

# Fidelity India Fund

## Quarterly report

As at 31/12/2022

### Fund description

Invests in a diversified selection of 30 to 60 Indian companies and draws on the research capabilities of Fidelity's analysts based on the ground in India. Valuation plays a key role in stock selection. Portfolio holdings are continually assessed against new investment ideas.

### Fund facts

**Portfolio manager:** Amit Goel

**Benchmark:** MSCI India Index NR

**Inception date:** 29/09/2005

**Fund size:** AU\$200.53M

**Number of stocks:** 30 to 60

**Management cost:** 1.20% p.a.

**Buy/sell spread:** 0.30%/0.30%

### Portfolio guidelines

**Stocks:** +/-8% from benchmark

**Sector:** +/-10% from benchmark

**Cash:** Target range between 0% and 10%

### Top 10 holdings (%)

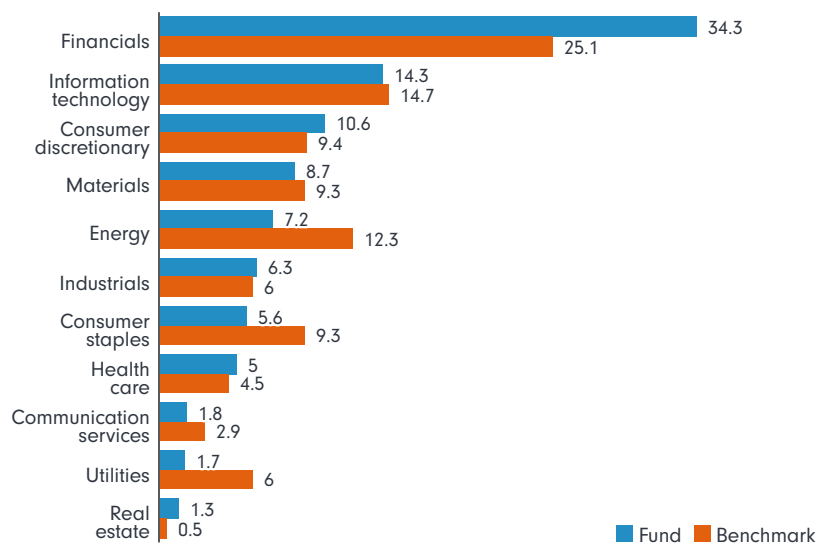
	Fund	B'mark
Infosys Ltd	8.6	6.7
ICICI Bank Ltd	8.6	6.1
Reliance Industries Ltd	7.2	10.3
HDFC Bank Ltd	6.6	0.0
Axis Bank Ltd	6.1	2.8
Hcl Technologies Ltd	4.3	1.5
Housing Development Finance Corp Ltd	3.1	6.0
Ultratech Cement Ltd	3.0	0.9
Eicher Motors Ltd	2.8	0.6
Marico Ltd	2.6	0.3

### Performance %

	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity India Fund	-5.71	-3.58	9.07	-6.52	9.75	8.29	10.04	13.72	5.27	9.87
MSCI India Index NR	-6.65	-3.31	10.13	-1.32	11.65	9.08	10.13	12.10	4.08	9.01
<b>Excess return</b>	<b>0.94</b>	<b>-0.27</b>	<b>-1.06</b>	<b>-5.20</b>	<b>-1.90</b>	<b>-0.79</b>	<b>-0.09</b>	<b>1.62</b>	<b>1.19</b>	<b>0.86</b>

Total net returns represent past performance only. **Past performance is not a reliable indicator of future performance.** Total returns (net) have been calculated using exit prices and take into account the applicable buy/sell spread and are net of Fidelity's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for taxation or for any fees charged by operators of master trusts or wrap accounts through which the products are offered. Returns of more than one year are annualised. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed.

### Industry breakdown %



### Major contributors (%)

As at 31/12/2022	Active pos.	Contribution
HDFC Bank Ltd	6.4	0.7
Axis Bank Ltd	3.2	0.6
Adani Transmissions Ltd	-1.1	0.3
Five Star Business Fin Ltd	0.5	0.3
Hindalco Industries Ltd	1.4	0.2

### Major detractors (%)

As at 31/12/2022	Active pos.	Contribution
Eicher Motors Ltd	2.4	-0.4
Crompton Greaves	1.4	-0.3
Consumer Electricals Ltd		-0.3
Havells India Ltd	1.3	-0.3
Housing Development Finance Corp Ltd	-2.8	-0.3
Marico Ltd	2.3	-0.2

**Fidelity funds are available on platforms and mastertrusts via financial advisers. Investors who wish to place at least \$25,000 in a single fund can invest with us directly. For further information, please visit [www.fidelity.com.au](http://www.fidelity.com.au) or call Client Services on 1800 044 922.**

This Fund is unhedged and is subject to the risk of fluctuations in international stock markets and currencies. Management costs and the buy/sell spread are current as at the date shown above but may be subject to change in the future. Management costs include GST and exclude abnormal expenses and transactional and operational costs. Investors accessing the Fund through a master trust or wrap account will also bear any fees charged by the operator of such master trust or wrap account. Any apparent discrepancies in the numbers are due to rounding.

# Quarterly report

## Market performance

Indian equities advanced over the quarter, outperforming the broader market and its regional peers. Investor sentiment was supported by positive inflows by foreign institutional investors (FI), following three-quarters of sustained outflows. Domestic institutions, mainly equity mutual funds, remained net buyer, although the pace of purchases slowed. The GDP print for the second quarter surpassed expectations of a slowdown, largely due to a strong rise in private consumption. Domestic demand for higher-end and discretionary products and services saw sustained growth. Meanwhile, inflation came in at 7.0% in August, up from July's 6.7%, as weaker harvest resulting from below-average monsoon rainfall led to a rise in food prices, which accounts for nearly half the Consumer Price Index (CPI) basket. Nonetheless, inflation rate stayed below its recent peak of 7.8% in April 2022. The Reserve Bank of India (RBI) increased the repo rate – its main policy instrument – to 5.90%, in order to control inflation, which is currently above its 2–6% tolerance band. The RBI also cut its economic growth outlook for the financial year ending March to 7.0% from 7.2% previously, while keeping its 6.7% forecast on inflation. India's current account deficit widened in the April–June quarter, driven by high global commodity prices, which pushed up the trade deficit. Meanwhile, credit growth remained strong at 16.3%, led by working capital requirements and capital expenditure in the private sector. All sectors, except energy, real estate and information technology (IT) advanced over the quarter. Easing oil prices amid recessionary fears and concerns over a slowdown in technology spending supported energy and IT stocks.

## Fund performance

### Holdings in IT services detracted from performance

An anticipated slowdown in IT spending, given rising inflation and a likely slowdown in global

growth, put pressure on IT stocks. As a result, positions in **Infosys** and **HCL Technologies** held back gains, while the conservative exposure to **TCS** and the overall underweight in the sector added relative value. Infosys is expected to strengthen its sales team, with a special focus on large deals and investing in digital capabilities, which has resulted in market share gains and industry-leading growth over the last three years. HCL Technologies has created strong capabilities in cloud infrastructure services and benefits from the acceleration in the shift to cloud and cyber security requirements in remote workplaces.

### Positions in NBFCs and insurance companies held back gains

The holding in **Shriram Transport Finance**, the largest used commercial vehicle financier in India slid. Investors took profits in the stock ahead of its merger with Shriram City Union Finance and Shriram Capital. The consolidation is set to create the largest retail non-bank financial company (NBFC) in the country. In the insurance space, positions in **ICICI Lombard General Insurance** weighed on performance.

### Stock picking in consumer discretionary added value

The allocation to premium two-wheeler manufacturer **Eicher Motors** proved rewarding with better-than-expected results due to its product mix and price hikes. The company also fared well on the export front, with an encouraging response from Brazil and Australia. Eicher Motors is trying to make the brand more accessible, with new product launches at competitive prices to attract young customers. The position in **Sapphire Foods**, one of the largest franchisees of Yum! Brands, which operates KFC/Pizza Hut stores in India, gained amid optimism around robust growth in its stores and a guidance upgrade.

## Outlook

India is a large importer of energy and commodities, and the rise in prices in these sectors is leading to inflationary pressures. While the central bank is responding by increasing interest rates, it appears behind

the curve and investors expect further rate hikes in the next few months. These factors are likely to impact the earnings and margins of companies that are commodity dependant and are not in a position to pass on rising costs to consumers without demand destruction.

High energy prices also pose a risk for India's growth prospects in 2022. It can lead to lower discretionary consumption if oil price inflation is passed on to end consumers or hurt government finances if higher costs are not passed on to consumers.

On a positive note, our mid-to-long term thesis on India is intact as the economy remains resilient, with strong government finances. Tax collections remain strong, while foreign exchange reserves, debt-to-GDP ratio and import cover are all in healthy shape. Corporate and banking sector balance sheets have also seen considerable improvement. Although corporate capital expenditure may be delayed, government expenditure and its focus on infrastructure should remain supportive.

The core of the portfolio remains unchanged, though we stress-tested the fund for companies that may witness margin pressures. At the margin, we moved money from such businesses to areas where we consider that valuations are low, earnings are more stable and total returns are attractive.

Overall, the focus remains on companies regarded as high quality in sectors where structural growth opportunities exist. These best-in-quality companies are considered to be more resilient on the downside and should come out from this crisis as stronger businesses. We are focused on robust business models and competent management teams, and is buying them at the right price in order to gain from their successes.

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