

As at 31
December
2017

Fidelity Global Emerging Markets

The primary aim of the Fidelity Global Emerging Markets strategy is to compound attractive long-term return whilst limiting the risk of a permanent loss of capital. This focus on capital preservation and downside risk is delivered via a highly concentrated, benchmark agnostic portfolio of 30-50 stocks.

Portfolio manager Alex Duffy believes the market underestimates the risk of poor corporate governance and the potential for government interference. Alex therefore focuses on a rigorous review of the corporate governance for each potential investment. This corporate governance analysis looks closely at ownership structure, shareholder voting rights and management compensation structures.

Alex also believes that understanding balance sheet structure is imperative in emerging markets. Analysis of company balance sheets focuses on accounting quality, degree of leverage, volatility of cashflows and term structure of debt. Alex also enlists forensic accountants to achieve a complete picture of the financial health of corporates.

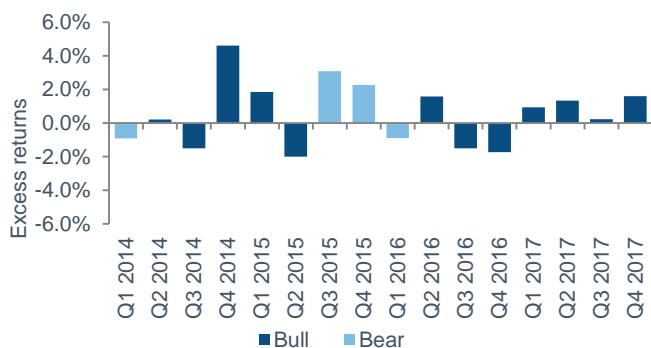
Performance*

Gross of Fees (%)	1mth	3mths	1Y	2Y (ann)	Since tenure (ann)
Fidelity EM Equity Composite	1.6	9.4	32.1	19.9	12.7
MSCI Emerging Markets	0.5	7.8	27.1	19.1	21.4
Excess returns	+1.1	+1.6	+5.0	+0.8	-8.7

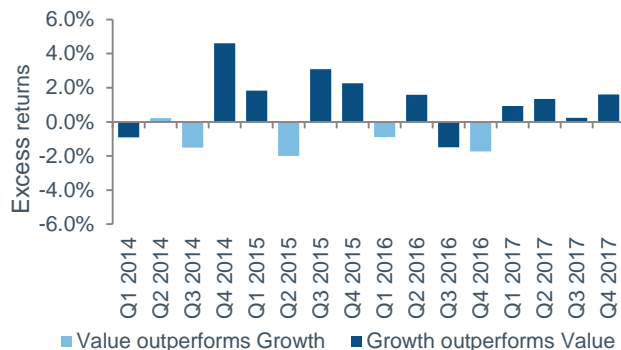
Performance quarterly excess returns*

Gross of Fees (%)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Fidelity Global Emerging Markets Fund	-0.9	5.6	4.6	-0.4	6.7	7.0	5.7	9.4
MSCI Emerging Markets	0.0	4.0	6.1	1.3	5.8	5.7	5.5	7.8
Excess returns	-0.9	+1.6	-1.5	-1.7	+0.9	+1.3	+0.2	+1.6

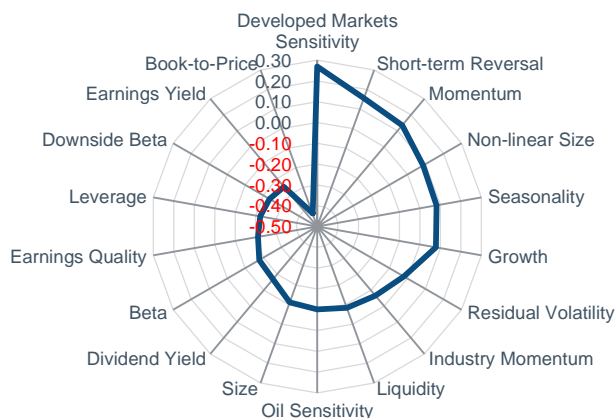
Bull vs Bear^



Value vs Growth^



Portfolio risk exposure^



Portfolio characteristics

Outperformance objective¹	c. 3-4% p.a. (gross of fees, on a rolling 3 year basis)
Net equity exposure²	c. 90 - 100%
Active money	c. 70% - 90%
Ex-ante beta	c. 0.7 - 1.1
Ex-ante tracking error	c. 3% - 8% (ex ante)
Number of holdings	c. 30 - 50
Absolute stock weights²	c. 1.0 - 5.0%
Sector weights² (relative)	c. + / - 20%
Country weights (relative)	c. + / - 20%
Expected turnover³	c. 20 - 40%
Minimum market cap	c. \$1bn (free float)
Cash	< 10%

Commentary

The strategy delivered positive absolute returns and outperformed the index over the quarter, driven by the overweight stance in the consumer discretionary sector. Stock selection in materials and the underweight position in information technology (IT) buoyed relative performance. From a country perspective, South African and Chinese holdings added value.

Consumer discretionary advanced

The holding in white goods manufacturer Midea Group advanced as it reported quarterly results ahead of expectations. The position in Techtronic Industries buoyed returns. Encouraging quarterly results from its key competitor boosted optimism around strong consumer demand in general, which should support Techtronic's earnings. Media company Naspers released robust half-yearly results with high revenue growth from Tencent Holdings, its internet businesses in China. However, the lack of direct exposure to Tencent weighed on relative returns.

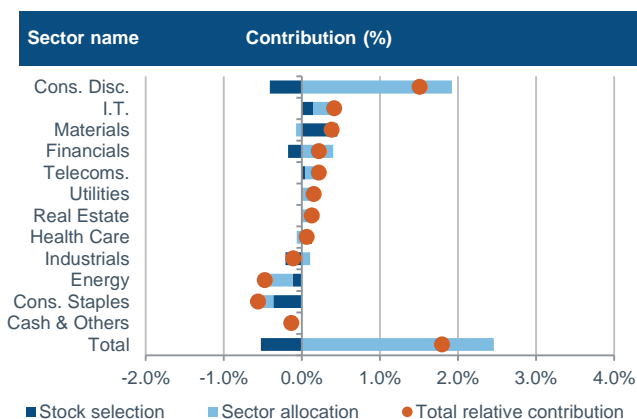
Overweight in financials aided returns

The allocation to insurer AIA Group advanced on news that Chinese regulators are raising the foreign ownership limit for life insurers in the country. This policy change will enable the company to further expand its footprint in China. Shares in South Africa-based health insurer Discovery also rose in line with the country's markets. Netease, China's 2nd largest game developer and e-commerce operator had a strong quarter following a new game launch. The e-commerce business also continues to improve from a margin perspective. Not holding Alibaba Group buoyed relative performance as its share price fell.

Consumer staples weighed on performance

The position in Russia's X5 Retail Group declined following a strong run as the company reported subdued margins. The holding in Mexico-based tortilla maker Gruma declined in line with the broader market. Although quarterly sales in Mexico increased, production and demand at its US business was negatively impacted by hurricanes in the states of Texas and Florida. On a positive note, shares in South Africa-based food company AVI rose.

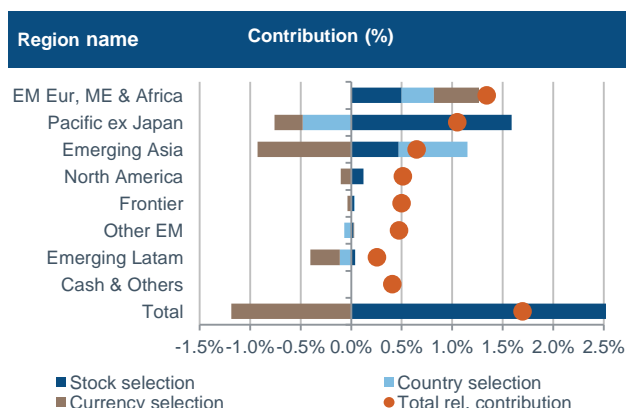
Sector attribution



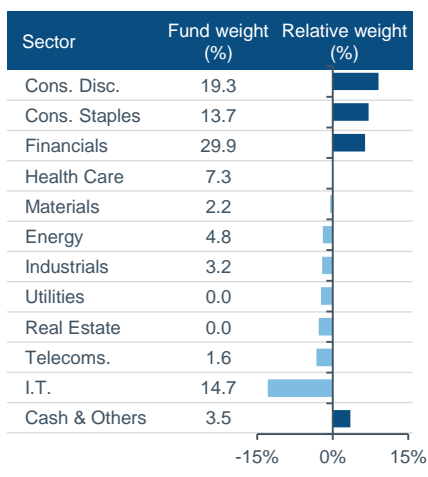
Top and bottom contributors

Company	Industry	Country	Avg rel. weight (%)	Contribution (bps)
Discovery	Financials	South Africa	2.4	76.2
Naspers	Cons. Disc.	South Africa	3.2	67.0
Midea	Cons. Disc.	China	3.1	60.2
Netease	I.T.	China	2.0	48.2
African Rainbow Minerals	Materials	South Africa	1.4	45.3
Techtronic	Cons. Disc.	Pacific ex Jp	3.0	42.4
AVI	Cons. Staples.	South Africa	2.3	42.4
AIA	Financials	Pacific ex. Jp.	5.2	41.2
Alibaba	I.T.	China	-3.9	30.2
Steinhoff	Cons. Disc.	South Africa	-0.2	26.4
Tencent	I.T.	China	-5.3	-65.2
X5 Retail	Cons. Staples	Russia	2.4	-64.9
Gruma	Cons. Staples	Mexico	2.5	-60.2
Li Ning	Cons. Disc.	China	2.5	-44.6
Ultrapar Participaco	Energy	Brazil	2.5	-29.7
B3	Financials	Brazil	1.7	-25.7
Itau Unibanco	Financials	Brazil	1.9	-24.5
Ping an Insurance	Financials	China	-0.9	-22.6
Weichai Power	Industrials	China	1.4	-15.7
Housing Development	Financials	India	2.1	-15.7

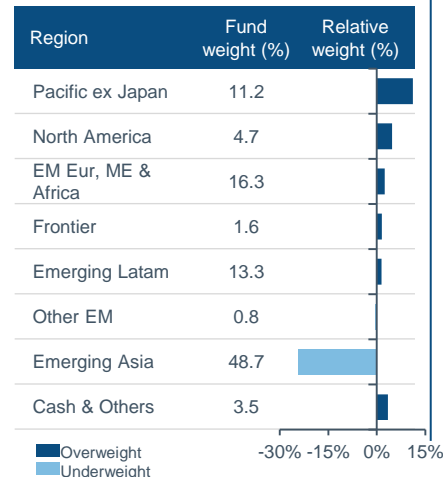
Regional attribution



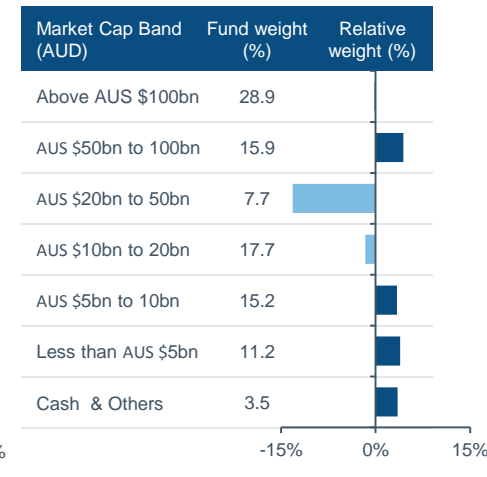
Sector positioning



Regional positioning



Market cap positioning



Strategy overview

Strategy AUM: AU\$87.1million⁴

Portfolio Manager



Alex Duffy

Investment experience: 13 years
Portfolio management experience: 10 years
Fidelity experience: 13 years
Based in: Singapore

Master of Applied Economic Analysis, University of Nottingham

Strategy summary

- A benchmark agnostic, bottom-up fundamental, 'long-term long-only' global emerging markets (GEM) equity strategy.
- The strategy benefits from the insights of Fidelity's 50 strong team of emerging markets (EM) equity analysts, shorting analysts and portfolio managers.
- The strategy places primary emphasis on minimising risk to capital through thorough due diligence of each holding and by sizing positions on the basis of their risk to capital rather than risk relative to index.
- Stocks are first and foremost scrutinised for their ability to preserve investors' capital, with careful attention paid to the strength of their capital, shareholder and governance structures.
- If deemed appropriately robust, each stock's long term compounding potential is determined on the basis of its ability to sustain and improve its returns on capital, its ability and willingness to pay dividends and the level of valuation support that supports the expected total return over time.
- The portfolio represents a concentrated, low turnover portfolio of high quality EM stocks that deliver attractive compounding total returns to their shareholders over an extended holding period.

Our investment process

At Fidelity International, our edge is proprietary fundamental research, with 140 analysts globally, contributing research and views to a state of the art research management system which acts as a single source for all Fidelity research including equity and credit. Its rich functionality is also flexible, allowing portfolio managers to overlay their investment strategies in order to drive stock specific alpha for their portfolios.

1. Outperformance objective is relative to the MSCI Emerging Markets index.
2. Data is presented as a percentage of Total Net Assets (the value of all the fund's assets after the deduction of any liabilities).
3. Expected turnover refers to ex ante annual turnover and is calculated as the lesser of purchases or sales divided by average TNA.
4. AUM as at 31 December 2017. Figure includes all client assets managed using the Fidelity Emerging Markets Strategy



***Past performance is not a reliable indicator of future performance.** As at 31 December 2017. Data represents the Fidelity Global Emerging Markets Fund which launched on 16 December 2013. The comparative index is the MSCI Emerging Markets Index (N). Returns are in Australian Dollars, gross of fees. Alex Duffy has managed the fund since inception. Since tenure data reflects composited performance data constructed from the GEM Focus point from commencement of performance on 28 February 2013 to 16 December 2013, and thereafter the live Fidelity Global Emerging Markets Fund.

⁴Data shown represents the Fidelity Global Emerging Strategy. Alex Duffy has managed the strategy since inception: 1 October 2014.

This document is intended for the general information of institutional investors only. You should consider obtaining independent advice before making any financial decisions. Fidelity Australia does not authorise distribution to retail investors.

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