Fidelity INTERNATIONAL

Fidelity Global Emerging Markets Fund

Quarterly report

As at 30/09/2022

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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

Portfolio manager: Amit Goel / Punam Sharma

Benchmark: MSCI Emerging Markets Index NR

Inception date: 16/12/2013

Fund size: AU$503.33M

Number of stocks: 30 to 50

Management cost: 1.00% p.a.

Buy/sell spread: 0.30%/0.30%

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 (%)

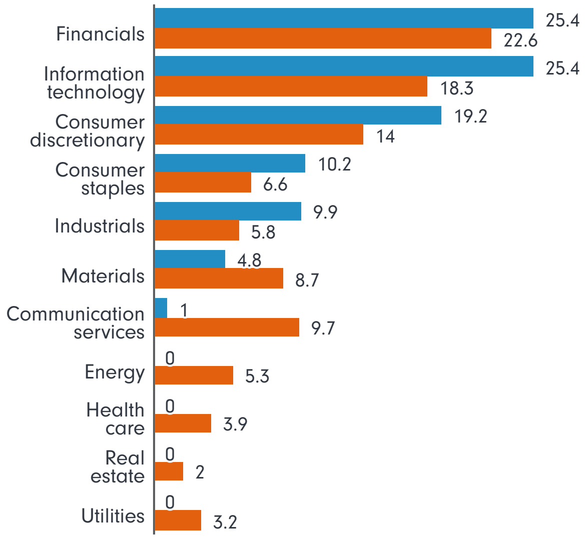
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	7.4	5.7
HDFC Bank Ltd	5.1	0.0
China Mengniu Dairy Co	4.7	0.2
Bank Central Asia Tbk Pt	4.3	0.5
AIA Group Ltd	4.0	0.0
Li Ning Co Ltd	3.7	0.3
Infosys Ltd	3.4	1.0
Eicher Motors Ltd	3.1	0.1
Sk Hynix Inc	2.9	0.6
Chailease Holding Co Ltd	2.8	0.1

Performance %

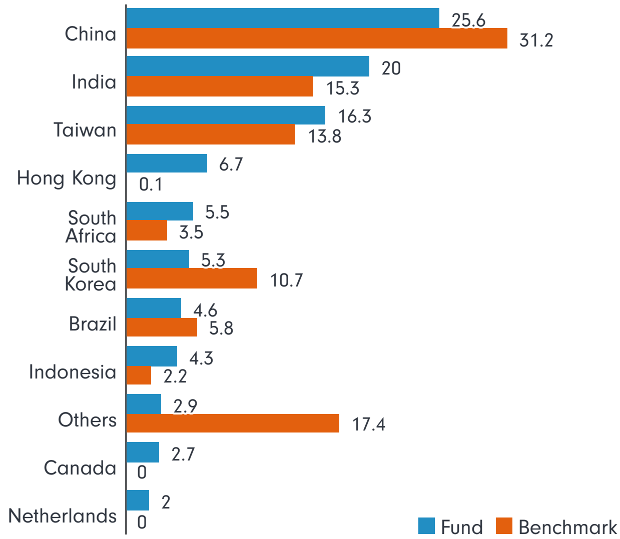
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	Since Inception p.a (16/12/2013)
Fidelity Global Emerging Markets Fund	-4.92	-6.74	-10.52	-21.99	2.63	6.89	8.58	8.03
MSCI Emerging Markets Index NR	-5.87	-5.42	-8.54	-19.24	-0.49	2.18	5.20	4.91
Excess return	**0.95**	**-1.32**	**-1.98**	**-2.75**	**3.12**	**4.71**	**3.38**	**3.12**

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.

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Market performance

Emerging markets declined sharply, in what was the most significant decline since the first quarter of 2020, when market participants reacted to the outbreak of COVID-19. Consecutive interest rate hikes by the US Federal Reserve (Fed) and a more hawkish stance rattled investors and triggered a particularly severe sell-off in September. Emerging Asia was the biggest decliner, followed by emerging Europe, Middle East and Africa (EMEA) and Latin America. China was among the weakest markets, blighted by continued COVID-19-related lock downs, although there were signs of an improvement as the quarter ended. Concerns about the real estate market and broader recessionary fears also weighed on the market. Meanwhile, EMEA was weighed down by a weaker global growth outlook. On the commodity front, concerns over the economic outlook were reflected in oil prices, with the international benchmark brent crude oil price dropping to its lowest level since January. Furthermore, rising recessionary fears took a toll on iron ore and copper prices, although on a relative basis, copper was more resilient. All sectors posted negative returns. From a style perspective, quality stocks outperformed their growth and value counterparts.

Fund performance

Selected exposure to materials

We are underweight in the materials sector. The only commodity we own a stake in is copper, underpinned by our view that the metal is supply constraint and benefits from the move towards a greener energy and electric vehicles. Our exposure is through First Quantum Minerals, a Canadian listed group with copper assets located across emerging markets, and Peru's Southern Copper. Other than that, the Fund also continues to hold a position in Chinese waterproofing company Beijing Oriental Yuhong, which is also classified under materials.

Biased towards financials

AIA Group remains one of the high-conviction positions in the portfolio. It is the largest independent life insurance player in PanAsia, operating across HK, mainland China, Thailand, Singapore, Malaysia, etc. It has an excellent track record of execution, resulting in a strong balance sheet and disciplined capital allocation. Elsewhere, Indian lender HDFC Bank is favoured for its strong franchise, pristine asset quality, good management team and solid asset quality.

Key trades

We moved capital from Tencent to Naspers amid growth challenges on slowing game approvals in an uncertain macroeconomic environment. Elsewhere, we sold the position in India-based service provider Tata Consultancy Services amid lower demand and expensive valuation.

Within industrials, electrical light manufacturer **Havells** and power tools company **Techtronic Industries** were amongst the key contributors to returns. The latter reported encouraging results, posting robust growth from its Milwaukee, do-it-yourself (DIY) and Ryobi brands. The company continues to benefit from moving up the value chain and gaining market share with its battery-operated cordless power tool products.

Outlook

This has been a tumultuous period for emerging markets, a confluence of local and global topics has dented 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, providing new opportunities in beaten-down sectors where the outlook is promising over the longer term.

Inflation remains a risk, but commodity prices are already seeing a downward trend with worries around demand recession led by both US and China. Energy prices have plateaued, but are still high enough to cause pressure on consumption and government finances across EM given energy and food are a large part of consumer price indices.

Globally we are already paying a very high price for energy, and a continuation of this over the medium term is expected to impact consumption, but demand should soften as well. Overall, we are less worried about our energy underweight, but more concerned on its impact on broader economies.

China is facing wide-ranging economic issues like the property sector meltdown and COVID resurgence, which is likely making the fundamentals volatile at a time of geopolitical uncertainties. We think some of these issues may normalise over next 6-12 months. China is not going to give away their zero-COVID policy as they are not willing to go through the related mortality curve, which is probably already impacting consumption. Hence, if we see any steps to resolve issues in the property market and better management of the policy, the domestic fundamentals may improve from their current lows over the next 6-12 months. The geo-political situation remains a tail-risk, but we would still put a low probability on that. We expect a downside revision to China's growth, but there are still more opportunities in China in the medium term as valuations are cheap.

Within the portfolio, we are getting comfortable with valuations led by risk-reward in IT, consumer, and industrial names on a longer-term horizon. We are also less worried about the overall growth to value shift as valuation differential across industries have narrowed. The key concern remains the extent of a negative earnings surprise, and hence we remain focused and nimble on any near-term big surprises.

Major contributors (%)

As at 30/09/2022	Active pos.	Contribution
Eicher Motors Ltd	2.3	0.8
Bank Central Asia Tbk Pt	3.1	0.8
HDFC Bank Ltd	4.9	0.7
Havells India Ltd	2.0	0.6
Localiza Rent A Car Sa	1.9	0.5

Major detractors (%)

As at 30/09/2022	Active pos.	Contribution
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	1.9	-1.2
Zhongsheng Group Holdings Ltd	2.7	-1.1
AIA Group Ltd	4.6	-0.6
China Mengniu Dairy Co	4.4	-0.4
Skshu Paint Co Ltd	0.6	-0.3

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