Fidelity Global Emerging Markets Fund

(Managed Fund) ASX: FEMX

Quarterly report

As at 31/03/2022

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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$201.25M

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 (%)

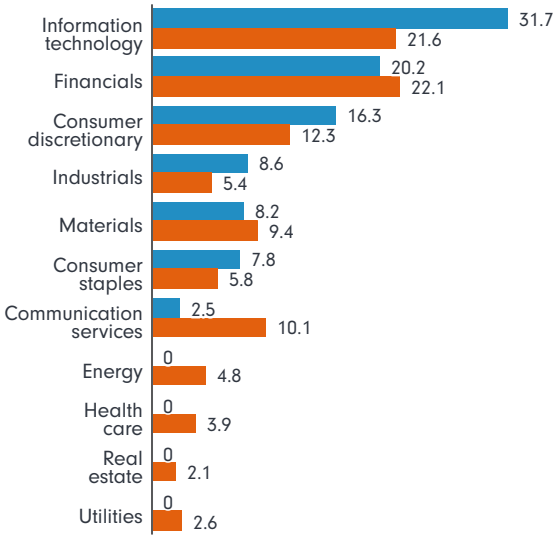
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	8.3	7.0
HDFC Bank Ltd	4.7	0.0
AIA Group Ltd	4.5	0.0
First Quantum Minerals Ltd	4.4	0.0
China Mengniu Dairy Co	4.3	0.2
Infosys Ltd	4.0	1.2
Sk Hynix Inc	3.4	0.7
Bank Central Asia Tbk Pt	3.3	0.4
Mediatek Inc	3.1	0.7
Li Ning Co Ltd	3.0	0.3

Performance %

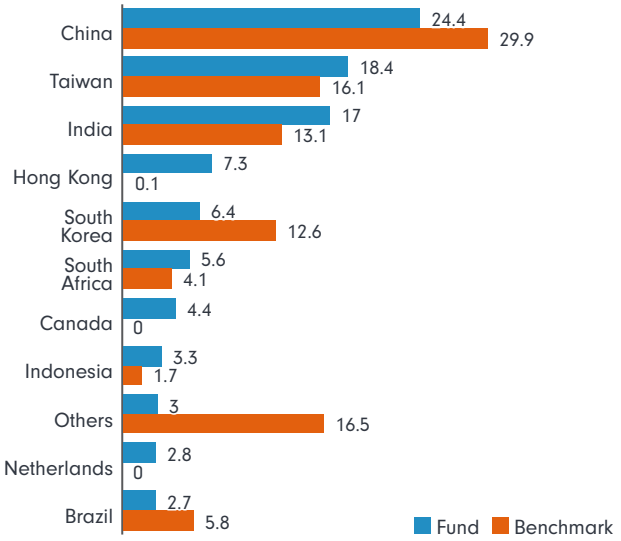
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	-7.18	-13.08	-12.87	-6.91	9.60	-	13.51
MSCI Emerging Markets Index NR	-5.55	-9.94	-11.69	-10.10	3.01	-	6.49
Excess return	**-1.63**	**-3.14**	**-1.18**	**3.19**	**6.59**	**-**	**7.02**

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 first quarter of 2022. At the start of the year, equities were sold-off as investors braced for the US Federal Reserve's (Fed) more aggressive policy stance and given signs of persistent inflation. This was reflected in the weaker performance of high growth stocks. Subsequently, Russia's invasion of Ukraine and higher inflation on the back of surging commodity prices dented investor appetite. The West announced a series of increasingly severe sanctions against Russian businesses and individuals, including freezing the assets of Russia's central bank to prevent it from using foreign currency reserves. Some Russian banks are being removed from the international financial messaging system Society for Worldwide Interbank Financial Communications (SWIFT), which is used to transfer money across borders. The Russian ruble slumped to record lows against the US dollar. To offset the increased risk of ruble depreciation and inflation, the Russian central bank raised interest rates from 9.5% to 20%. However, during the closing days of the quarter, the ruble strengthened, boosted by oil and gas revenues, peace talks between Russia and Ukraine, and central bank intervention. Within emerging Asia, Chinese equities declined amid the evolving COVID-19 situation and concerns over delisting of Chinese American Depository Receipts (ADR). Chinese internet companies were negatively impacted by persistent regulatory pressure on the sector. At a regional level, Latin America outperformed the broader emerging market universe and the developed world. Investors were attracted to cheap valuations, while the resource rich nature of the region provided an alternative to Russia, which was rendered un-investable due to the war. Higher commodity prices benefited the currency and further improved current accounts, enhancing the attractiveness of the region. From a style perspective, markets continued to witness a rotation from growth stocks into value names, although both edged lower. Barring financials and materials, all sectors fell.

Fund performance

The strategy's underperformance was against a backdrop of extreme uncertainty: the war in Ukraine, global spiraling inflation and China regulatory overhang were amongst the factors that contributed to volatile conditions. At the country level, stock picking in China hampered relative returns.

The holding in clothing manufacturer Shenzhou International Group declined as investors remained wary of near-term COVID-19 impact on its operations and the slow production capacity recovery in Vietnam. Elsewhere, SKSHU Paint sold off due to margin pressures amid raw material price inflation.

Stock picking in financials was the top detractor from relative performance. Here much of the underperformance came from Russian holding TCS Group. The stock was impacted by the selloff but has not been sanctioned; its London listing provided a means to reduce Russia risk, and we fully exited the position. Not holding many of the cheaper, lower quality banks in EM, were also a detractor to performance, as the growth to value rotation continued.

The Fund's copper holdings First Quantum Minerals and Southern Copper were among the key contributors. Copper will likely benefit given the accelerated move to electric vehicle/alternative energy in case of persistent higher oil prices. We remain biased towards copper producers as our view on copper is underpinned by supply constraint and the move towards a greener economy. Demand is not matched by supply, providing a more favourable backdrop.

Outlook

Russia's invasion of Ukraine has reshaped the geopolitical and economic outlook. While it is difficult to predict the outcome, a long, drawn-out war appears likely. Russia and Ukraine accounted for just 1.8% and 0.1%, respectively, of world GDP in 2021, however; the two countries play a significant role in production of oil, natural gas, fertilisers, soft commodities like wheat and corn, metals such as aluminium, nickel, titanium, palladium, iron, and steel. A lengthy impasse between the two nations will probably spark an extended commodity crisis and high prices, resulting in significant stress on consumers.

Central banks across the globe are determined to tighten policy to prevent the de-anchoring of inflation expectations, pushing concerns about downside growth risks to the side for now. It is worth noting that in EM, central banks hiked rates proactively from 2021, providing some scope for easing if inflation peaks and starts to fall.

Certain emerging markets will find it difficult, but commodity producers might be relatively well buffered. The resource rich nature of the region leaves it well placed to benefit in a strong commodity price environment. This augers well for countries such as Brazil, South Africa and the Middle East.

China has suffered due to regulatory overhang, risk of delisting of US-listed Chinese stocks (ADRs), and more recently re-emergence of COVID-19, and may continue to experience slowdown in the near-term, but the downcycle can offer up opportunity to buy good businesses in beaten down sectors, and we should be encouraged by China's ability and willingness to ease through accommodative policy.

At the outset of 2022, Emerging markets had experienced the most significant derating of the last decade, today the asset class offers up good value and a diverse opportunity set.

Major contributors (%)

As at 31/03/2022	Active pos.	Contribution
First Quantum Minerals Ltd	3.6	1.5
Gazprom Pjsc	-0.4	0.6
Bank Central Asia Tbk Pt	3.2	0.5
Sberbank Of Russia Pjsc	-0.3	0.5
Southern Copper Corp Del	1.5	0.5

Major detractors (%)

As at 31/03/2022	Active pos.	Contribution
Severstal Pao	1.2	-1.3
Tcs Group Holding Plc	0.2	-0.7
Shenzhou Intl Group Holdings Ltd	2.5	-0.6
Mediatek Inc	2.9	-0.6
Li Ning Co Ltd	2.9	-0.5

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