# Fidelity Global Emerging Markets Fund

## Quarterly report

**As at 30/06/2021**

### 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

**Portfolio manager:** Amit Goel / Punam Sharma

**Benchmark:** MSCI Emerging Markets Index NR

**Inception date:** 16/12/2013

**Fund size:** AU$650.34M

**Number of stocks:** 30 to 50

**Management cost:** 0.99% p.a.

**Buy/sell spread:** 0.40%/0.40%

### Portfolio guidelines

**Stocks:** Max 5% 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 (%)

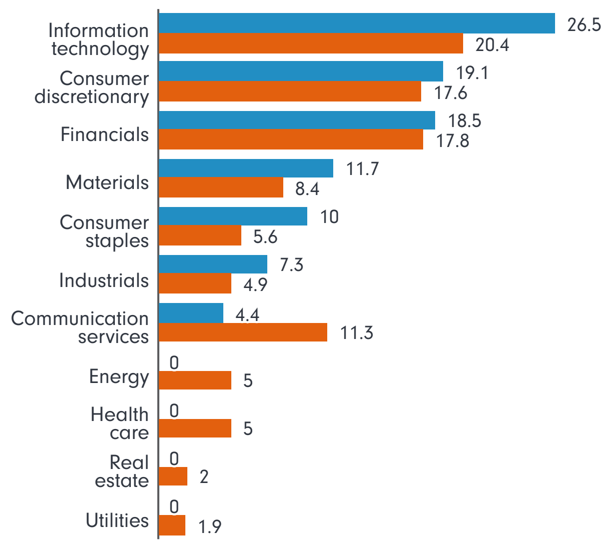
| | Fund | B'mark |
|---|---|---|
| Taiwan Semiconductor MFG Co Ltd | 7.1 | 6.1 |
| AIA Group Ltd | 4.7 | 0.0 |
| HDFC Bank Ltd | 4.7 | 0.0 |
| Li Ning Co Ltd | 4.3 | 0.3 |
| China Mengniu Dairy Co | 4.1 | 0.2 |
| Samsung Electronics Co Ltd | 3.5 | 4.6 |
| Naspers Ltd | 3.2 | 1.1 |
| Bank Central Asia Tbk Pt | 3.2 | 0.3 |
| Shenzhou Intl Group Holdings Ltd | 3.0 | 0.2 |
| Tata Consultancy Services Ltd | 3.0 | 0.5 |

### Performance %

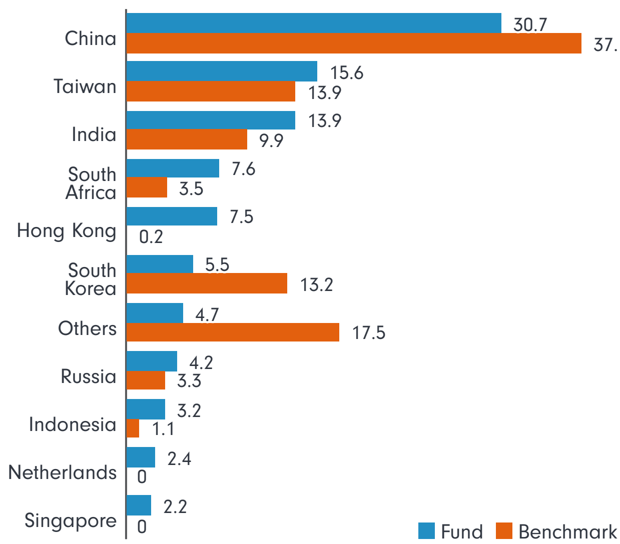
| | 1 mth | 3 mth | 6 mth | 1 yr | 3 yrs p.a. | 5 yrs p.a. | 7 yrs p.a. | Since Inception p.a (16/12/2013) |
|---|---|---|---|---|---|---|---|---|
| Fidelity Global Emerging Markets Fund | 1.89 | 6.41 | 10.86 | 37.06 | 17.88 | 17.12 | 13.87 | 13.02 |
| MSCI Emerging Markets Index NR | 3.28 | 6.57 | 10.44 | 29.22 | 10.68 | 12.84 | 9.89 | 9.44 |
| **Excess return** | **-1.39** | **-0.16** | **0.42** | **7.84** | **7.20** | **4.28** | **3.98** | **3.58** |

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 %




### Geographic breakdown %




**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 or call Client Services on 1800 044 922.**

The 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 but 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.

## Market Performance

Emerging markets delivered positive returns in the second quarter of 2021. Markets started on a positive note and were supported by weakening US dollar, which was driven by the fall in US treasury yields. However, risk appetite took a hit on worries about rising interest rates as the US Federal Reserve (Fed) indicated that it might raise interest rates sooner than expected. Investor sentiment was also impacted by high numbers of COVID-19 cases particularly related to the highly infectious delta variant. As the period drew to a close, markets rebounded as investors saw the earlier selloff on Fed's hawkish comments was overdone. Additionally, US President Joe Biden embraced a bipartisan Senate infrastructure deal, which further spurred risk appetite. Equities in the Latin America region rallied and outperformed most emerging markets during the quarter. Risk assets were bolstered as local currencies strengthened against the US dollar and given favourable iron ore and energy prices. The benefits of rising commodity prices were felt in the emerging Europe, Middle East and Africa (EMEA) region, as it outperformed broader emerging markets. Oil prices traded higher as vaccination drives in major economies supported hopes for continued demand normalisation. Within EMEA, Russian equities strengthened on rising crude oil prices and a strong rouble. Within emerging Asia, the performance of Indian equities improved as a steady decline in daily COVID-19 cases in the country became evident. Chinese equities were volatile and ended in positive territory. Meanwhile, Chinese policy impacted some commodities and cryptocurrencies, as the government continued to signal greater regulation and intervention. Gold suffered on US dollar's rally given Fed's more hawkish stance. Copper came under pressure after Chinese government ordered state-owned enterprises to control risks, limit their exposure to overseas commodities markets and increased commodity pricing controls. At a sector level, health care and industrials were the best performers. From a style perspective, the rotation from growth into value names continued, with the latter outperforming.

## Fund performance

### Key detractors

South Africa's internet conglomerate Naspers came under some pressure during the quarter. The stock was negatively impacted by overhanging regulatory concerns, which weighed on its key stake in China's Tencent. Within industrials, truck engine manufacturer Weichai Power was the detractor from returns. While it can continue to grow market share over the medium term, it is exposed to a slowdown in the near term.

### Materials delivered mixed performance

Copper miner First Quantum Minerals and painting business SKSHU were among the key contributors to returns. However, the limited exposure to Brazilian iron ore miner Vale held back gains as iron ore prices soared.

### Consumer discretionary stock aided returns

Many Chinese consumer holdings, including Li Ning (sportswear), Shenzhou International (clothing) and Zhongsheng Group (automobiles) added value. Shares in Li Ning rallied after it issued a positive profit alert towards the end of the quarter. However, some of these gains were partially offset by internet business VIP Shop, which traded lower alongside the broader industry on the back of the government's focus on anti-trust matters. Midea Group (white goods) also weighed on returns.

## Outlook

On a country level, the expected slowdown of the Chinese economy can certainly have ramifications on demand for the industrial and the commodity space, but this is getting priced in.

Digitisation has also clearly accelerated giving us the opportunity to ride the growth in fintech and ecommerce in EM. Private players are disrupting the revenue and profit pool of the incumbent banks in many EM like Brazil which offer the opportunity to play the equitization story across the value chain of financial intermediaries facilitating the same.

We also see opportunities in domestic consumption in countries like China and India, where we own sportswear, dairy, premium auto dealers as well as digital businesses. The industrial space in China is also exciting, with opportunities across construction chemicals, heavy equipment, Enterprise Value (EV) value chain etc.

Another topical factor we look at is inflation, which continues to inch up across regions. Our focus is to buy businesses with better pricing power, market share gains and valuation comfort to mitigate this pressure: something the breadth and depth of the EM universe allows us to do.

Lastly, given the strong recovery in markets, the overall valuations have moved up and markets trades at 15-20% premium to its long term averages on Price-to-Earnings (P/E) and Price-to-Book (P/B) reflecting continuous recovery and the loose monetary situation and high liquidity across markets. We aim to continue to be selective and bottom up in the portfolio to mitigate some of these risks.

## Major contributors (%)

| As at 30/06/2021 | Active pos. | Contribution |
|---|---|---|
| Li Ning Co Ltd | 3.4 | 2.1 |
| Shenzhou Intl Group Holdings Ltd | 2.9 | 0.5 |
| Sea Ltd | 2.1 | 0.4 |
| Skshu Paint Co Ltd | 1.9 | 0.3 |
| Zhongsheng Group Holdings Ltd | 2.3 | 0.3 |

## Major detractors (%)

| As at 30/06/2021 | Active pos. | Contribution |
|---|---|---|
| Vipshop Holdings Ltd | 1.0 | -0.5 |
| Midea Group Co Ltd | 2.6 | -0.4 |
| Naspers Ltd | 2.3 | -0.4 |
| Weichai Power Co Ltd | 2.0 | -0.4 |
| HDFC Bank Ltd | 4.8 | -0.3 |

**fidelity.com.au**