

Fidelity India Fund

Quarterly report

As at 30/06/2022

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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\$202.77M

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 (%)

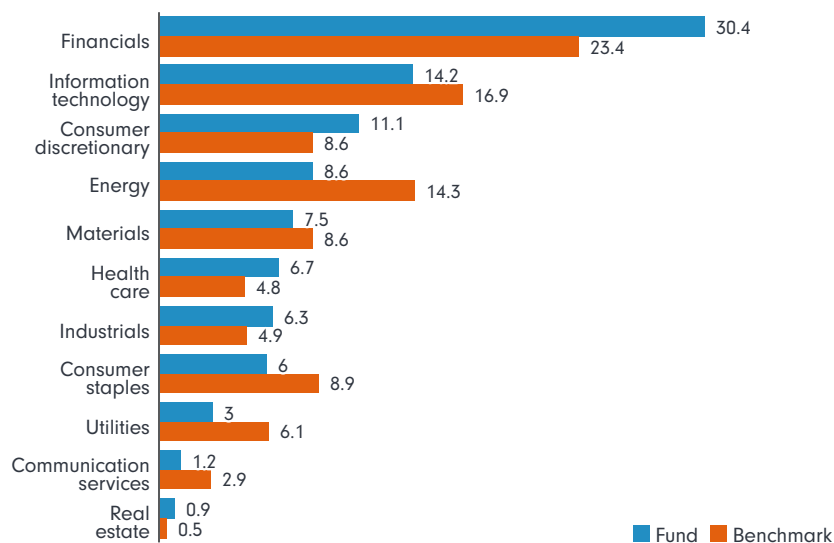
	Fund	B'mark
Infosys Ltd	9.3	7.5
Reliance Industries Ltd	8.6	12.1
ICICI Bank Ltd	8.0	5.6
HDFC Bank Ltd	5.9	0.0
Axis Bank Ltd	5.2	2.2
Hcl Technologies Ltd	3.5	1.6
Housing Development Finance Corp Ltd	3.0	5.7
Marico Ltd	2.9	0.4
Eicher Motors Ltd	2.8	0.6
Shriram Transport Finance Co Ltd	2.6	0.4

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	-2.20	-5.75	-14.29	-2.05	6.01	8.91	8.79	14.38	7.02	9.62
MSCI India Index NR	-2.72	-5.70	-10.39	3.94	8.01	9.62	8.25	12.54	5.91	8.67
Excess return	0.52	-0.05	-3.90	-5.99	-2.00	-0.71	0.54	1.84	1.11	0.95

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 30/06/2022	Active pos.	Contribution
Shriram Transport Finance Co Ltd	1.9	0.4
Eicher Motors Ltd	1.9	0.4
Tech Mahindra Ltd	-1.1	0.3
Bajaj Finserv Ltd	-0.8	0.3
Wipro Ltd	-1.0	0.2

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Mahindra & Mahindra Ltd	-1.2	-0.5
Infosys Ltd	1.4	-0.5
Maruti Suzuki India Ltd	-1.5	-0.3
ITC Ltd	-1.2	-0.2
Axis Bank Ltd	3.3	-0.2

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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 slid over the quarter. In our view concerns over an increase in interest rates to combat inflation, aggressive policy tightening by the US and the Russia-Ukraine war weighed on investor sentiment. Rising bond yields and sustained capital outflows also dampened investor confidence. Retail inflation remained above the Reserve Bank of India's (RBI) 6% upper tolerance level. Against this backdrop, in a surprise move in May, the RBI raised the repo rate (the rate at which RBI lends to banks) by 0.4 percentage points and the cash reserve ratio (the percentage of depositors' money that commercial banks have to mandatorily park with the RBI) by 0.5 percentage points. The central bank further increased the repo rate by 0.5 percentage points in June. The decision was driven by the RBI's desire to keep medium-term inflation within the 2.0–6.0% target range. The government of India also announced a range of measures to curb rising prices. These included a reduction in the excise duty on petrol; lower customs duty for raw materials of plastics and steel; and an increase in export duty on iron ore and steel intermediates. On the economic front, India's factory output expanded at its slowest pace in nine months in June as elevated price pressures continued to dampen demand and output. Global commodity prices remain elevated, and firms continue to face margin pressures despite passing costs on to consumers. Separately, India's exports expanded 17% in June, but its trade deficit widened sharply on account of a steep increase in gold and crude oil imports. Foreign investors remained net sellers of Indian equities over the quarter, while domestic mutual funds and insurance funds were net buyers. Most of the sectors declined; real estate, information technology (IT) and materials were among the notable laggards.

Fund performance

The Fund returned -5.8% over the quarter, while the index returned -5.7%.

Selected financials added value

The holding in Shriram Transport Finance, the largest used commercial vehicle financier in

India, advanced. In our view investor sentiment was buoyed by the RBI's approval of the merger of Shriram City Union Finance and Shriram Capital Ltd with Shriram Transport Finance Company. The consolidation is set to create the largest retail non-bank financial company (NBFC) in the country. Holdings in private lenders HDFC Bank and ICICI Bank proved rewarding. We believe that shares in these banks gained momentum amid expectations of improved margins supported by interest rate hikes. The merger of Housing Development Finance Corporation (HDFC) with HDFC Bank may have further buoyed investor sentiment.

Underweight in IT services companies enhanced gains

Potential concerns over a slowdown in demand against the backdrop of muted economic growth weighed on IT services companies. The lack of exposure to Tech Mahindra and Wipro proved rewarding as these companies slid in line with global peers. Conversely, a slight overweight in Infosys held back gains.

Bias against utilities and selected automobile names detracted

Not holding selected utility companies, including NTPC, Adani Total Gas, Adani Enterprises and Adani Transmission held back gains. These companies fared well in a risk-off environment. The lack of exposure to tractor manufacturer Mahindra & Mahindra and automobile manufacturer Maruti Suzuki detracted from relative performance. Shares in these companies gained momentum towards the end of the period as commodity prices eased somewhat. Encouragingly, the exposure to premium two-wheeler manufacturer Eicher Motors proved rewarding amid steady demand in both domestic and international markets. The company has an encouraging response from Brazil and Australia on the export front. Moreover, its new launches, distribution network expansion in underpenetrated Indian states and international expansion are helping to offset the slowdown in more mature states.

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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