

Emerging markets in a re-opening world

Anthony Doyle
Cross-Asset Investment Specialist



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Anthony Doyle



Based in: Sydney, Australia

Years of Investment Experience: 18

Education: MBA, University of London

MEconSt, University of New England

BCom, Macquarie University

- § 18 years experience in global financial markets
- § Assists and advises Fidelity's clients on investment strategies, macroeconomic themes and asset allocation
- § Covers the Australian and New Zealand economies on behalf of the Global Macro and Strategic Asset Allocation team
- § A regular speaker and market commentator in the media
- § Previously worked at Macquarie Bank (Sydney, AU), Pioneer Investments (Dublin, IE) and M&G Investments (London, UK)



anthonywdoyle



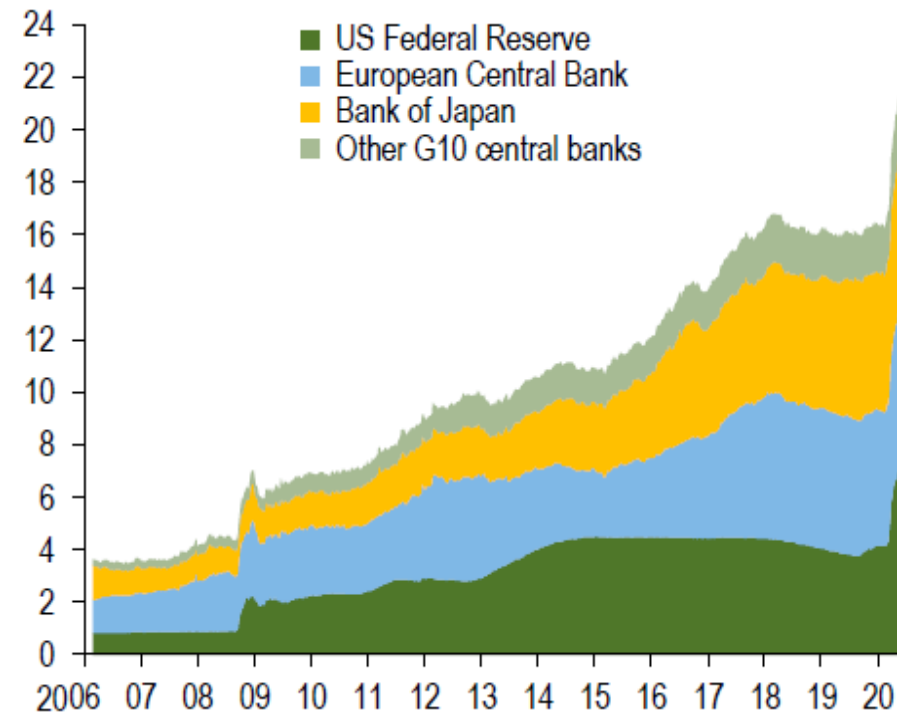
@DoyleAUD

Policy response – where are we now?

A snapshot of the global policy response to the crisis

- § USD 11 trillion in fiscal stimulus unleashed (approx. 8% of global GDP);
- § Australia, Canada, Chile, Czech Republic, Hong Kong, South Korea, Norway, New Zealand, Peru, Poland, Sweden, Thailand, United Kingdom and United States have interest rates at or close to 0%;
- § Europe, Japan and Switzerland have negative interest rates;
- § G10 central bank assets have grown by around USD 6 trillion since mid-January (approx. 15% of G10 GDP);
- § Global public debt is expected to grow to 101.5 percent of GDP – the highest level ever.

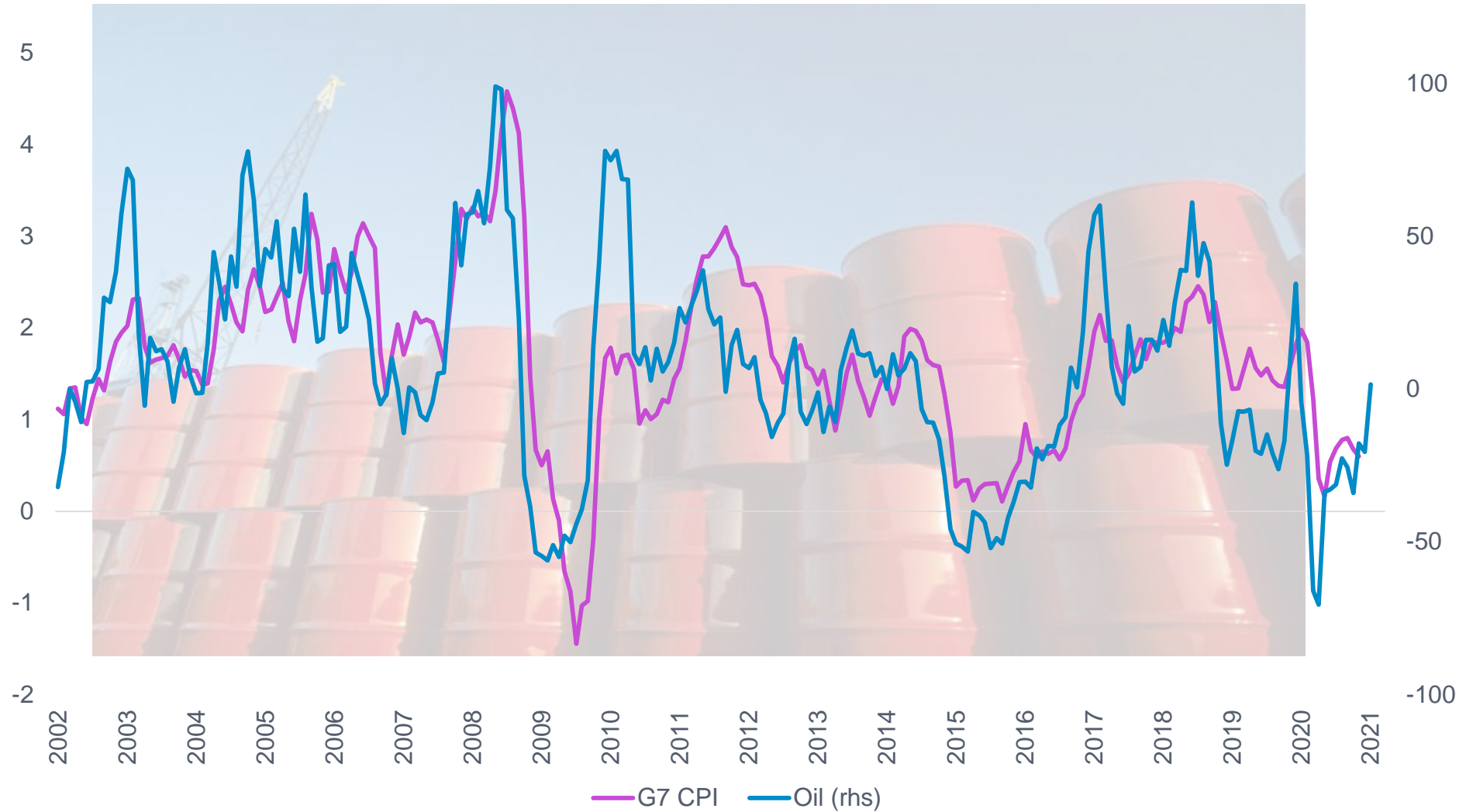
G10 Central bank assets (trillions of USD)



Source: Fidelity International, IMF, UBS. August 2020.

Watch oil to see where inflation is headed

G7 Consumer Price Inflation vs oil (y/y, % change)

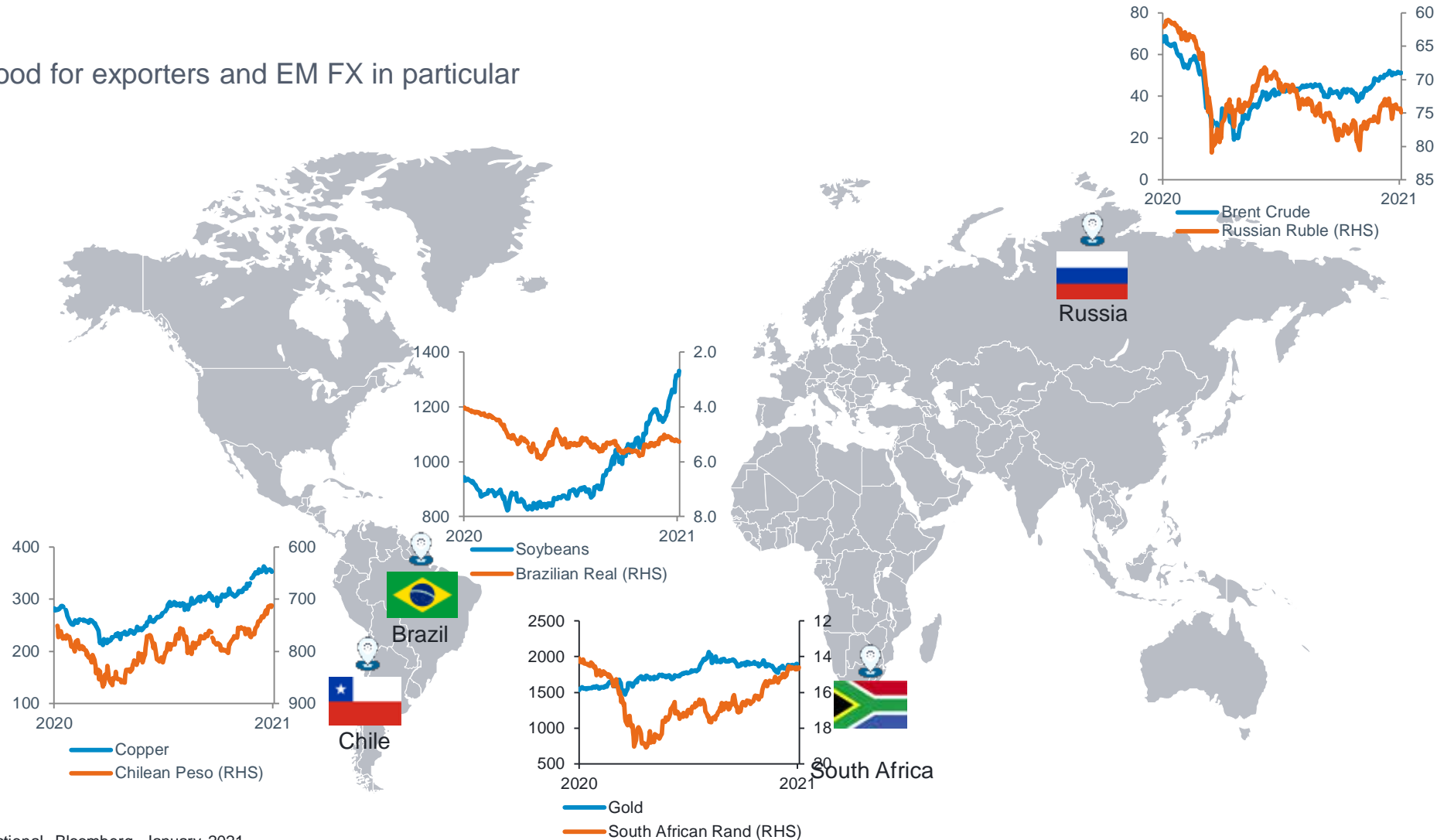


Source: Fidelity International, Bloomberg, August 2020.

Commodities are rising

Side effect of better growth is boost to commodity prices

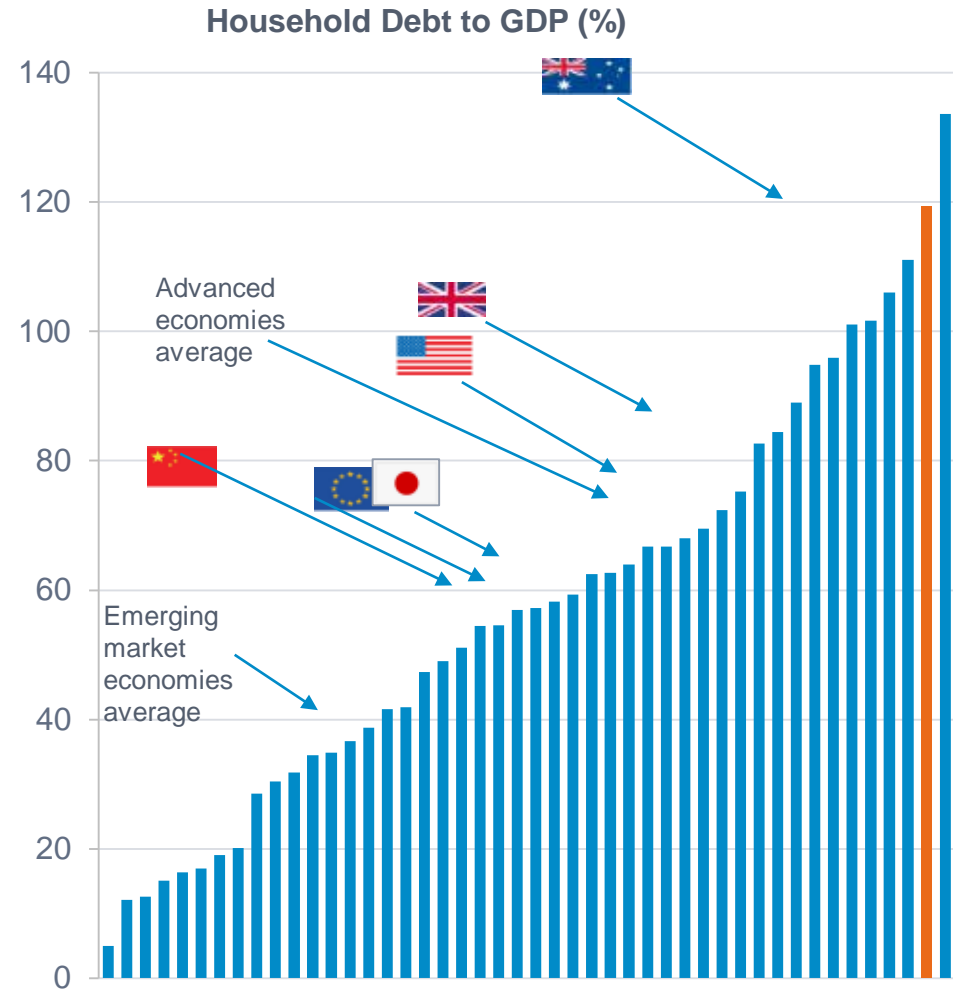
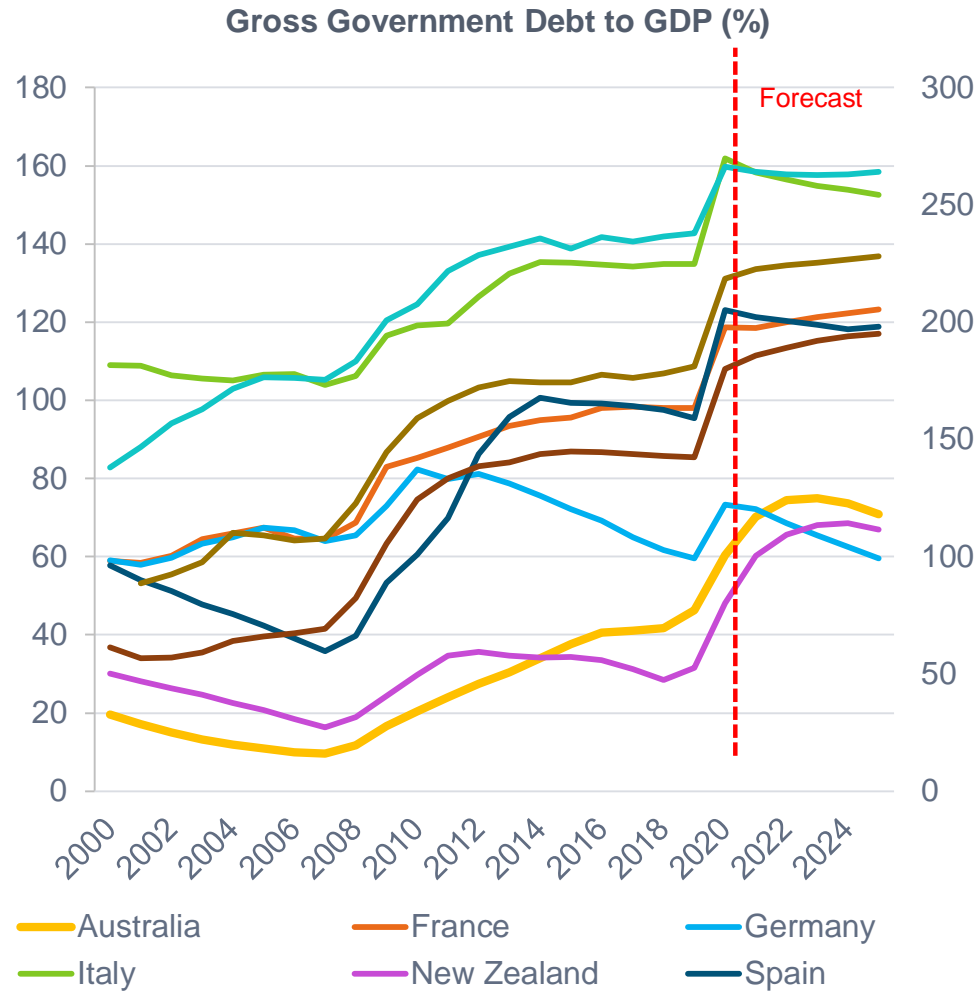
This is good for exporters and EM FX in particular



Source: Fidelity International, Bloomberg, January 2021.

A bucketload of debt

Government and household debt to GDP ratios expected to rise



Source: Fidelity International, IMF, Bank of International Settlements, November 2020.

Fidelity International's Capital Market Assumptions

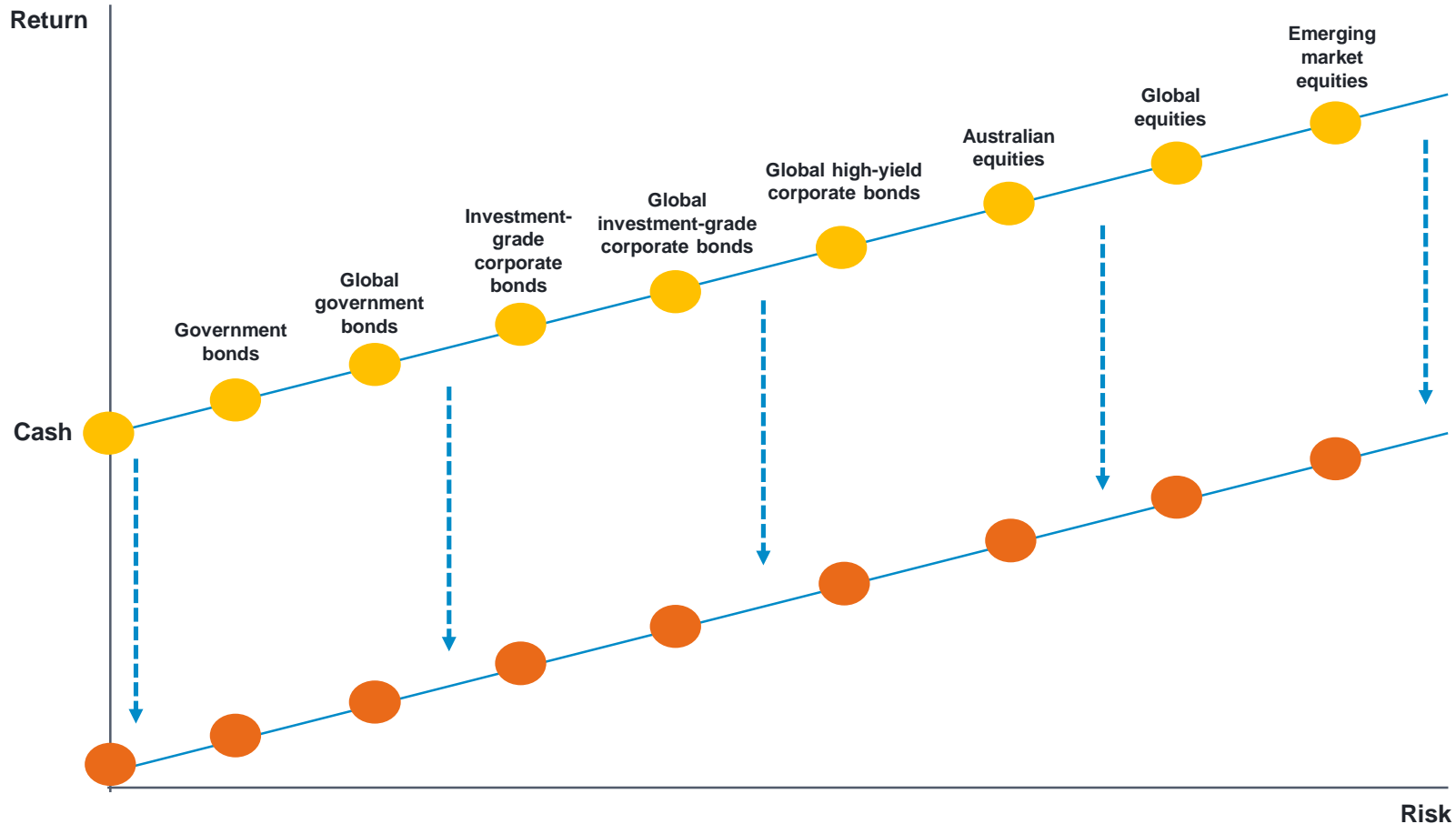
Expected annualised returns



Source: Fidelity International, September 2020. Assumptions are based on proprietary modelling, for illustrative purposes only and not a financial advice. . They reflect the views of investment professionals at Fidelity International.

The capital market line has collapsed

A lower cash rate brings down returns across the capital market line

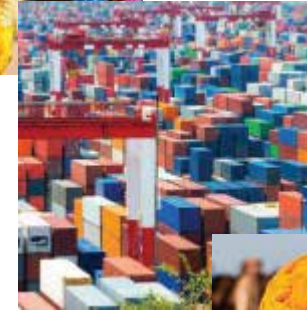


Source: Fidelity International, January 2021. A low risk-free rate brings down demanded returns all along the capital market line. Since the risk-free rate can be earned with complete safety, and most people prefer safety over risk (all else being equal), investors shouldn't take risk without being compensated for doing so. As investments increase in terms of the level of uncertainty, an incremental "risk premium" should be incorporated in their potential returns. Thus the notion of the "capital market line" that slopes upward and to the right, showing the relationship between risk and return. When the central bank cuts the risk-free rate, prospective returns on all asset classes are much lower in the absolute. Thus, in general, the lower the point at which the capital market line originates, the lower all returns will be.

Emerging markets...

Long-term trends

1. ...will drive global growth;
2. ...are more resilient to capital outflows;
3. ...are becoming technology innovators;
4. ...have younger and larger populations;
5. ...are experiencing rising wealth;
6. ...have less debt;
7. ...have growing consumer markets;
8. ...offer attractive valuations.

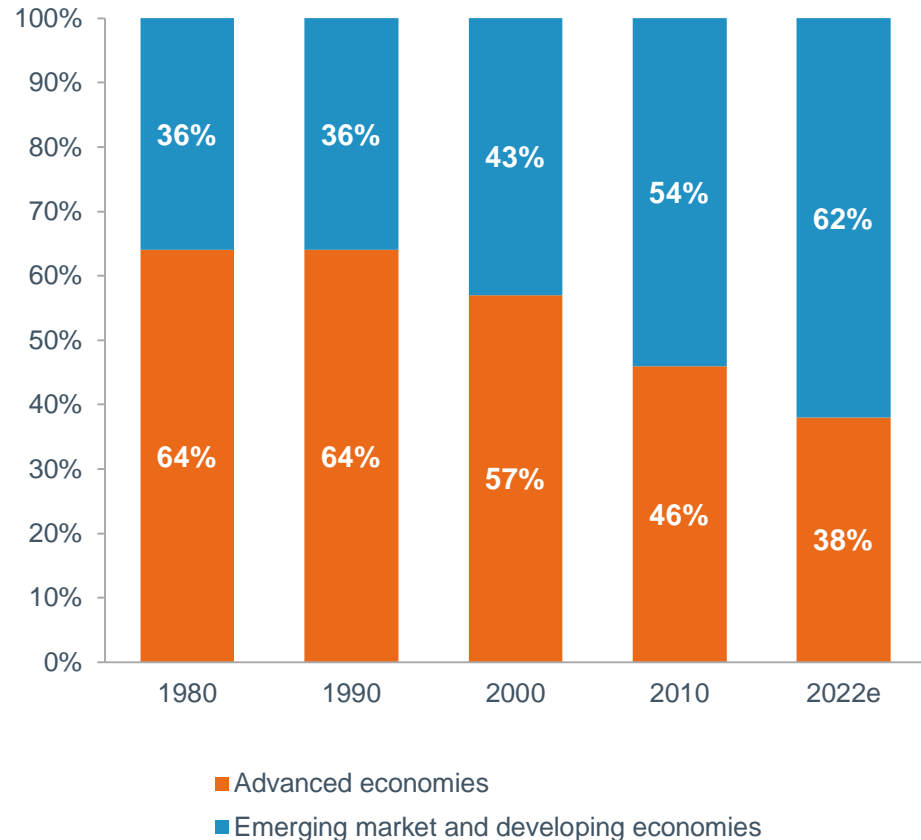


Source: Fidelity International, April 2021.

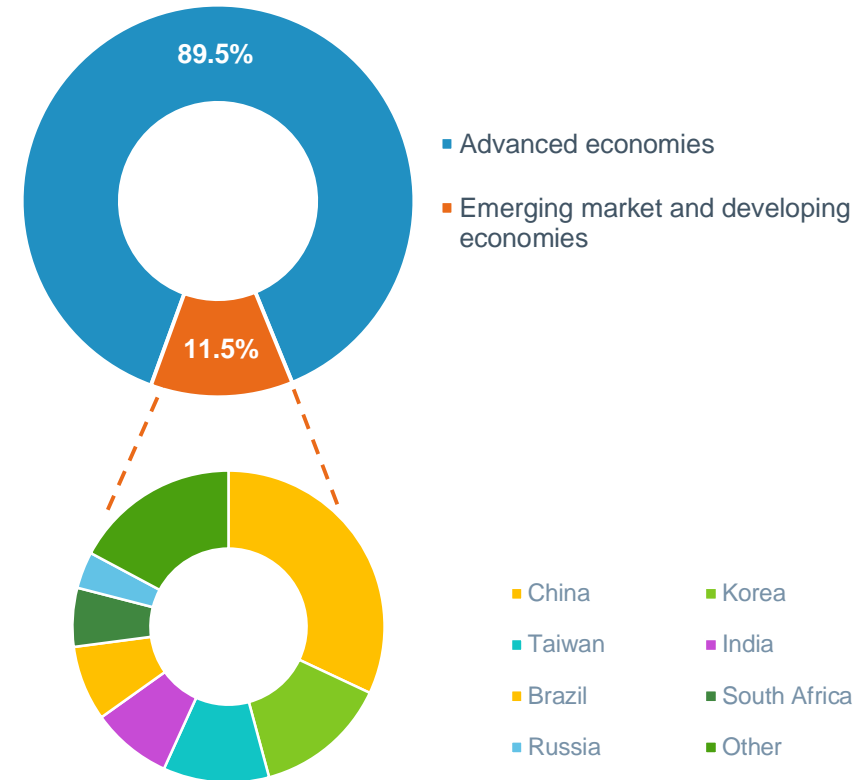
The rising importance of EM in the global economy

A significant contributor to Global GDP, yet under-represented in global indices

% contribution to GDP



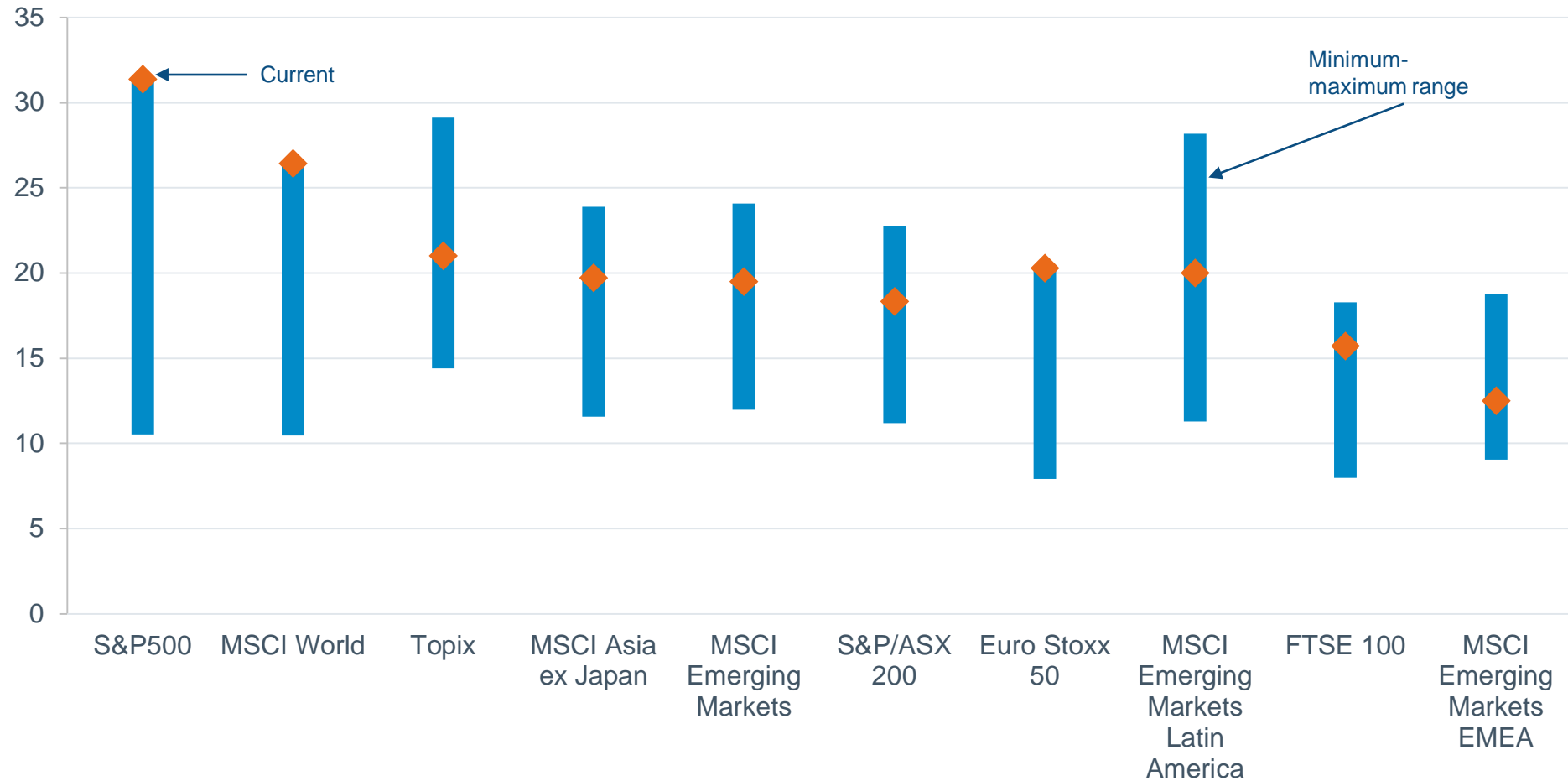
MSCI AC World Index – EM represents 11.5%



Source: (LHS) IMF, World Economic Outlook Database, October 2017. Gross domestic product based on purchasing-power-parity (PPP) share of world total. (RHS) Fidelity International and MSCI All Country World Index and MSCI Emerging Markets Index at 30 June 2020. Other = Mexico, Thailand, Malaysia, Indonesia, Poland, Chile, Philippines, Qatar, United Arab Emirates, Turkey, Colombia, Peru, Hungary, Greece, Czech Republic, Egypt and Pakistan. Numbers may not add to 100 due to rounding.

Emerging market valuations are compelling

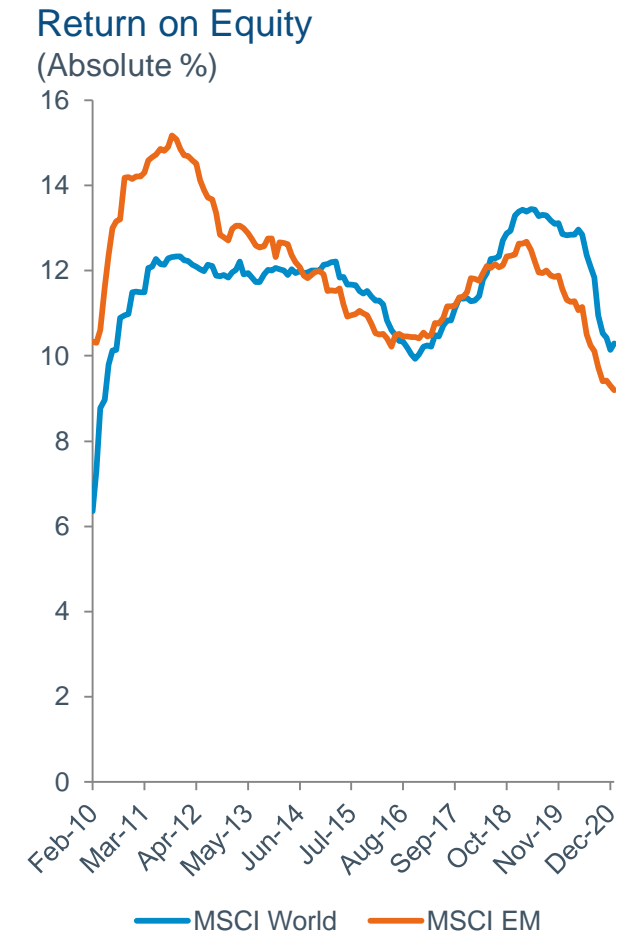
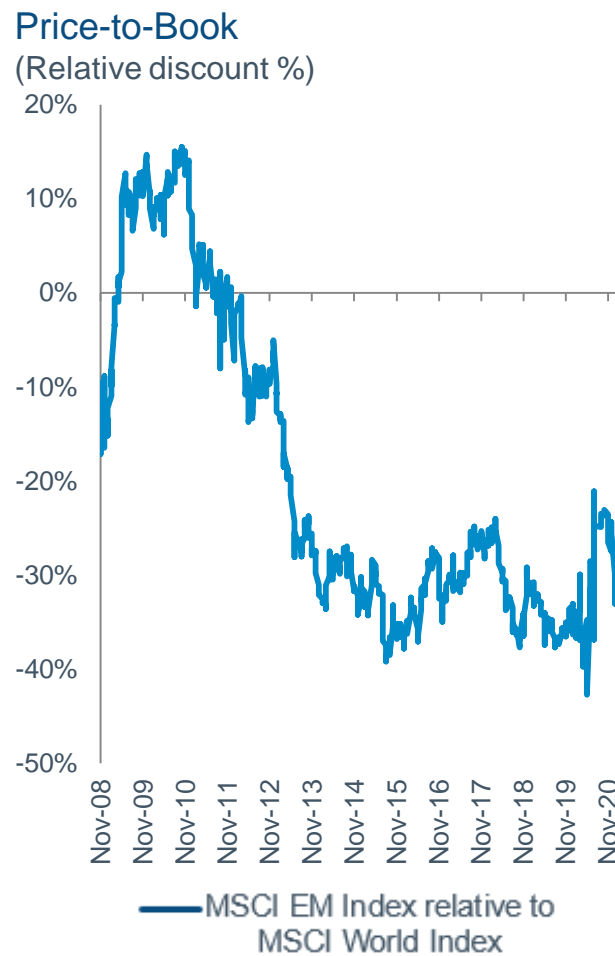
Cyclically adjusted price/earning ratio – 2008 to current



Source: Fidelity International, Bloomberg, January 2020.

Emerging market equity valuations

A turning point for relative emerging market performance?

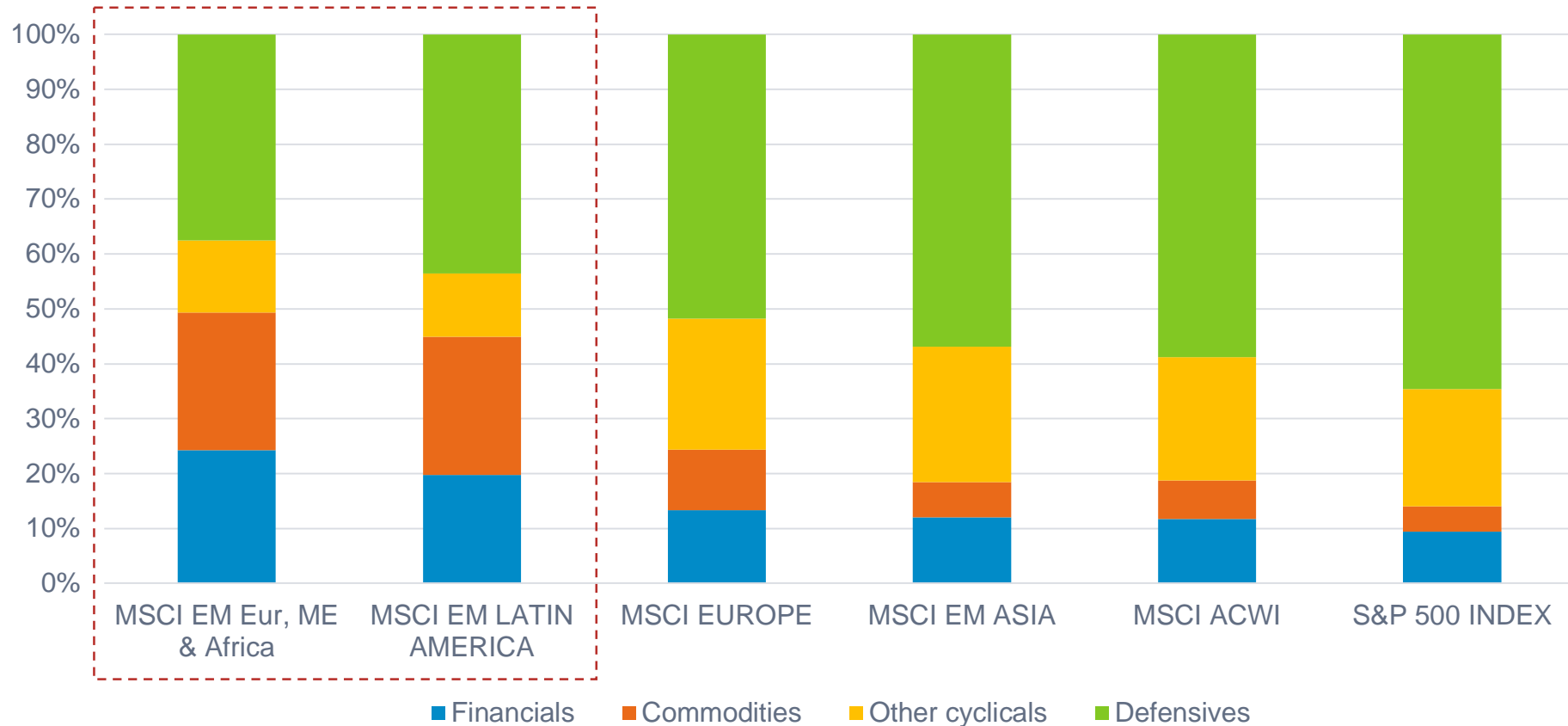


Source: Fidelity International, Bloomberg and Refinitiv Datastream, February 2021

LatAm and EEMEA equities also well positioned for global reflation

Highly geared to global trade rebound, a weak dollar and commodity strength

MSCI indices: cyclicals/defensives split by region

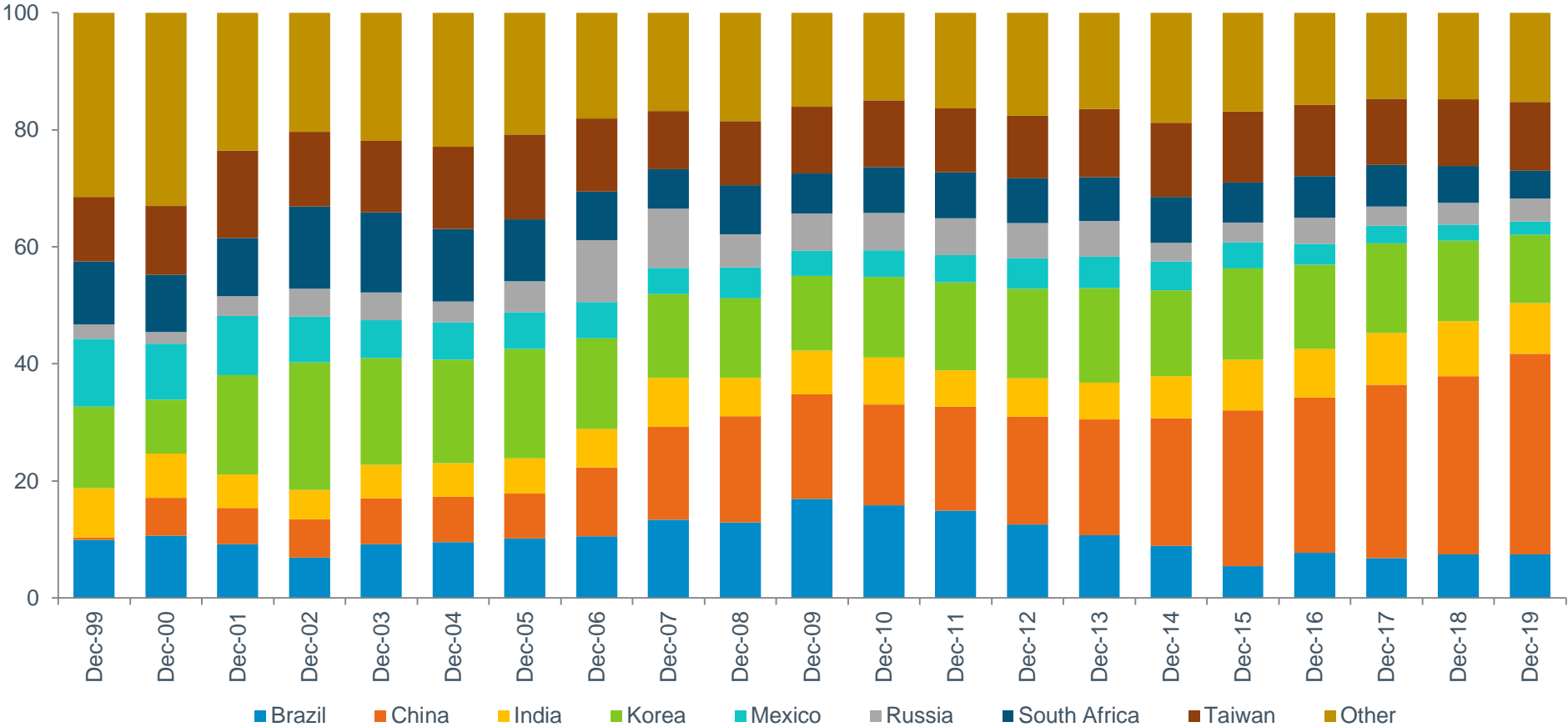


Source: Fidelity International, MSCI at February 2021, Defensives classification includes: IT, Utilities, Health Care, Staples and Communication Services. Other cyclicals classification includes Industrials, Real Estate and Discretionary (excl. internet stocks which are under defensives); Commodities include Materials and Energy (excl. gold stocks, which are under defensives).

An evolving index composition also at the country level

China plays an increasingly important role in EM

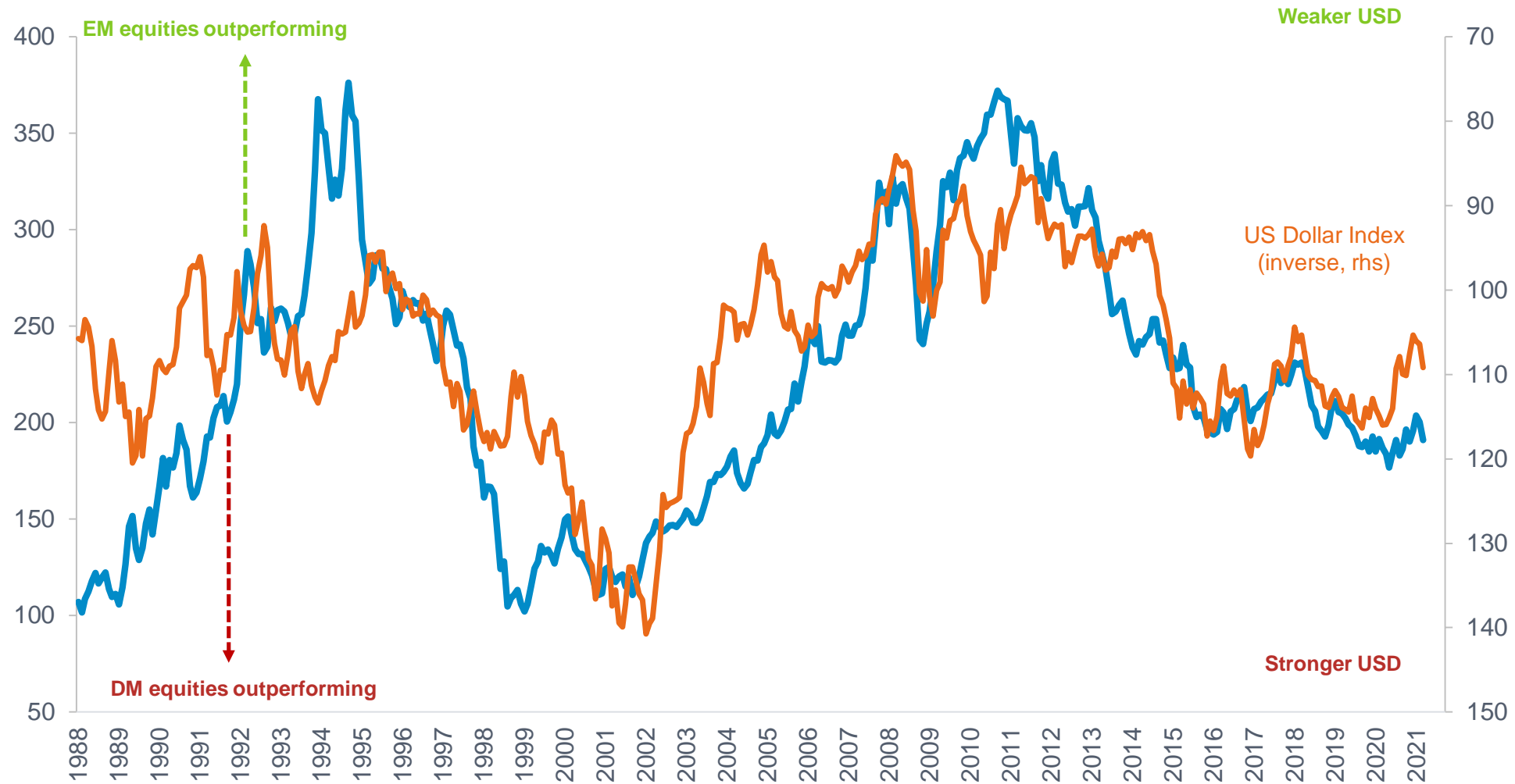
Country weight changes (MSCI Emerging Markets Index, %)



Source: Fidelity International at 31 December 2019

USD weakness is a tailwind for EM performance

Relative price return, USD, MSCI Emerging Markets / MSCI World



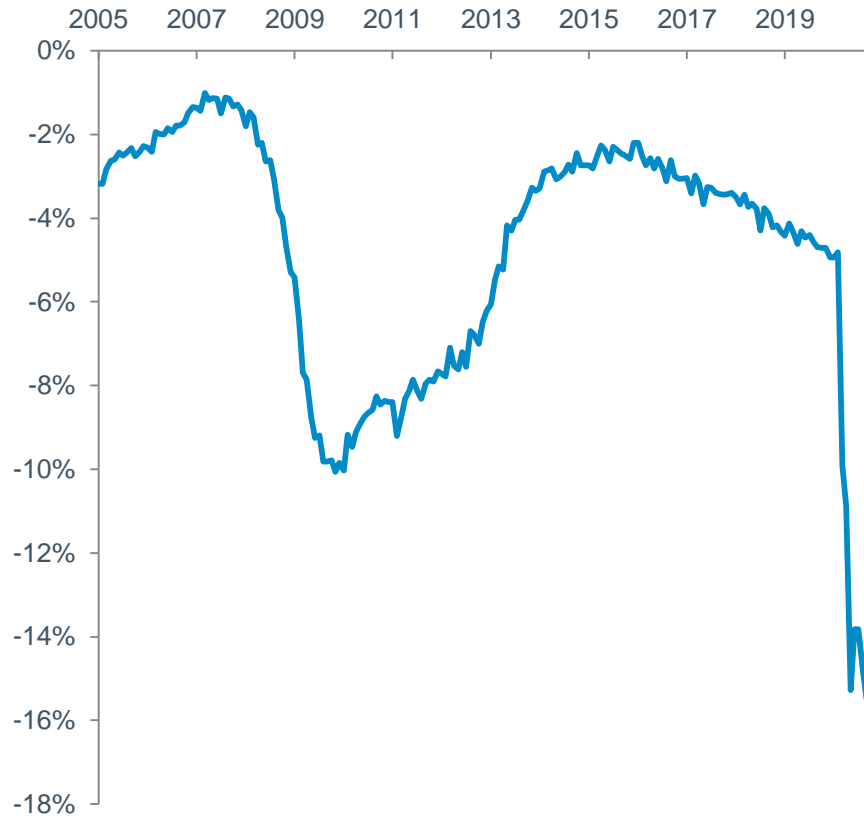
Source: Fidelity International, Bloomberg, March 2021

USD trends weaker

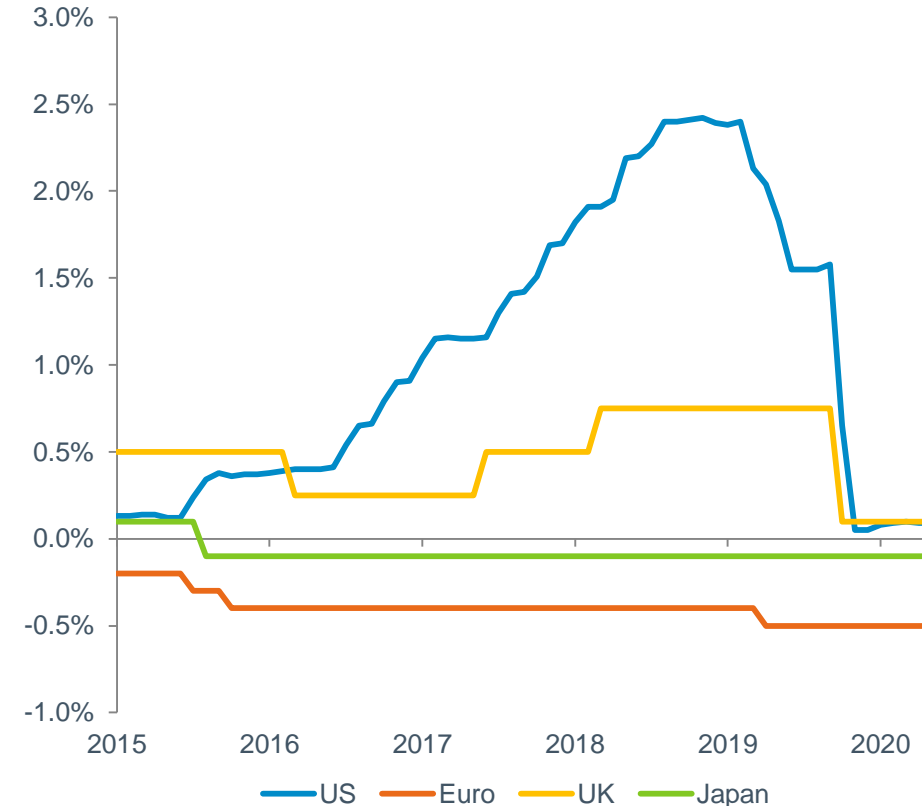
Overwhelmingly positive for EM currencies

Twin deficits coupled with loose policy stance

Fed budget deficit as % of nominal GDP



US no longer enjoys a large interest rate differential advantage



Source: Fidelity International, Bloomberg, January 2021.

Some of our preferred Emerging Markets companies

Fidelity Global Emerging Markets Fund



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 2021.

Fidelity International

Our core beliefs set us apart



Long-term approach to fundamental analysis

We believe that the market can be inefficient at valuing companies in the long term. Our firm, research process and compensation structure are designed to promote long-term thinking.



Engagement and Sustainability

We believe that the assessment of investee companies' sustainability IS fundamental investing, and our analytical process drives better returns for clients. We engage with corporates, fostering change rather than forcing change



Global coverage, local expertise

A true understanding of a company requires a global team of locally-based analysts that can fully analyse the entire value chain.



Collaboration

Our investment team works together across industries, geographies and asset classes to leverage each other's insights.



Constant evolution

Delivering outstanding results for our clients requires us to constantly evolve our research and technology to deliver excellence

Fidelity International – Emerging Markets

Fidelity Global Emerging Markets Fund (Managed Fund) ASX: FEMX

A concentrated, high conviction, diversified emerging market equity portfolio

Benchmark agnostic, 30-50 holdings, +75-85% active share, 3-5 year investment time horizon

A robust, repeatable investment process that has delivered over the long run.
7+ years suggested time frame

The Emerging Markets Focus Team effective date 28 May 2021

Global experience: deep understanding of stock, industry and country dynamics



Amit Goel
Lead-Portfolio Manager
Based in: Singapore
Industry start date: 2005

| Disciplines Managed | |
|---|--------------------|
| Global Emerging Markets | Dec-2019 - Present |
| Indian Equities | Apr 2016 - Present |
| Emerging Asia | Jul 2014 - Present |
| Fidelity Experience | |
| PM, EM Equities | 2015 - Present |
| Investment Analyst, Singapore | 2013 - 2015 |
| Investment Analyst, India | 2016 – 2018 |
| Research Specialist, India | 2006 – 2008 |
| Previous experience | |
| Analyst, First Global Stockbroking, India | 2005-2006 |
| Education | |
| MBA (Finance), IIT Delhi B. Pharm, Delhi University | |



Punam Sharma
Co-Portfolio Manager
Based in: London
Industry start date: 2000

| Disciplines Managed | |
|---|--------------------|
| Global Emerging Markets | May 2021- From |
| Latin America | Jul 2019 - Present |
| Fidelity Experience | |
| PM, EM Equities | 2019 - Present |
| Director Equities, EMEA/Latam | 2018 – Present |
| DoR, Greater China and Regional Asia | 2016 – 2018 |
| Previous experience | |
| Director – Funds Management IDFC Mutual Fund | 2005 – 2016 |
| AVP – Mutual Fund Res., IDFC Mutual Fund | 2001 – 2005 |
| AVP – Mutual Fund Res., Kotak Mahindra Mutual Fund | 2000 – 2001 |
| Mgt Trainee, Mahindra Realty and Infrastructure | 1999 – 2000 |
| Education | |
| MBA, Indian Institute of Management Studies - HP University; BSc St Bede's College Shimla | |



Sherry Qin
Non-Disc. Advisor
Based in: Shanghai
Industry start date: 2015

| Non-Discretionary Advisor | |
|--|---------------------|
| Global Emerging Markets | Sept 2020 - Present |
| Fidelity Experience | |
| NDA, EM Equities | Sept 2020 - Present |
| China Research Analyst: Automobile & Components | 2018 – Present |
| China Research Analyst: Renewables & Utilities, Building materials | 2015 - 2018 |
| Previous experience | |
| Internships at UBS, Deutsche Bank, Morgan Stanley | 2013-2015 |
| Education | |
| Fudan University, Master of Finance, Corporate Finance. Shanghai University of Finance and Economics, BBA. | |

Source: Fidelity International, Amit Goel and Punam Sharma have been appointed as the new Lead PM and co-PM of Fidelity Global Emerging Markets Fund and Fidelity Global Emerging Markets Fund (Managed Fund) (ASX:FEMX) respectively effective from 28 May 2021

Equity research resources

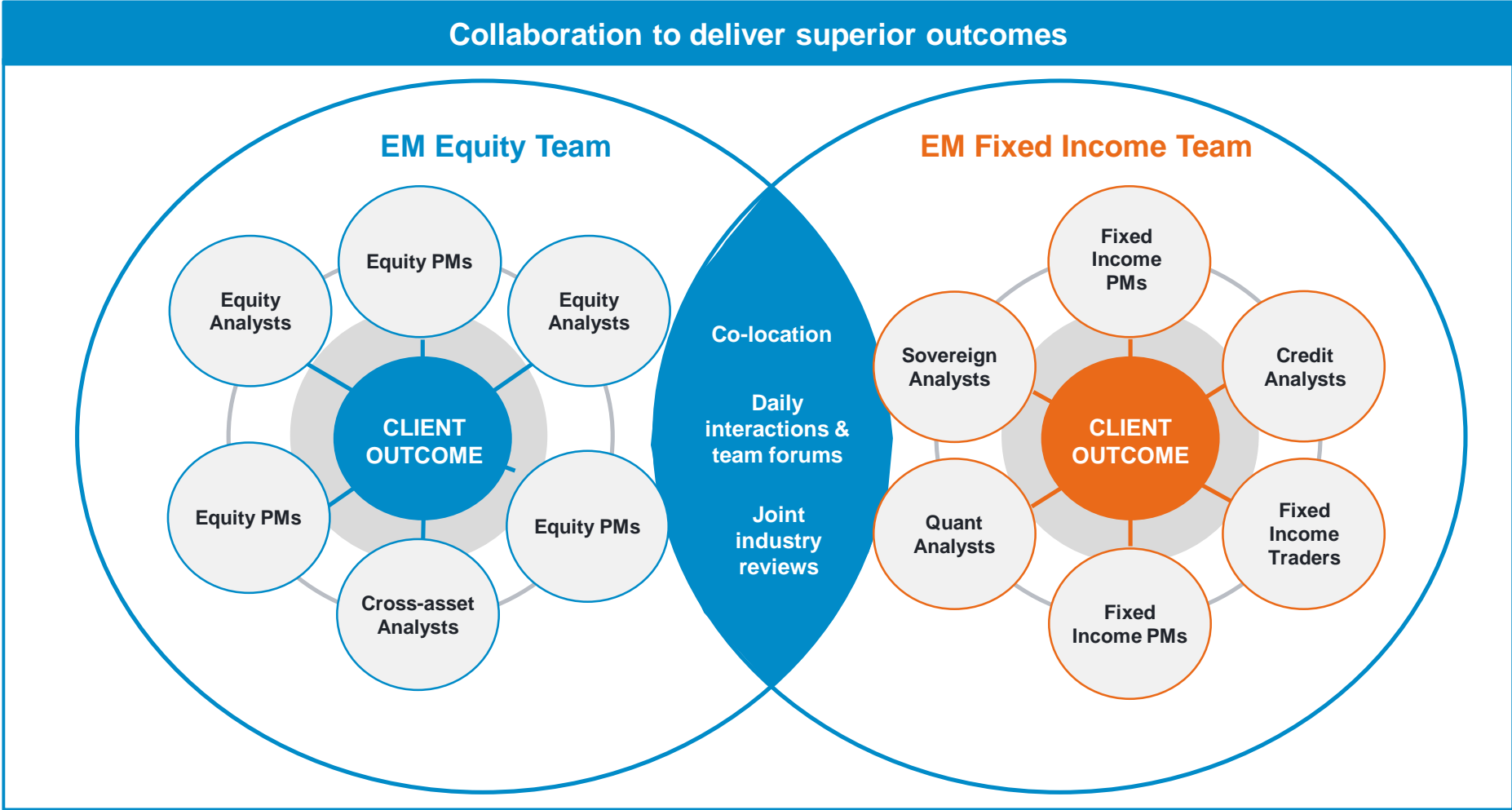
A single platform team, cross regions, cross sectors

| | Consumer | Financials / Real Estate | Health Care | Industrials / Cyclical | Natural Resources & Utilities | TMT | Country Generalists | Shorting | Total* |
|---|-----------------------------------|--------------------------|-------------|------------------------|-------------------------------|-----------|---------------------|------------|------------|
| | Sustainable Investing Specialists | | | | | | | | 13 |
| Europe | 6 | 6 | 3 | 8 | 5 | 5 | 2 | | 33 |
| Asia Pac ex-Japan | 16 | 11 | 5 | 20 | 8 | 11 | 4 | | 50 |
| Japan | 3 | 2 | 1 | 5 | 0 | 4 | 0 | 7 Analysts | 11 |
| EMEA & LATAM | 2 | 2 | 0 | 1 | 2 | 1 | 0 | | 6 |
| US + Canada | 7 | 6 | 5 | 6 | 5 | 9 | 1 | | 37 |
| Total* | 34 | 27 | 14 | 40 | 20 | 30 | 7 | 7 | 157 |
| | | | | | | | | | 172 |
| 4 Technical & Quant Analyst | | | | | | | | | 4 |
| | | | | | | | | | 161 |
| Global Sector Research Specialists (based in India & China) | | | | | | | | | 70 |
| | | | | | | | | | 231 |

Source: Fidelity International as at 31st December 2020. Each region defines the sector teams slightly differently to reflect local dynamics, the table overall is the best global fit to describe all of the roles. For Asia Pac ex- Japan, Industrials is included under Cyclical, Telecoms is included under Utilities. Where analysts cover more than one sector they may appear in more than one box. TMT stands for Telecommunications, Media and Technology. Fidelity Canada analysts cover both US and Canadian markets. *Total team size regional breakdown excludes shorting and technical analysts, overall total includes these analysts. Data is unaudited.

Combining in-depth micro and macro insights

Co-location enhances debate



Source: Fidelity International.

Top ten absolute positions

31 March 2021

| Security name | Sector | Country/Region | Fund (%) | Index (%) |
|---------------------------|-------------|----------------|----------|-----------|
| Taiwan Semiconductor | I.T. | Taiwan | 5.4 | 6.3 |
| HDFC Bank | Financials | India | 5.1 | 0.0 |
| AIA Group | Financials | Hong Kong | 4.9 | 0.0 |
| Naspers | Cons. Disc. | South Africa | 3.8 | 1.3 |
| Bank Central Asia | Financials | Indonesia | 3.7 | 0.3 |
| Samsung Electronics | I.T. | Korea (South) | 3.6 | 4.9 |
| MediaTek | I.T. | Taiwan | 3.6 | 0.6 |
| Tata Consultancy Services | I.T. | India | 3.6 | 0.5 |
| Techtronic Industries | Industrials | Hong Kong | 3.5 | 0.0 |
| Housing Dev. Fin. Corp. | Financials | India | 3.2 | 0.7 |

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.

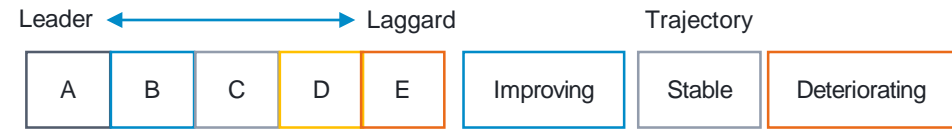
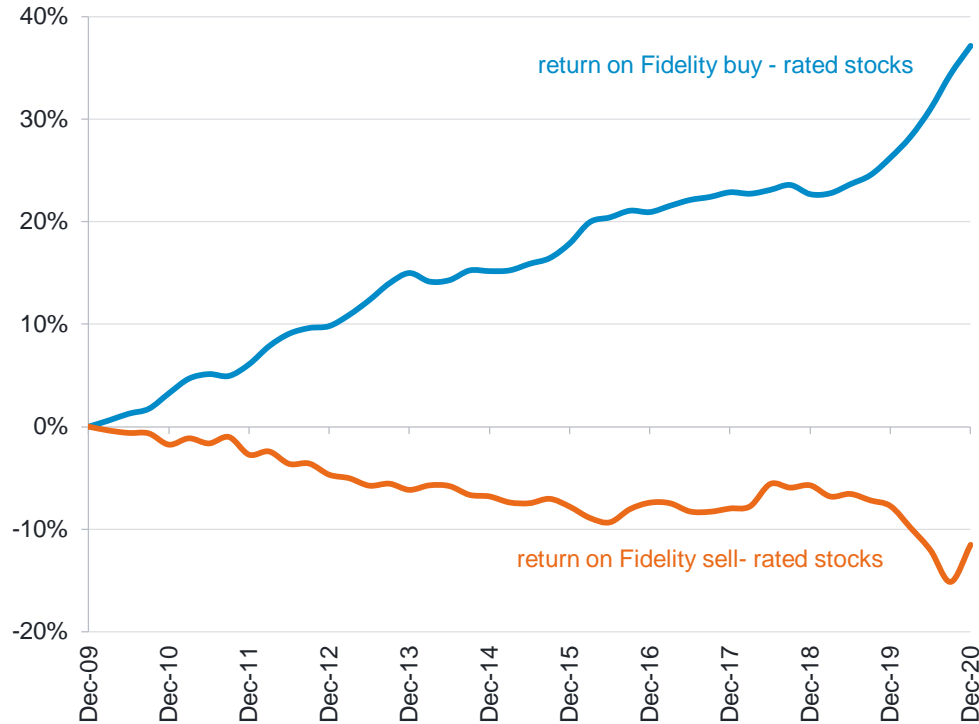
Source: Fidelity International, as at 31 March 2021. Absolute fund weights. On 30 September 2018, MSCI renamed Telecoms sector to Communication Services and includes select companies from IT and Cons. Disc. The Internet & Direct Marketing Retail sub-industry in Cons. Disc. now includes all ecommerce companies, regardless of whether they hold inventory. The Internet Software & Services sub-industry in IT has been eliminated.

Equity research performance outcomes

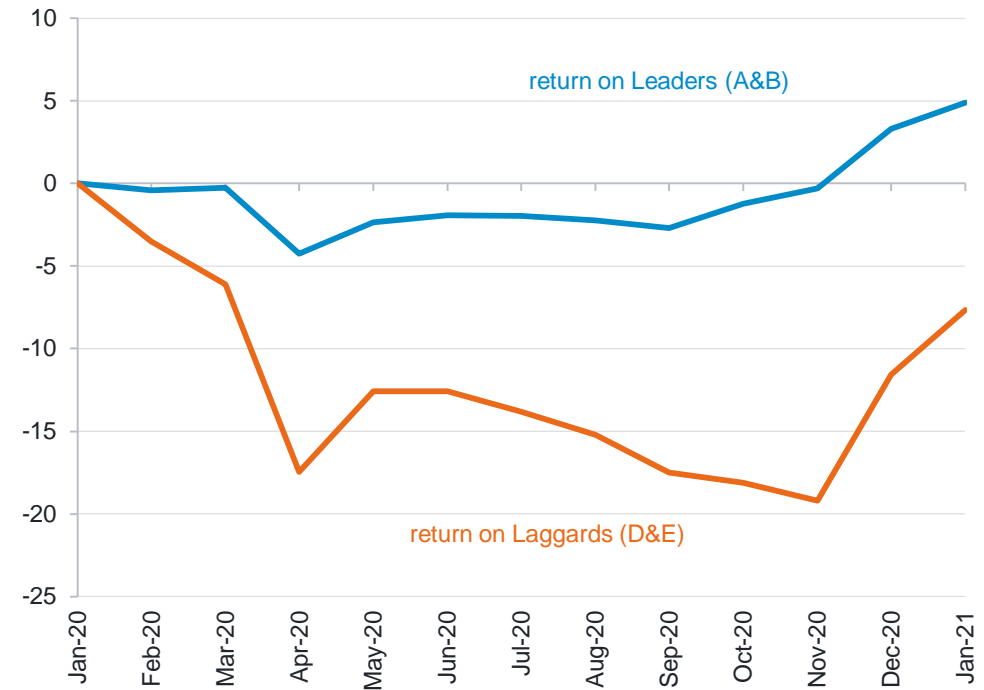
Leveraging corporate access and industry expertise to deliver valuable research insight



Fundamental research performance (global equities)



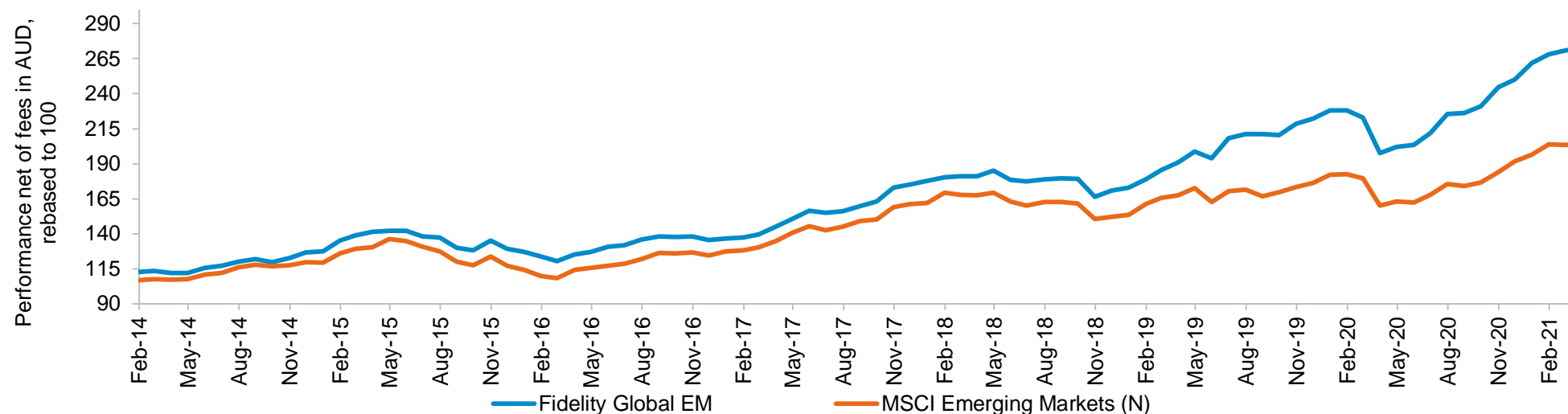
Sustainability ratings performance



Source: Fidelity International. Data as at 31 December 2020. Regional returns weighted by market cap of companies rated either buy or sell. Value-add calculated vs. regional indices 1&5 weightings are double-weighted. Sustainability ratings relative average of A&B and D&E stocks, equal weighted, to MSCI World. The Fidelity Sustainability Ratings were launched in June 2019. As at 31 March 2021, they cover a universe of c. 4,900 issuers in equity and fixed income.

Fidelity Global Emerging Markets Fund

Long term track record – Net of fees in AUD



| % Return | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years Ann. | 5 Years Ann. | Since Launch Ann.* |
|---------------------|------------|------------|------------|-------------|--------------|--------------|--------------------|
| Portfolio | 0.9 | 4.2 | 18.1 | 38.0 | 14.7 | 16.9 | 12.5 |
| Index | 0.1 | 3.6 | 15.2 | 27.3 | 6.7 | 12.3 | 8.8 |
| Excess | 0.8 | 0.6 | 2.9 | 10.7 | 8.0 | 4.6 | 3.7 |
| Peers beaten | 57% | 51% | 69% | 85% | 97% | 97% | 96% |

Past performance is not a reliable indicator of future results. This fund invests in overseas markets and the value of investments can be affected by changes in currency exchange rates.

Source: Fidelity International, 28 February 2013 to 31 March 2021. Net performance shown in AUD. Peer performance is ranking of fund within Morningstar Australia OE Equity Emerging Markets. —Benchmark: MSCI Emerging Markets Index (N).
*Since Launch Annualised starts from 16 December 2013.

Fidelity Global Emerging Markets Fund

Key features

- § A concentrated, high conviction emerging market equity portfolio
- § Managed by a team of highly analytical investors, backed by Fidelity's wider investment platform

Investment philosophy

| Key beliefs | | Practical output |
|---|---|--|
| Focused: High conviction approach | § | Exploit best opportunities irrespective of location or industry driven by our global research platform |
| | § | A concentrated portfolio of 30-50 stocks, with high active share |
| | § | No stock (regardless of index weight) will be purchased for the portfolio if it does not offer adequate return potential |
| Prudent: Avoiding permanent capital loss | § | Strict focus on corporate governance |
| | § | Robust balance sheets that can support the business in times of economic stress |
| | § | Portfolio is typically less volatile than the investment universe |
| | § | Consistent superior return profile |
| Patient: A long-term view | § | 3 to 5 year investment time horizon enabling the portfolio to benefit from the power of compounding over the longer term |
| | § | Turnover of c. 30-50% pa |
| | § | Low turnover - reduces transaction costs for the portfolio |

Source: Fidelity International, 2021.

The structural case for EM for the long-run

Why we propose that Australians have an allocation to EM equities

Emerging Markets and Asia now account for **over 60% of total global economic output** and over 70% of GDP growth. They are involved in **over 50% of the total global trade in goods**.

Since 2000, over **one billion people** in emerging economies have moved out of poverty. This is **more than the total population** of the US and Western Europe combined.

The **increase in spending power** has allowed Asian populations to become **dominant** global consumers.

The **key to long-term outperformance** is on-the-ground **research** on order to find the winners of tomorrow, a **focus** on bottom-up fundamentals, combined with a **rigorous investment process** that harnesses the power of **diversification**.

A **structural allocation** to Asian equities could **assist** Australians in meeting their investment goals, subject to individual risk tolerance and return objectives. The **benefits** of Asian equities are **too large to ignore**.

Strategies for long-term investing

The only certainty is there will be more uncertainty

1. Exploit a long-run time horizon
2. Diversify
3. Cash is now return-free
4. Minimising costs can come at a cost
5. Be selective

Source: Fidelity International, November 2020



Strategies for long-term investing

Anthony Doyle
Cross Asset Specialist

June 2020

Given the inherent volatility of security prices in capital markets, it is useful to remind ourselves of strategies that investors can utilise to meet their investment goals. This is important when constructing and positioning a diversified portfolio of assets, a challenge that most financial advisers face daily. Reminding ourselves of the fundamentals of portfolio construction can help investors position portfolios appropriately in times of crisis and volatility.

Exploit a long-run time horizon

Investors with a long horizon do not need short-term liquidity, giving them an edge during market sell-offs. As markets fall, long-run investors have often generated excellent returns by buying quality distressed assets across major asset classes.

Additionally, if the market rewards illiquid assets with a higher risk premium, it makes sense that investors over-allocate to such assets, as it is unlikely that they will need to sell during bouts of market volatility. Pockets of traditional asset classes like corporate bonds, small-cap equity, and emerging market equity offer the opportunity for long-run investors to generate superior returns over time.

Whilst many would like to describe themselves as long-term investors, this time horizon can shorten very quickly. During financial and economic turmoil, both institutional and individual investment horizons tend to shorten due to immediate cash flow needs or because of psychological factors. The last thing that any investor wants to do is sell an asset into a volatile and illiquid market, where bid-offer spreads can widen materially, and asset prices can fall well below fair value.

The free lunch

Diversification is the rare free lunch available for all investors: it can reduce portfolio volatility without reducing its return. A key challenge to achieving diversification is reducing the dominance of equity risk in a balanced portfolio. Even if diversification tends to fail in crises (as correlations spike across asset classes), it can still be useful in the long run. This matters more for long-run investors who face less liquidation pressure during market drawdowns.

Most portfolios have positive exposures to the equity market and to economic growth. This directional risk is difficult to diversify away, making those assets with a negative correlation to equities a valuable addition. Despite yields being at all-time lows, cash and high-quality government bonds and gold can play an important role to play in most portfolios.

Diversification of course has limitations, one of which is the tendency for correlations to approach one during crises. Many good fund managers distinguish themselves by managing downside risk instead of just relying on diversification. A strong risk management framework and avoidance of large drawdowns is key in generating good long-run compounded returns.

Risk-free is return-free

Developed market central banks have taken the actions that they have with a defined monetary policy transmission mechanism in mind. One of the channels of monetary policy is the asset prices and wealth channel, with lower interest rates and quantitative easing expected to spur demand for higher risk assets. Risk-free assets like cash and government bonds no longer generate a positive inflation-adjusted yield and are return-free. Long-run investors can position for 'the portfolio rebalancing effect' that is likely to dominate investment flows in the next decade.

Expected portfolio returns can be improved by increasing the weight of the most volatile asset class. The classic approach is to raise the weight of 'high-risk, high-return' equities and reduce the weight of 'low-risk, low-return' assets such as cash and government bonds. Taking more risk in this way, and getting rewarded for it, is an easy way to boost long-run returns for investors.

Minimising costs can come at a cost

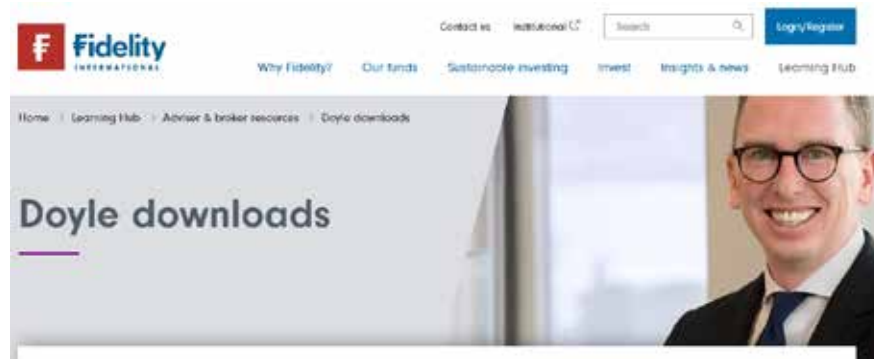
Passive investing minimises trading costs. However, some costs are worth paying. For example, buying an equity index fund costs more than investing in a bank deposit, but the equity risk premium should make the cost worthwhile in the long run. In general, investors should allocate more to active products the less they believe in market efficiency. Minimising costs is not always smart; being cost-effective and avoiding wasteful expense is.

Explore the Fidelity learning hub

Investor information and further reading

Whether you're just starting out or a seasoned investor looking to dive deeper into investment principles, we've got a range of guides, tools and information to help you understand your options.

<https://www.fidelity.com.au/learning-hub/>



Source: Fidelity International, April 2021.

A screenshot of the Fidelity Learning Hub content grid, organized into several sections:

- Markets:** Includes an image of a candlestick chart and text: "Use our interactive tools to explore and understand volatility in markets." Links include "Market crises", "Timing the market", and "Unpredictable returns".
- Investing concepts:** Includes an image of hands typing on a laptop. Text: "Looking to find out more about some key investing concepts? Here we explore volatility, risk, active management, sustainable investing, the value of advice and behavioural finance." Links include "Understanding volatility", "The value of advice", "Understanding risk", "Behavioural finance", and "Active management".
- Sustainable Investing:** Includes an image of bees on a flower. Text: "Explore key concepts in our educational series featuring videos and articles to help you learn more." Links include "Video series" and "Educational articles".
- Discover Active ETFs:** Includes an image of a sailboat. Text: "Active ETFs (Exchange Traded Funds) are an easy way to access Fidelity's proven global investment expertise. Find out how you can invest today." Links include "What is an Active ETF?", "Why invest?", "How they work", "Fidelity funds available as Active ETFs", and "See all Active ETF insights".
- The case for:** Includes an image of a person working on a laptop. Text: "Latest insights, facts and figures about the asset class or region that you're thinking about investing in." Links include "Global equities", "Emerging markets", "Asia", "Global low volatility equities", "China", "Small to mid caps", and "India".

Important information

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