

Demographics: Financial inclusion in developing economies

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Financial inclusion in developing economies

In the Fidelity Global Demographics Fund (Managed Fund), we are looking to invest in companies that will benefit from the opportunities (and challenges) created by long-term demographic trends, with a focus on high-quality businesses with strong sustainability credentials. We build the Fund around three key themes:

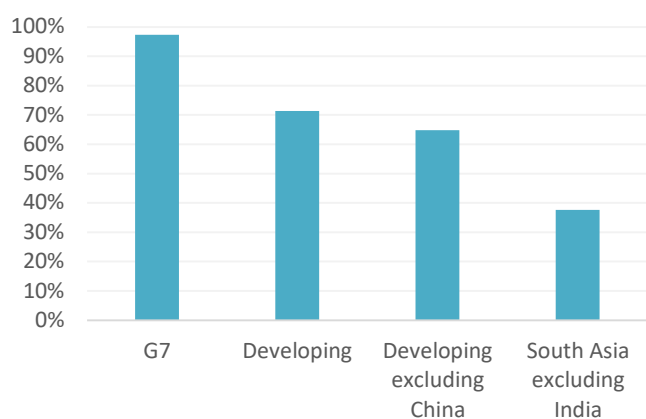
- **Longer Lives** which is a play on ageing populations around the world, and the pressures that it puts on those regions, particularly on healthcare provision and productivity
- **Better Lives** which focusses on the growth of the middle class in Emerging Markets and the demand that growth will create for a range of goods and services
- **More Lives** which is a play on the absolute level of population growth around the world over the coming decades, and the need to provide resources sustainably that are already scarce - such as food, water, and energy - to match this growth

Within the Better Lives bucket, many of our holdings focus on the increased demand for goods, particularly branded or more discretionary goods, that higher wealth brings. Luxury goods or branded cosmetics would be examples of this. However, another key sub-theme within this bucket is financial inclusion.

Financial inclusion

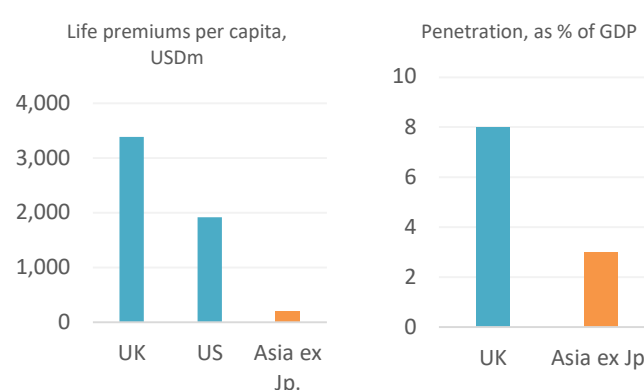
Financial inclusion is a measure of the access of any given population to useful and affordable financial products and services, both for individuals and businesses. Currently, there are 1.4bn adults around the world who do not have access to a transaction account - skewed heavily to poor and developing economies and with women less well served than men. Over and above this unbanked population there are many more who may have a bank account, but who do not have access to credit cards, loans, insurance, or other financial services. Improving financial inclusion brings huge benefits, particularly to currently underprivileged societies, with the World Bank Group considering financial inclusion to be "a key enabler to reduce extreme poverty and boost shared prosperity."

Chart 1: Currently 1.4bn adults, or 24% of the global adult population, do not have a bank account. This is heavily skewed to developing economies



Source: World Bank, 2021

Chart 2: The discrepancy between developing and developed economies in full financial services is even wider - see insurance as an example

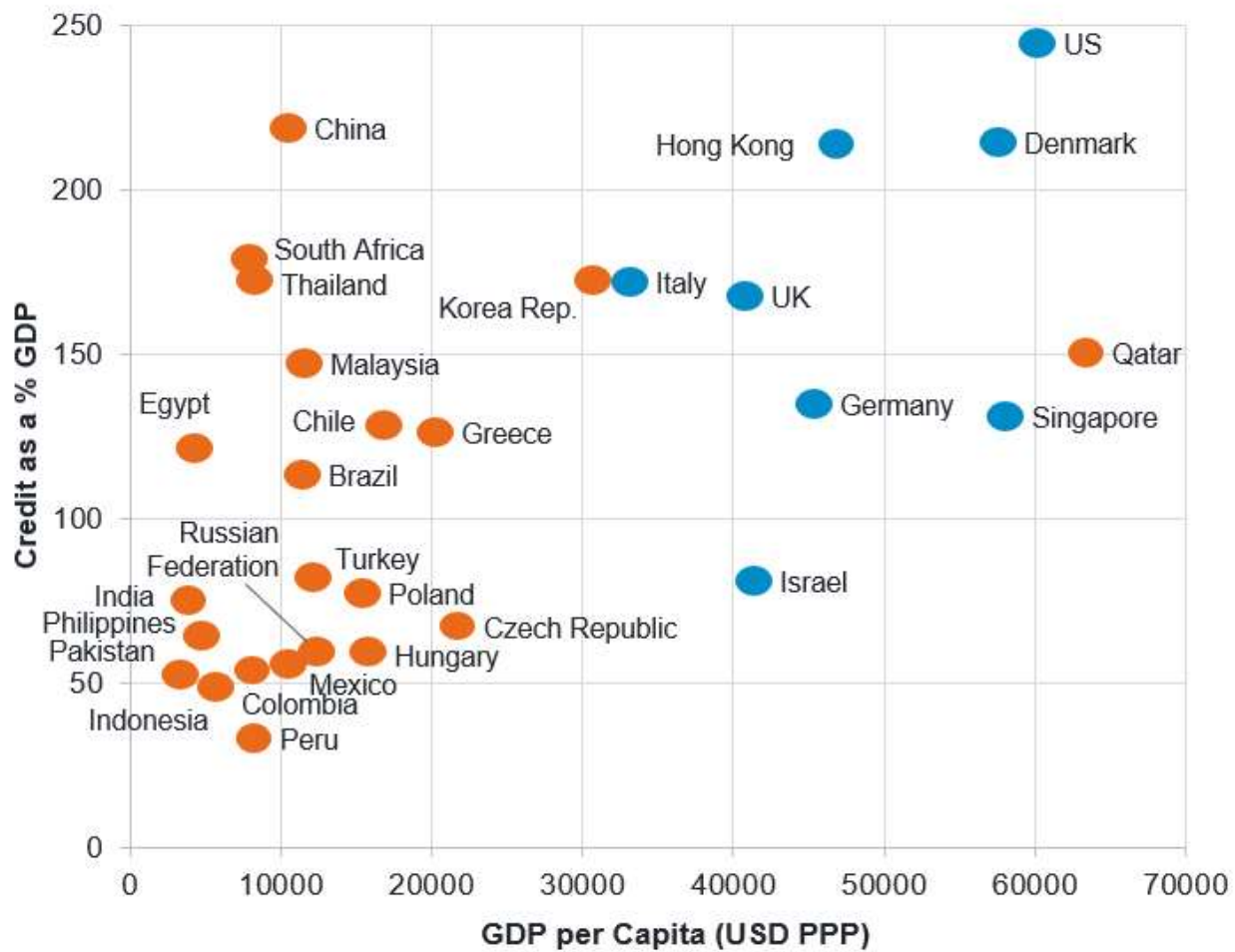


Source: Swiss Re via Prudential

As prosperity improves and a population becomes more affluent, those people increasingly require more complex financial services, including loans and other banking products. This can be seen clearly in the correlation between GDP / per capita and credit penetration and creates a huge opportunity for those businesses that are able to facilitate financial inclusion, particularly in those regions where it is needed most. This theme fits very well within our Better Lives bucket in the Fund and also has strong sustainability credentials because of the benefits it brings to society, particularly in underprivileged areas. We are playing it through several holdings focused on emerging market financial institutions and insurance providers.

Chart 3: Typically, credit penetration (as a proxy for financial inclusion) trends with GDP / capita

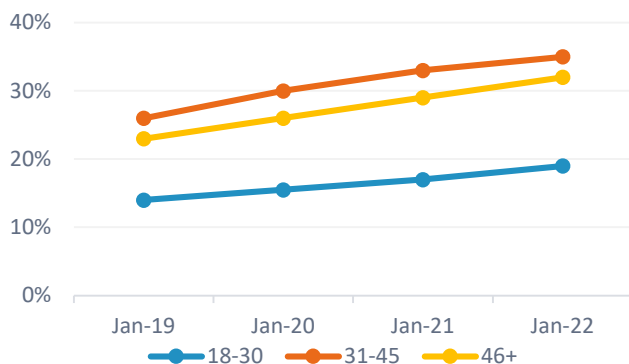
Credit as a % GDP vs GDP per capita (USD PPP):



Source: OECD, October 2021

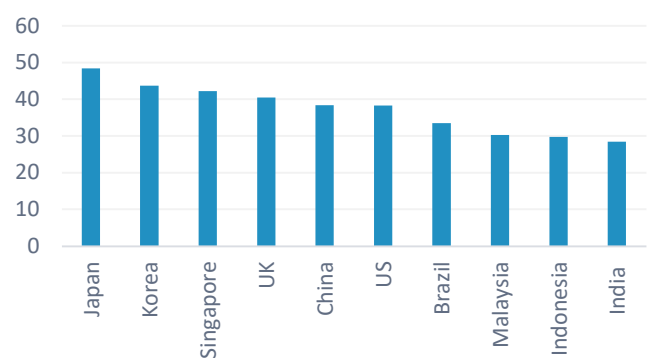
Within the Fund, we are focused on companies that can access populations with a particularly strong outlook for improvement in GDP / per capita. This is often supported by attractive demographics, as younger populations are typically the least well-served financially and hence offer the greatest growth opportunity, as the charts below demonstrate. Currently, India and Indonesia fit this description well, as they are expected to see the highest growth in GDP / per capita over the coming decades.

Chart 4: Credit penetration by consumer age (% of the adult population)



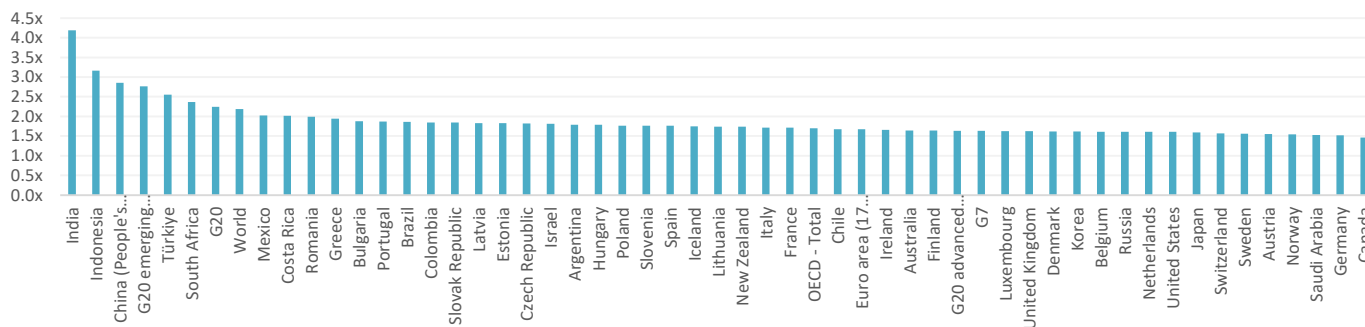
Source: TransUnion CMI report, September 2022

Chart 5: Median age of major economies (in years)



Source: UN population division

Chart 6: Increase in GDP / per capita 2060 vs 2020 (constant 2015 USD)

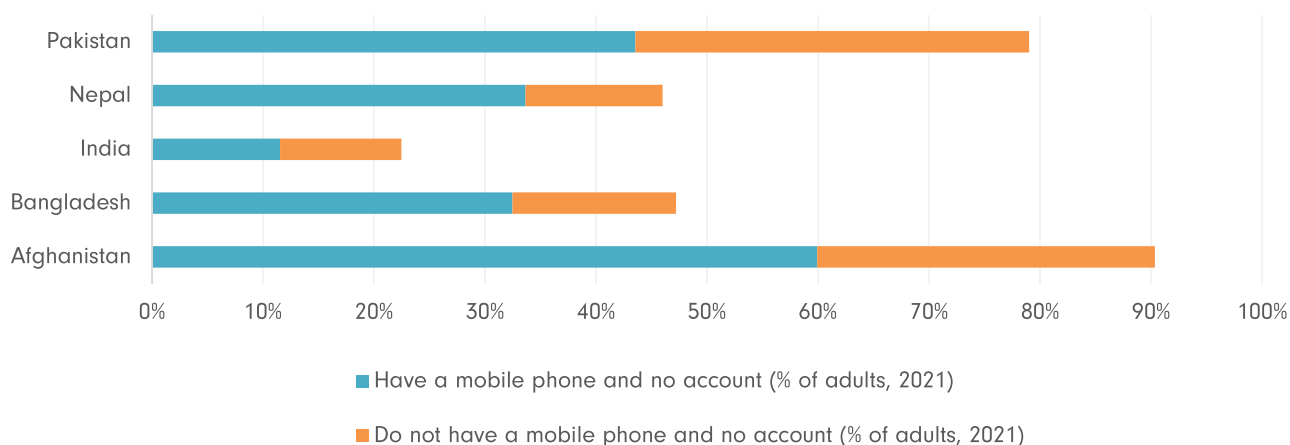


Source: OECD, October 2021

The growth in internet access, particularly mobile internet, in developing economies provides another tailwind for growth in financial penetration over the coming years. This is across individuals but also businesses. In some South Asian economies over half the unbanked population has a mobile phone.

Chart 7: In some South Asian economies, over half of unbanked adults have a mobile phone

Adults with no account (%), 2021

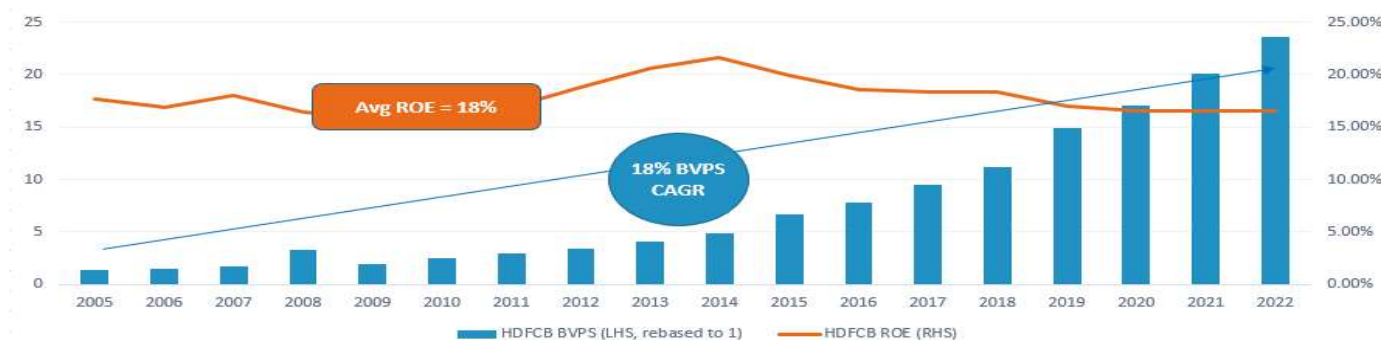


Source: Global Findex Database, 2021. Gallup World Poll. Note: Sri Lanka is not included in the figure because data on mobile phone ownership were not available.

Focus on quality

Within the Fund, we want to identify powerful trends that can support growth over many years to come, but we also need to identify the companies that are best placed to benefit from these trends. As a result, we have a clear focus on quality businesses with strong financial metrics as well as an attractive growth outlook. An example of a holding that fills these criteria in the financial inclusion theme is HDFC Bank. HDFC Bank is the largest private lender in India and offers a very attractive combination of strong growth at high returns on equity.

Chart 8: HDFC Bank book value per share vs ROE



Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Source: Fidelity International, April 2023

Key holdings in the Fund



- AIA is the largest independent life insurer in Asia, with operations across Hong Kong, mainland China, Thailand, Singapore, Malaysia, and other countries
- High-quality company targeting the high end of markets it operates in, with customers that should be more resilient whilst still benefitting from economic development across its markets
- Significant market share gain and growth opportunity, particularly within China where their rollout continues
- Bank Mandiri is the second largest bank (by assets) in Indonesia
- Sustainably strong returns on equity supported by a relatively benign competitive landscape and market-oriented regulator
- Well placed to benefit from structural growth in Indonesia driven by a growing population, attractive demographics, and low credit penetration
- HDFC Bank is the largest private sector bank in India (by assets) with a strong track record of growth and returns over a long period of time
- Well placed to benefit from structural growth in India driven by a growing population, attractive demographics, and low credit penetration
- Currently undergoing a merger with its parent HDFC Bank (a leading provider of housing finance in India) which offers significant cross-selling opportunities

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Source: Fidelity International, May 2023. Third-party logos, trademarks, copyright, and other intellectual property rights are and remain the property of their respective owners.

Investment Objective and Policy

Objective: The Fund aims to achieve capital growth over the long term.

Investment Policy: The Fund invests at least 70% of its assets in equities of companies from anywhere in the world. The Fund aims to invest in companies that are able to benefit from demographic changes. Investments will include but are not limited to, healthcare and consumer industries companies that stand to benefit from the effects of rising life expectancy, expanding middle class and population growth. The Fund may also invest in money market instruments on an ancillary basis. The Fund invests at least 70% of its assets in securities of issuers with favourable environmental, social and governance (ESG) characteristics and up to 30% in securities of issuers with improving ESG characteristics. The Fund may invest less than 30% of its assets in emerging markets.

Benchmark: MSCI AC World Index NR, an index that does not take into account ESG characteristics. Used for: investment selection, risk monitoring, and performance comparison.

Past performance¹

Net returns as at 30 April 2023

Timeframe	1 yr %	3 yrs %	5 yrs %	7 yrs %	10 yrs %	Since inception (30/11/12)
Fund	13.47	10.49	10.30	11.93	14.38	15.09
Benchmark	9.75	11.69	9.91	11.42	12.89	13.63
Excess Return	3.72	-1.20	0.39	0.51	1.49	1.46

Growth & income²

Net as at 30 April 2023

Timeframe	1 yr %	3 yrs %	5 yrs %	7 yrs %	10 yrs %	Since inception (30/11/12)
Fund	13.47	10.49	10.30	11.93	14.38	15.09
Growth	6.02	5.44	4.15	6.79	8.65	9.55
Income	7.45	5.05	6.15	5.14	5.73	5.54

Glossary

- **BVPS:** Book value per share (BVPS) is the ratio of equity available to common shareholders. This figure represents the minimum value of a company's equity and measures the book value of a firm on a per-share basis.
- **CAGR:** The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span. It is one of the most accurate ways to calculate and determine returns for anything that can rise or fall in value over time.
- **GDP:** Gross domestic product (GDP) is the total market value of goods and services produced by a country's economy during a specified period of time.
- **Ongoing charges:** The ongoing charges figure represents the charges taken from the fund over a year. It is calculated at the fund's financial year end and may vary from year to year. For classes of funds with fixed ongoing charges, this may not vary from year to year. For new classes of funds or classes undergoing corporate actions (e.g., amendments to annual management charges), the ongoing charges figure is estimated until the criteria are met for an actual ongoing charges figure to be published. The types of charges included in the ongoing charges figure are management fees, administration fees, custodian and depositary fees and transaction charges, shareholder reporting costs, regulatory registration fees, Directors fees (where applicable) and bank charges. It excludes performance fees (where applicable); portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment undertaking. For more information about charges (including details of the fund's financial year end), please consult the charges section in the most recent Prospectus.
- **ROE:** Return on Equity (ROE) is a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the better a company is at converting its equity financing into profits.
- **SFDR classification:** This shows the classification given to each fund as part of the EU Sustainable Finance Disclosure Regulation (SFDR). Article 9 funds aim to achieve an ESG outcome and are products with ESG objectives. Article 8 funds focus on promoting ESG characteristics and this must be a primary focus of the product. Article 6 funds integrate sustainability risks into investment analysis and decision-making, without the funds promoting environmental or social characteristics or having sustainable investments as their objective.

¹ Total net returns represent past performance only. Past performance is not a reliable indicator of future performance. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. Benchmark: MSCI All Country World Index NR. NR at the end of the benchmark name indicates the return is calculated including reinvesting net dividends. The dividend is reinvested after deduction of withholding tax, applying the withholding tax rate to non-resident individuals who do not benefit from double taxation treaties.

² Growth return is the unit price movement on exit to exit basis. Income is expressed as Total Return less growth component.

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Important Information

All information is current as at 22 May 2023 unless otherwise stated.

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