

Fidelity Global Emerging Markets Fund

Quarterly report

As at 30/06/2022

Subscribe now

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\$550.78M

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 (%)

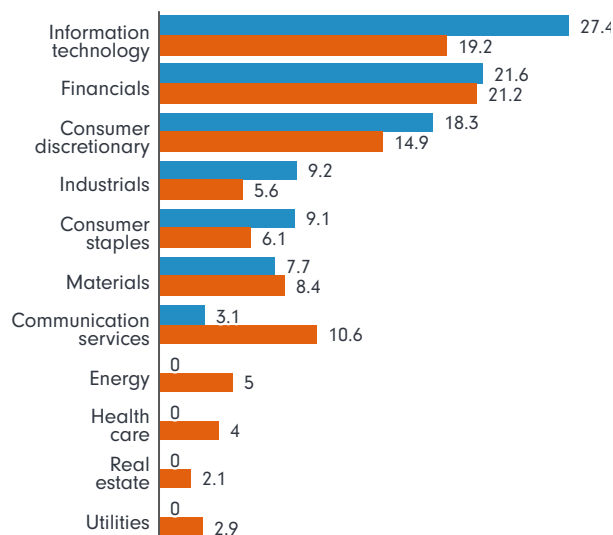
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	7.3	6.1
AIA Group Ltd	5.0	0.0
China Mengniu Dairy Co	4.9	0.2
HDFC Bank Ltd	4.8	0.0
Li Ning Co Ltd	3.8	0.3
Zhongsheng Group Holdings Ltd	3.4	0.1
Bank Central Asia Tbk Pt	3.4	0.4
Infosys Ltd	3.2	1.0
Tencent Holdings Ltd	3.1	4.3
Sk Hynix Inc	3.1	0.6

Performance %

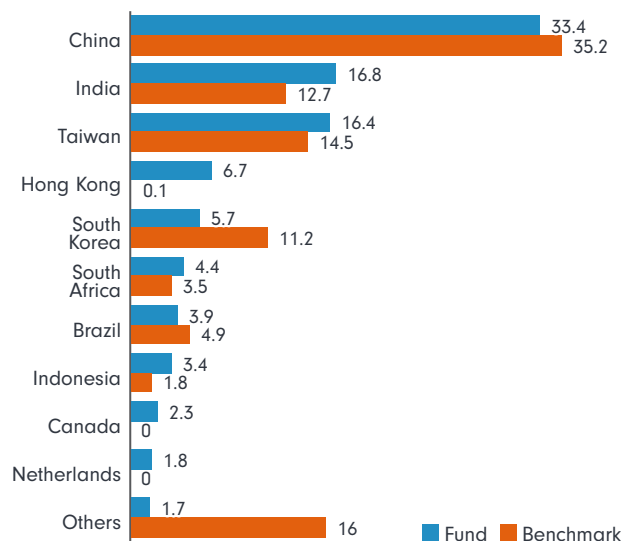
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	Since Inception p.a (16/12/2013)
Fidelity Global Emerging Markets Fund	-1.79	-4.05	-16.99	-15.95	5.42	9.53	8.48	9.17
MSCI Emerging Markets Index NR	-2.61	-3.30	-12.91	-18.43	1.25	4.44	4.43	5.74
Excess return	0.82	-0.75	-4.08	2.48	4.17	5.09	4.05	3.43

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.

Quarterly report

Market performance

Emerging markets declined during the quarter but fared better than their developed market peers. Markets experienced bouts of volatility amid elevated inflation, tightening of monetary policies, recessionary fears and the war in Ukraine. The US Federal Reserve (Fed) announced a series of interest rate hikes to tackle surging inflation. Within Latin America and emerging EMEA, major economies including Brazil, Mexico, Chile, Peru and South Africa raised interest rates. Within emerging Asia, the Reserve Bank of India (RBI) dropped its accommodative stance and raised its key interest rate twice during the period.

Elsewhere, China's policy stance has diverged from Western economies. The People's Bank of China (PBoC) is decisively injecting liquidity into the system by way of lowered reserve requirement ratios for banks and interest rate cuts on home loans. All regions ended in negative territory during the quarter. The commodity-sensitive Latin American market underperformed its emerging Asia and emerging Europe, Middle East and Africa (EMEA) peers amid an uncertain global environment, following its strong performance in the first quarter. Its equities started to price in moderating demand expectations for the region's commodities, as investors weighed up the risks of recession, leading to lower prices for commodities, including industrial metals (copper and iron ore). Brent crude oil was volatile as the market grappled with complex geopolitics, China's re-opening and fears over declining demand. Emerging Asia benefited from an upswing in Chinese markets. Chinese equities defied the global rout, bolstered by a partial lifting of Covid lockdowns, loose monetary policy and easing regulatory concerns. From a style perspective, value stocks were the most resilient, but still ended lower. Growth and quality names disappointed, with the weakest performance from quality stocks. Barring consumer discretionary, all sectors fell.

Fund performance

The Fund delivered -4.0% in AUD terms during the quarter, while the MSCI Emerging Markets Index NR was down by 3.3%. At a sector level, stock picking in financials and the positioning stance in consumer discretionary contributed to performance. However, supply chain issues and fears over deteriorating consumer demand weighed on the information

technology sector. At the country level, stock picking in China contributed to relative returns.

Security selection in China enhanced gains

A rotation to growth was evident with strong performance apparent amongst autos and de-carbonization supply chain companies such as Zhejiang Sanhua and Zhongsheng Group.

Elsewhere, the holding in sportswear brand Li Ning gained on expectations of a recovery in consumption as Covid restrictions ease.

AIA Group was amongst key contributors

The insurer benefited from an improving sales outlook as Covid cases wane in China. The company is likely to see an increase in agent sales headcount, improved productivity in the distribution channel, and continued demand for protection coverage. Additionally, AIA received approval to begin preparation for a branch in Henan province which is expected to keep the insurer on track to reach 70% of the mainland China market by end-2024.

Commodity centric stocks eroded value

Certain holdings in materials also featured among detractors as commodity prices fell on recessionary fears. The allocation to copper miners First Quantum Minerals and Southern Copper disappointed, although some of these losses were offset by the lack of exposure to Brazilian iron ore producer Vale. We continue to retain these positions as our view on copper is supported by supply constraints and the move towards a greener economy.

Market outlook

Emerging markets, developed markets (DM) and DM inflation are not one and the same in all respects. Excessive money printing has contributed to surging inflation in DM. Debt/GDP ratios are unsustainably high - the only way out seems to be to keep interest rates artificially low. The inflationary environment is caused by both secular and cyclical issues. Whilst cyclical inflation may peak later in the year, from a secular perspective, we believe that higher commodity prices are likely to last for some time given factors such as deglobalisation, underinvestment, the move to renewables, an escalating 'climate crisis', energy and food security issues and the potential for stock piling. Energy prices may remain stubbornly high which will help incentivise renewables. Renewables are very capital intensive - 5-7x more than fossil fuels (good for future-facing commodities such as copper). Whilst a high oil price might lead one to conclude that the sector offers up good opportunities, on a bottom-up basis some of the larger emerging markets energy stocks

carry some valuation, political and ESG risks. However, the commodity rich nature of the region means that certain countries are poised to benefit from buoyant prices. When the Fed moves to tighten or even indicates that this is the direction of travel, emerging markets assets feel the effects. The appeal of higher yielding safe havens may cause currency depreciation and have a de-stabilising effect. However, many emerging market countries dealt with the fallout from the 2013 taper tantrum; fiscal positions are better and more significant reserves have been built, aided by stronger commodity prices. The Chinese market directionally is looking more positive supported by cheaper valuations and a more positive tone on platform regulations. All this points to forms of China property stimulus. Against this backdrop and following a period of extreme de-rating, we are turning more positive on the internet and property sector. This has been a tumultuous period for emerging markets, with a confluence of local and global topics dampening investor 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. We believe that this will provide new opportunities in beaten down sectors where the outlook may be more promising over the longer-term.

Major contributors (%)

As at 30/06/2022	Active pos.	Contribution
Zhejiang Sanhua Co Ltd	1.1	0.8
AIA Group Ltd	4.6	0.8
Li Ning Co Ltd	2.8	0.7
Skshu Paint Co Ltd	1.1	0.5
Beijing Oriental Yuhong Waterproof Technology Co Ltd	2.3	0.5

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
First Quantum Minerals Ltd	3.2	-1.3
Techtronic Industries Co Ltd	2.4	-0.7
Sk Hynix Inc	2.6	-0.5
Asml Holding Nv	2.1	-0.5
Infosys Ltd	2.3	-0.5

Signatory of:



[fidelity.com.au](https://www.fidelity.com.au)



This document is intended for the general information of financial advisers and wholesale clients only. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. **Prior to making an investment decision, retail clients should seek advice from their financial advisers.** This document has been prepared without taking into account your objectives, financial situation or needs. You should consider these matters before acting on the information. You should also consider the relevant Product Disclosure Statements ("PDS") for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 044 922 or by downloading it from our website at www.fidelity.com.au. The relevant Target Market Determination (TMD) is available via www.fidelity.com.au. This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. While the information contained in this document has been prepared with reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. This document is intended as general information only. The document may not be reproduced or transmitted without prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is FIL Responsible Entity (Australia) Limited ABN 33 148 059 009. Reference to (\$) are in Australian dollars unless stated otherwise. © 2022 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.