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

Quarterly report

As at 30/06/2022

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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$193.95M
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 (%)

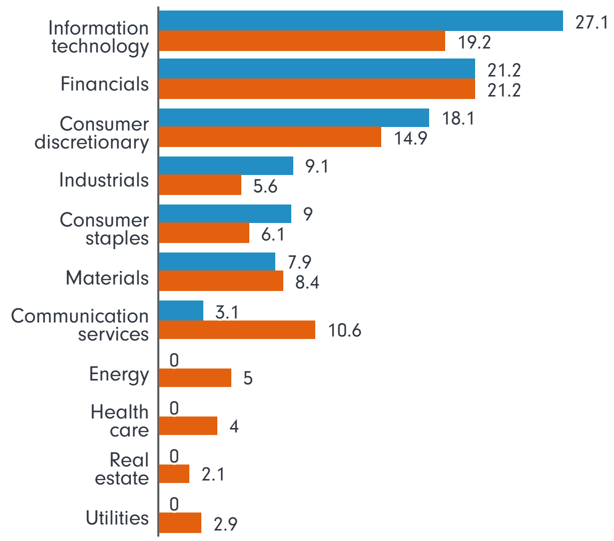
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	7.2	6.1
AIA Group Ltd	4.9	0.0
China Mengniu Dairy Co	4.9	0.2
HDFC Bank Ltd	4.6	0.0
Li Ning Co Ltd	3.7	0.3
Zhongsheng Group Holdings Ltd	3.4	0.1
Bank Central Asia Tbk Pt	3.3	0.4
Infosys Ltd	3.1	1.0
Sk Hynix Inc	3.1	0.6
Tencent Holdings Ltd	3.1	4.3

Performance %

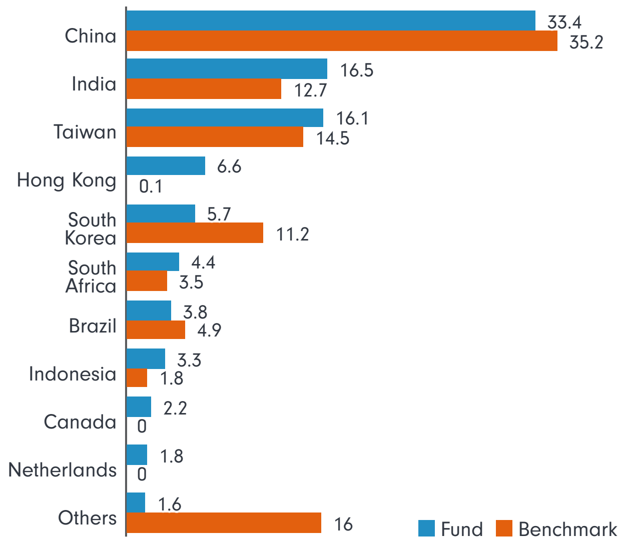
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	-1.60	-3.89	-16.46	-15.90	5.15	-	11.33
MSCI Emerging Markets Index NR	-2.61	-3.30	-12.91	-18.43	1.25	-	5.07
Excess return	**1.01**	**-0.59**	**-3.55**	**2.53**	**3.90**	**-**	**6.26**

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 declined during the quarter but fared better than their developed market peers. Markets experienced bouts of volatility amid elevated inflation, tightening of monetary policies, recessionary fears and the war in Ukraine. The US Federal Reserve (Fed) announced a series of interest rate hikes to tackle surging inflation. Within Latin America and emerging EMEA, major economies including Brazil, Mexico, Chile, Peru and South Africa raised interest rates. Within emerging Asia, the Reserve Bank of India (RBI) dropped its accommodative stance and raised its key interest rate twice during the period. Elsewhere, China's policy stance has diverged from Western economies. The People's Bank of China (PBoC) is decisively injecting liquidity into the system by way of lowered reserve requirement ratios for banks and interest rate cuts on home loans. All regions ended in negative territory during the quarter. The commodity-sensitive Latin American market underperformed its emerging Asia and emerging Europe, Middle East and Africa (EMEA) peers amid an uncertain global environment, following its strong performance in the first quarter. Its equities started to price in moderating demand expectations for the region's commodities, as investors weighed up the risks of recession, leading to lower prices for commodities, including industrial metals (copper and iron ore). Brent crude oil was volatile as the market grappled with complex geopolitics, China's re-opening and fears over declining demand. Emerging Asia benefited from an upswing in Chinese markets. Chinese equities defied the global rout, bolstered by a partial lifting of Covid lockdowns, loose monetary policy and easing regulatory concerns. From a style perspective, value stocks were the most resilient, but still ended lower. Growth and quality names disappointed, with the weakest performance from quality stocks. Barring consumer discretionary, all sectors fell.

Fund performance

At a sector level, stock picking in financials and the positioning stance in consumer discretionary contributed to performance. However, supply chain issues and fears over deteriorating consumer demand weighed on the information technology sector. At the country level, stock picking in China contributed to relative returns. A rotation to growth was evident with strong performance apparent amongst autos and de-carbonization supply chain companies such as Zheijiang Sanhua and Zhongsheng Group. Elsewhere, the holding in sportswear brand Li Ning gained on expectations of a recovery in consumption as Covid restrictions ease. The insurer benefited from an improving sales outlook as Covid cases wane in China. The company is likely to see an increase in agent sales headcount, improved productivity in the distribution channel, and continued demand for protection coverage. Additionally, AIA received approval to begin preparation for a branch in Henan province which is expected to keep the insurer on track to reach 70% of the mainland China market by end-2024. Certain holdings in materials also featured among detractors as commodity prices fell on recessionary fears. The allocation to copper miners First Quantum Minerals and Southern Copper disappointed, although some of these losses were offset by the lack of exposure to Brazilian iron ore producer Vale. We continue to retain these positions as our view on copper is supported by supply constraints and the move towards a greener economy.

Market outlook

Emerging markets, developed markets (DM) and DM inflation are not one and the same in all respects. Excessive money printing has contributed to surging inflation in DM. Debt/GDP ratios are unsustainably high - the only way out seems to be to keep interest rates artificially low. The inflationary environment is caused by both secular and cyclical issues. Whilst cyclical inflation may peak later in the year, from a secular perspective, we believe that higher commodity prices are likely to last for some time given factors such as deglobalisation, underinvestment, the move to renewables, an escalating 'climate crisis', energy and food security issues and the potential for stock piling. Energy prices may remain stubbornly high which will help incentivise renewables. Renewables are very capital intensive - 5-7x more than fossil fuels (good for future-facing commodities such as copper). Whilst a high oil price might lead one to conclude that the sector offers up good opportunities, on a bottom-up basis some of the larger emerging markets energy stocks carry some valuation, political and ESG risks. However, the commodity rich nature of the region means that certain countries are poised to benefit from buoyant prices. When the Fed moves to tighten or even indicates that this is the direction of travel, emerging markets assets feel the effects. The appeal of higher yielding safe havens may cause currency depreciation and have a de-stabilising effect. However, many emerging market countries dealt with the fallout from the 2013 taper tantrum; fiscal positions are better and more significant reserves have been built, aided by stronger commodity prices. The Chinese market directionally is looking more positive supported by cheaper valuations and a more positive tone on platform regulations. All this points to forms of China property stimulus. Against this backdrop and following a period of extreme de-rating, we are turning more positive on the internet and property sector. This has been a tumultuous period for emerging markets, with a confluence of local and global topics dampening investor confidence. Concerns about inflation, Covid induced lockdowns, regulations and geopolitics have been exacerbated by more aggressive Fed hikes. Where fears are most acute, the de-rating has been particularly significant. We believe that this will provide new opportunities in beaten down sectors where the outlook may be more promising over the longer-term.

Major contributors (%)

As at 30/06/2022	Active pos.	Contribution
AIA Group Ltd	4.6	0.8
Zhejiang Sanhua Co Ltd	0.9	0.7
Li Ning Co Ltd	2.7	0.6
Skshu Paint Co Ltd	1.2	0.6
Boc Aviation Ltd	2.2	0.5

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
First Quantum Minerals Ltd	3.5	-1.4
Techtronic Industries Co Ltd	2.3	-0.7
Sk Hynix Inc	2.6	-0.5
Asml Holding Nv	2.1	-0.5
Mercadolibre Inc	0.8	-0.4

Signatory of:

PRI Principles for Responsible Investment

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