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

Quarterly report

As at 31/03/2023

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
Benchmark: MSCI Emerging Markets Index NR
Inception date: 29/10/2018
Fund size: AU$209.57M
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 (%)

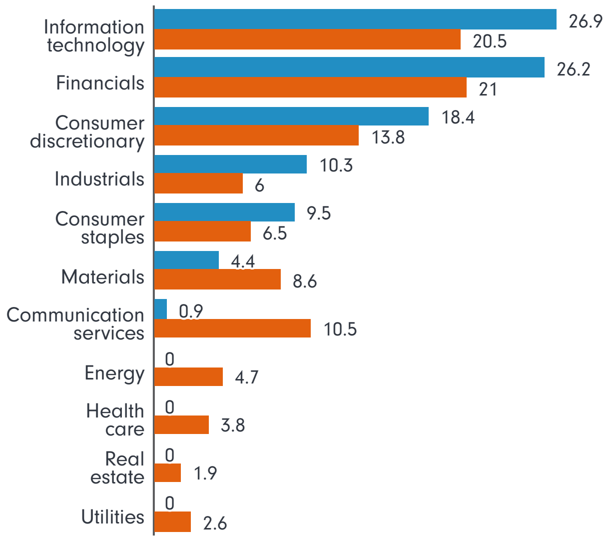
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	8.4	6.6
HDFC Bank Ltd	5.0	0.0
AIA Group Ltd	4.6	0.0
China Mengniu Dairy Co	4.4	0.2
Li Ning Co Ltd	4.0	0.3
Bank Central Asia Tbk Pt	3.9	0.5
Zhongsheng Group Holdings Ltd	3.2	0.0
Naspers Ltd	3.1	0.6
Chailease Holding Co Ltd	3.0	0.2
Samsung Electronics Co Ltd	3.0	4.1

Performance %

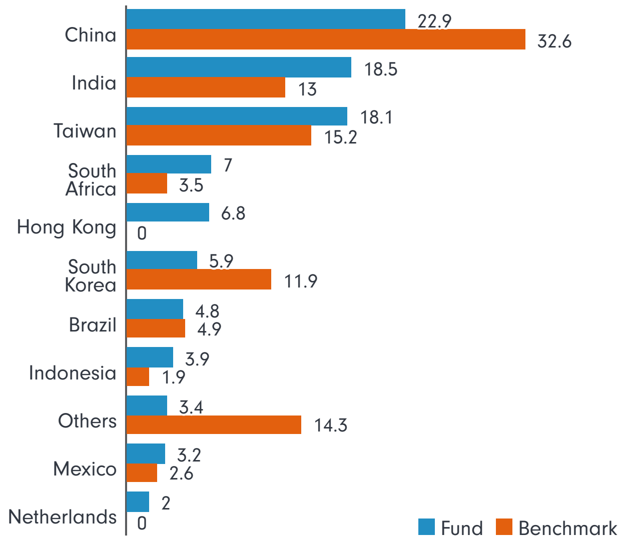
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (29/10/2018)
Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX	1.71	5.62	11.75	0.31	8.78	-	10.38
MSCI Emerging Markets Index NR	3.74	5.26	9.48	0.12	4.64	-	5.02
Excess return	**-2.03**	**0.36**	**2.27**	**0.19**	**4.14**	**-**	**5.36**

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

Fund performance

At the sector level, the positive stance in information technology (IT) and security selection in materials contributed the most. Within IT, the holdings in MediaTek, ASML Holding, and Taiwan Semiconductor Manufacturing Co, advanced given the growing expectation of demand recovery in China. Investors were focused on the potential bottoming out of the semiconductor down-cycle and recovery later in 2023. This was reflected at country level as well, where Taiwan and Netherlands were amongst top contributors. Mexican airport operator Grupo Aeroportuario SAB was additive. It reported robust fiscal year 2022 corporate earnings, which were driven by higher-than-expected passenger volumes. MercadoLibre (MELI), the dominant e-commerce and payments business in Latin America reported strong earnings for the fourth quarter of 2022. Additionally, investors favoured MELI following the bankruptcy of its competitor Americanas earlier in the year. Conversely, the lack of exposure in Tencent Holdings hurt relative returns, although this was offset partially by our overweight position in Naspers, which owns 28% of Tencent. Tencent gained momentum after it reported good results for the fourth quarter with revenue beats across ads and international games.

Outlook

Emerging markets rallied over the quarter but underperformed global markets. It was a mixed period for emerging market equities. The asset class rallied in January and outperformed most developed markets, supported by the economic reopening in China and a weaker US dollar. Equities then came under pressure in February and early March, as global risk-off sentiment was triggered by expectations of more aggressive interest rate hikes by the US Federal Reserve (Fed). Turmoil among developed market banks also raised concerns about global financial instability. Sentiment reversed from mid-March as these fears began to fade, with emerging market equities also supported by indications that China was increasing support for the internet sector and carrying out reforms aimed at state-owned enterprises. Against this backdrop, all regions posted positive returns. Emerging Asia was the best performer, followed by Latin America, and emerging Europe, the Middle East and Africa (EMEA). Within emerging Asia, China's performance was supported by the economic reopening and the government's moves to support the internet and gaming sectors. At a sector level, information technology and communication services were the best performing sectors, while utilities and health care were among the worst performers. The price of brent crude was broadly flat over the quarter, falling to under US$75 a barrel in mid-March on concerns around a weaker macroeconomic environment, before rallying at the end of the period. Copper prices also gained despite some weakness in February, while iron ore was slightly lower over the quarter. Value stocks marginally outperformed their growth counterparts over the period. We firmly believe global emerging markets (GEM) are well-placed to provide superior returns over medium to long term. When looking at any asset class it is important to look at how well we understand the quality of the underlying asset, its growth fundamentals, the price one pays for the asset class. We believe the medium-to-long term fundamentals in GEM are very reasonable today versus the past. At a time when high inflation and interest rates are leading to a standard of living crisis in developed markets (DM), GEM economies have been ahead of the curve in raising rates. They are now carrying positive real rates while inflation is plateauing. Whenever the Fed pivots, the GEM will have a lot of room to cut rates. Also, GEM economies learned from their past and have strengthened their external balances and foreign reserves. They may now be a better position to absorb external shocks. Similarly, the growth profile of the GEMs is also superior -

- China is opening-up this year and growth is accelerating. We are aware of the increased risks (due to growing concerns on geopolitics and policy changes) and apply a higher risk-premium on Chinese companies when we analyse them, but we understand that Chinese consumers saved a lot during lockdowns and there was a lot of pent-up demand. The reopening is already leading to a rebound in consumption, and this is expected to drive its economic growth in China and other parts of the emerging markets. Hence, we are finding opportunities in domestic businesses focussed on high-end consumption where medium to long term structural growth opportunity is strong.

- In India, consumption is slowing down at the margin after last year's reopening, but the ongoing investment into infrastructure and manufacturing is supporting the country's rate of growth.

- Technology companies in Korea and Taiwan have already gone through a deep inventory destocking cycle which is expected to normalise going forward.

Meanwhile, valuations in GEM are much more reasonable and the GEM index is trading at a discount to the DMs index that's close to the highest in 20 years. Given today's volatile environment we believe most of the potential risks, such as about US recession, higher rates and inflation or geopolitics, are well understood and largely priced into the valuations. This also means our assumptions and expectation for cost of capital, for risk and growth profile are very reasonable today as compared to a few years back when we were in a low interest rate and higher growth environment. So, while the environment remains unsettling, we think we are building in the right risk profile of the market. Overall if we consider fundamentals, or quality of underlying assets or its valuations, GEM are in better shape, more resilient, and more attractively valued than in the past.

Major contributors (%)

As at 31/03/2023	Active pos.	Contribution
Taiwan Semiconductor MFG Co Ltd	1.9	0.4
Mediatek Inc	1.8	0.4
Asml Holding Nv	1.9	0.4
Meituan	-1.3	0.3
Grupo Aeroportuario Pac Sab Cv	1.3	0.3

Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Tencent Holdings Ltd	-4.4	-0.7
China Mengniu Dairy Co	4.6	-0.6
AIA Group Ltd	4.5	-0.4
Li Ning Co Ltd	3.4	-0.4
Boc Aviation Ltd	2.5	-0.3

Signatory of:

PRI Principles for Responsible Investment

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