forced labour rattled markets. Risk aversion took a toll on the EMEA (Europe, the Middle East and Africa) region during the period when markets fell. Fears were stoked by geopolitical tensions between Russia and the Ukraine, leading to a sell-off in the Russian market. In the Latin America region, political turmoil took its toll impacting stocks and resulting in currency weakness. Barring information technology (IT) and utilities, all sectors fell. From a style perspective, value and quality names outperformed their growth counterparts.

Fund performance

From the country perspective, there was solid contribution from China, South Korea and Taiwan, driven by stock selection. However, weak stock picking in Hong Kong offset some of these gains. At the sector level, holdings in information technology (IT) and materials proved rewarding, however, certain financials and consumers stocks featured amongst detractors.

IT stocks aided returns

The Fund's holdings in MediaTek (Taiwan) and SK Hynix (South Korean) proved beneficial. The former reported market share gains, on back of high-demand for its 4G chipsets and competitive 5G System-on-Chips (SOC), while the latter received a boost after China approved the South Korean company's merger deal to acquire Intel's NAND unit.

Materials contributed

Copper miners First Quantum and Southern Copper were also notable performers. In October, we saw an extreme physical shortage in the copper market which buoyed the miners. Meanwhile, Russian steel company Severstal rallied on better than expected results.

Financials hurt relative returns

Financials came under pressure amid uncertainty over the Omicron variant of COVID-19. Furthermore, Hong Kong based insurer AIA Group disappointed as it reported weaker-than-expected quarterly results. Indian lender HDFC Bank was also caught in broad based weakness in global equities.

Outlook

The outlook for commodities is important for many economies in the developing world given significant exposure to world-class natural resources. Higher energy prices have been a key theme of 2021 at the expense of the consumer; however, stronger pricing can be very positive for resource-rich countries, and exposure to commodities can provide an attractive hedge against inflation.

Tightening emissions regulations and governmental incentives are pushing demand for cleaner fuels and in turn Electric Vehicles (EVs). Accelerating adoption of EVs bodes well for copper prices. Demand for copper is also being driven by the rollout of 5G.

The recent setbacks to the Chinese property and new economy sectors may continue in the near-term, but this downcycle may offer up opportunities to buy high-quality names.

In Russia, macro fundamentals remain solid. The country continues to exhibit a very low debt burden, and a conservative budget and monetary policy. A higher oil price should prove beneficial, although it has not translated into a stronger currency. Geopolitical tensions can fester in the region, giving rise to bouts of volatility and weakness. The risk in Russia is that of invasion of Ukraine and concomitant financial sanctions. We believe the risk would be transient - but the near-term drawdown and exact nature of sanctions remain a moot point.

EM central banks proactively began to hike interest rates while core central banks were still dovish. A normalising monetary policy is supportive of core earnings for EM banks. Whilst we have not taken a strong view on this, we have good exposure to financials.

EM has de-rated, and overall, the discount to Developed Markets remains wide. This provides an attractive entry point to add to high-quality names on a selective basis.

We remain confident this remains a highly resilient portfolio with an abundance of quality characteristics such as high returns, prudent balance sheets and valuation multiples with scope to deliver attractive total shareholder returns as we look ahead.

Major contributors (%)

As at 31/12/2021	Active pos.	Contribution
Mediatek Inc	2.5	0.8
First Quantum Minerals Ltd	2.8	0.6
Sk Hynix Inc	1.6	0.5
Skshu Paint Co Ltd	1.2	0.4
Infosys Ltd	2.3	0.4

Major detractors (%)

As at 31/12/2021	Active pos.	Contribution
AIA Group Ltd	4.3	-0.5
China Mengniu Dairy Co	4.2	-0.5
Sea Ltd	1.5	-0.4
HDFC Bank Ltd	4.8	-0.3
Mercadolibre Inc	1.3	-0.3

fidelity.com.au

Signatory of: PRI Principles for Responsible Investment

Fidelity INTERNATIONAL