

Are Recession Clouds Gathering?

Navigating the Changing tide and finding the best globally

May 2019

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QLD State Manager

Welcome to Fidelity

We've been offering our equity funds in Australia for more than 15 years

- Privately owned, independent company, established in 1969.
- Locally we set up in 2003 and have successfully grown the business, predominately in Australian equities.
- Looking to broaden offering to clients across assets into global strategies.



We have one of the largest global research capabilities with over 400 investment professionals around the world.



Our portfolio managers and analysts attend more than 16,000 company meetings a year.



That's a meeting every 10 minutes.



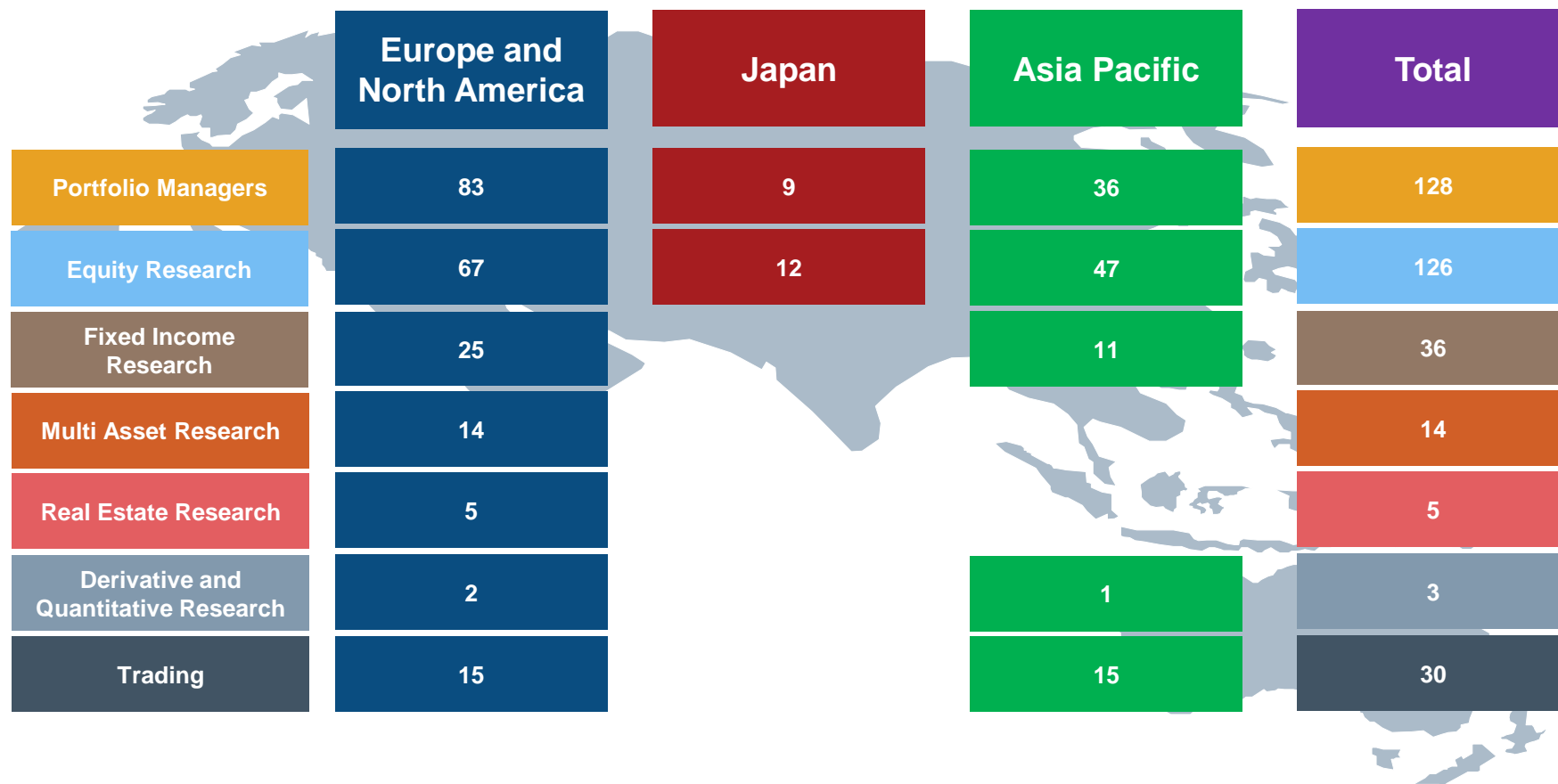
Our analysts research 80% of the world's market capitalisation and global investment grade credit universe.



90% of our research is produced in-house and therefore unavailable to other investors.

Fidelity International – breadth and depth of resources

A truly global investment management firm



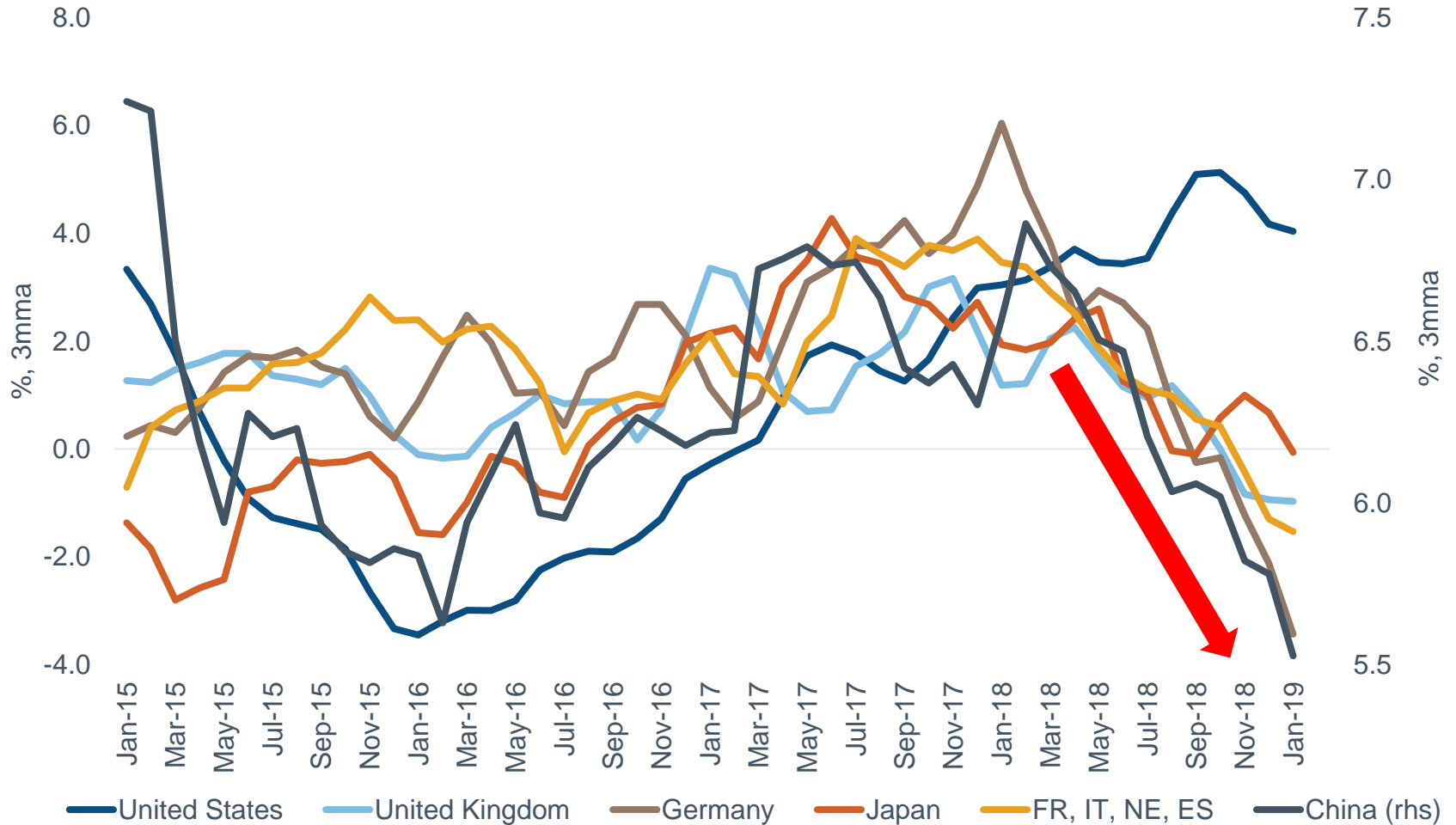
Source: Fidelity International, December 2018. Data is unaudited.

Are recession clouds gathering?



That sinking feeling... global activity fell in 2018

Industrial production



Source: Fidelity International, IMF, April 2019. 3mma relates to 3 month moving average.

The US Fed's policy shift sparked a rally in 2019

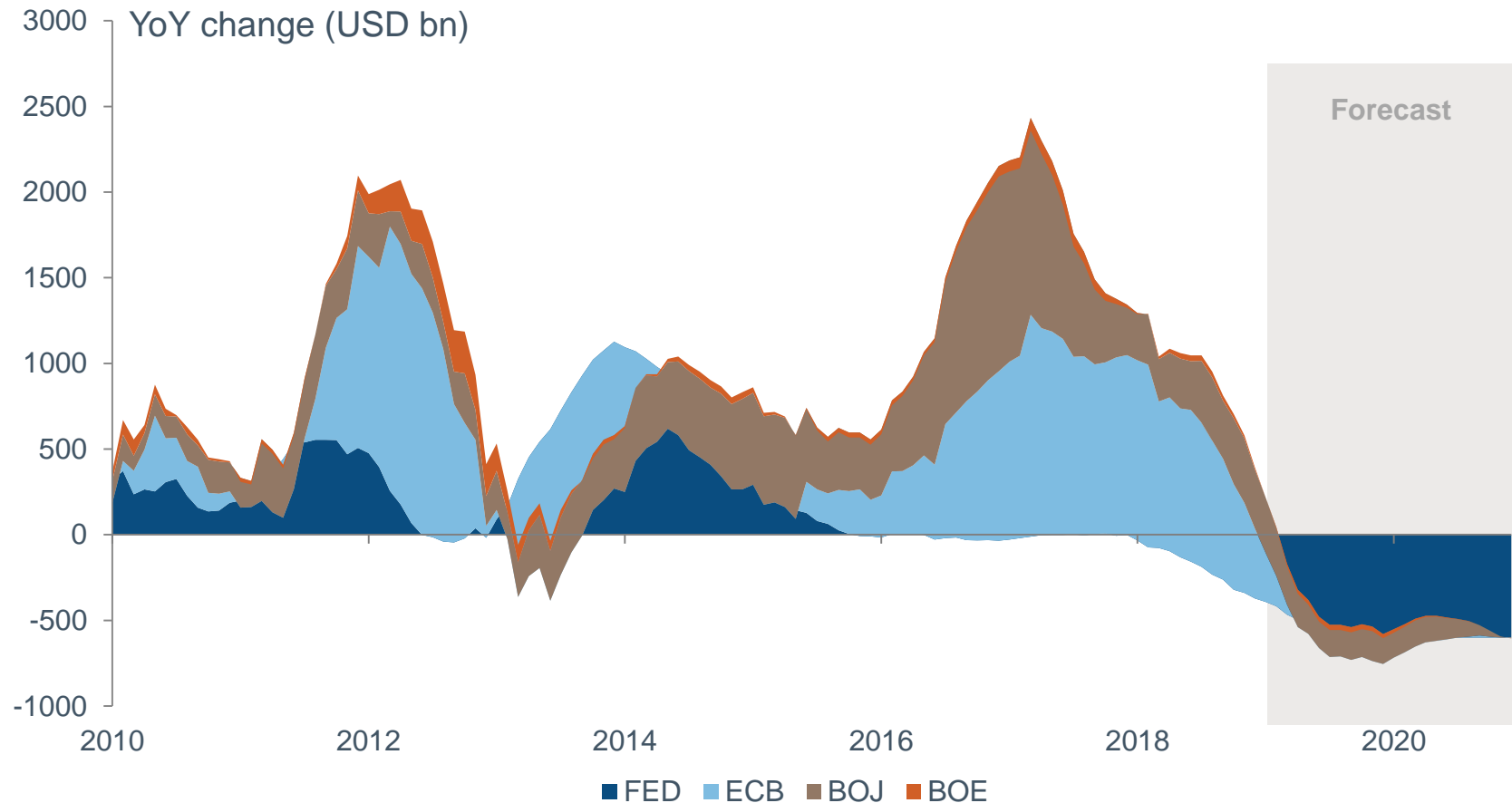
Global equity market performance*



Source: Fidelity International, Bloomberg, April 2019. *rebased to 100 June 2018

The move from QE to QT is driving all markets

Central bank balance sheets shrinking for the first time since 2008

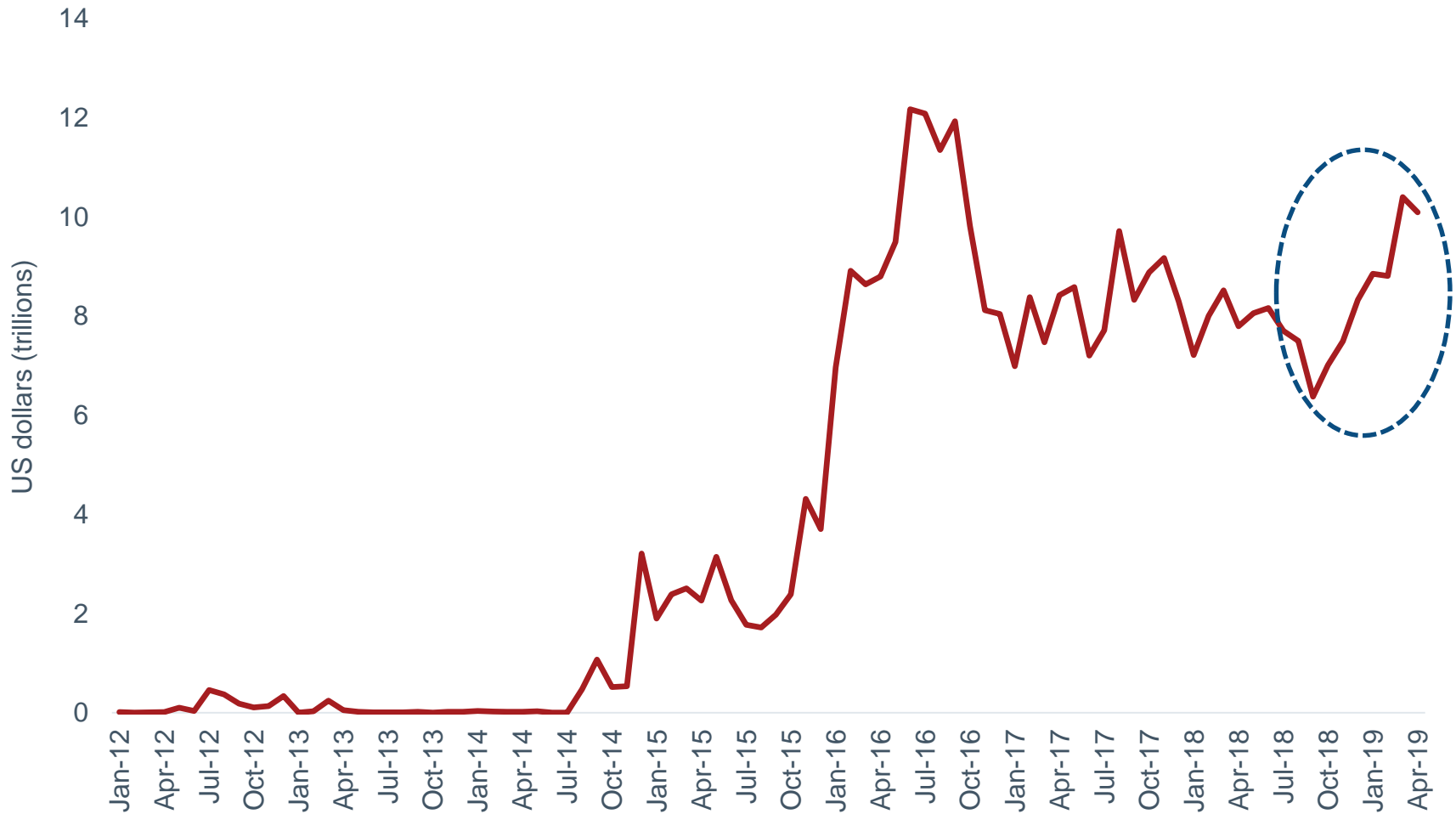


Source: Fidelity International, Bloomberg, December 2018

Main assumptions: ECB QE at 30bn EUR pcm in Jan-Sep 2018 and 15bn pcm in Sep-Dec 2018. Fed BS shrinking at 10bn USD pcm from October 2017, pace of reduction increases by 10bn USD quarterly, to a max pace of 50bn USD. BoJ YoY pace of purchases slows at a rate of 0.25%. Constant exchange rates for the forecast period.

The stock of negative-yielding debt is growing again

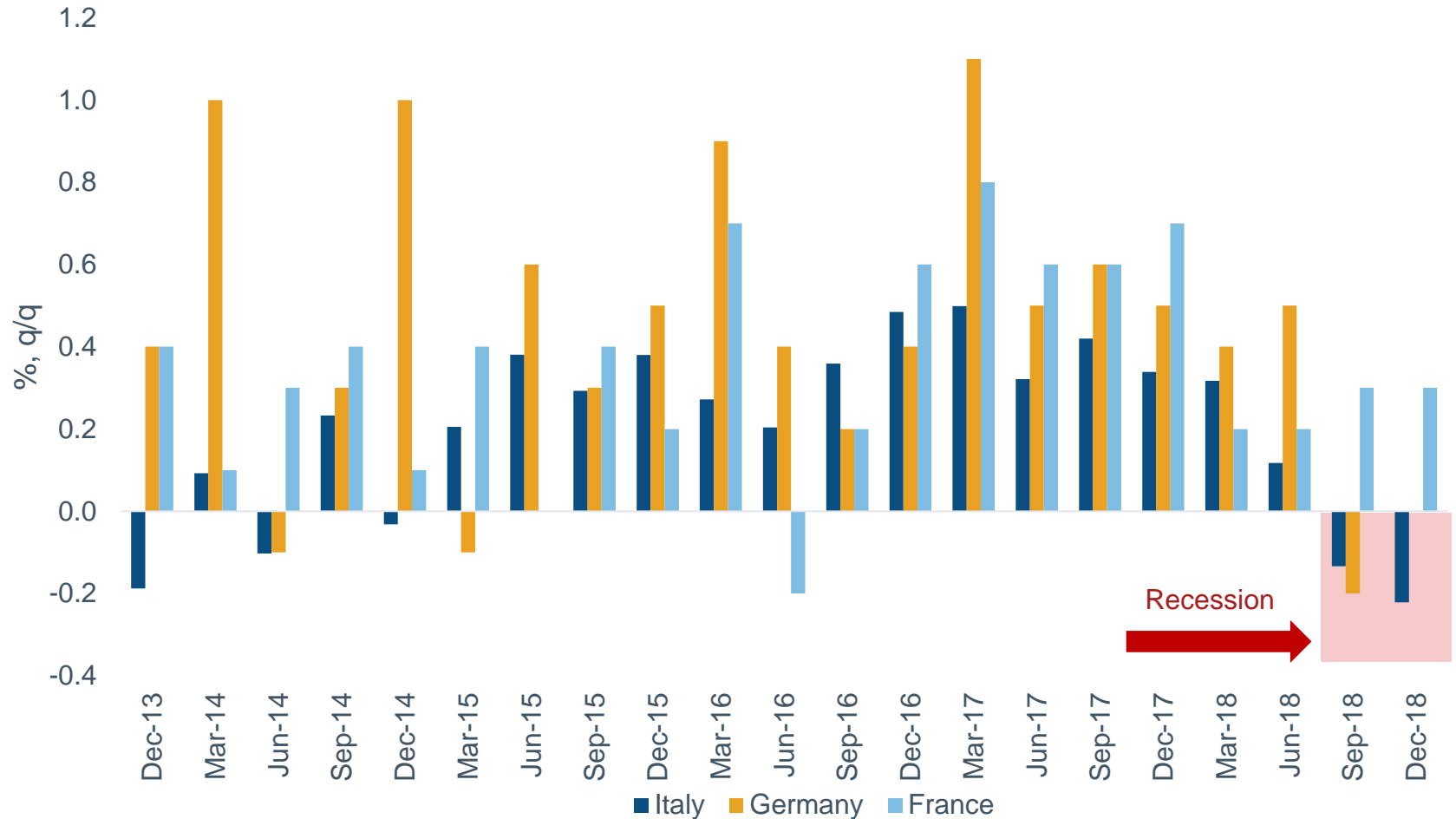
Bloomberg Barclays Global Aggregate Negative Yielding Debt



Source: Fidelity, Bloomberg, April 2019

The euro area is back on the brink of recession

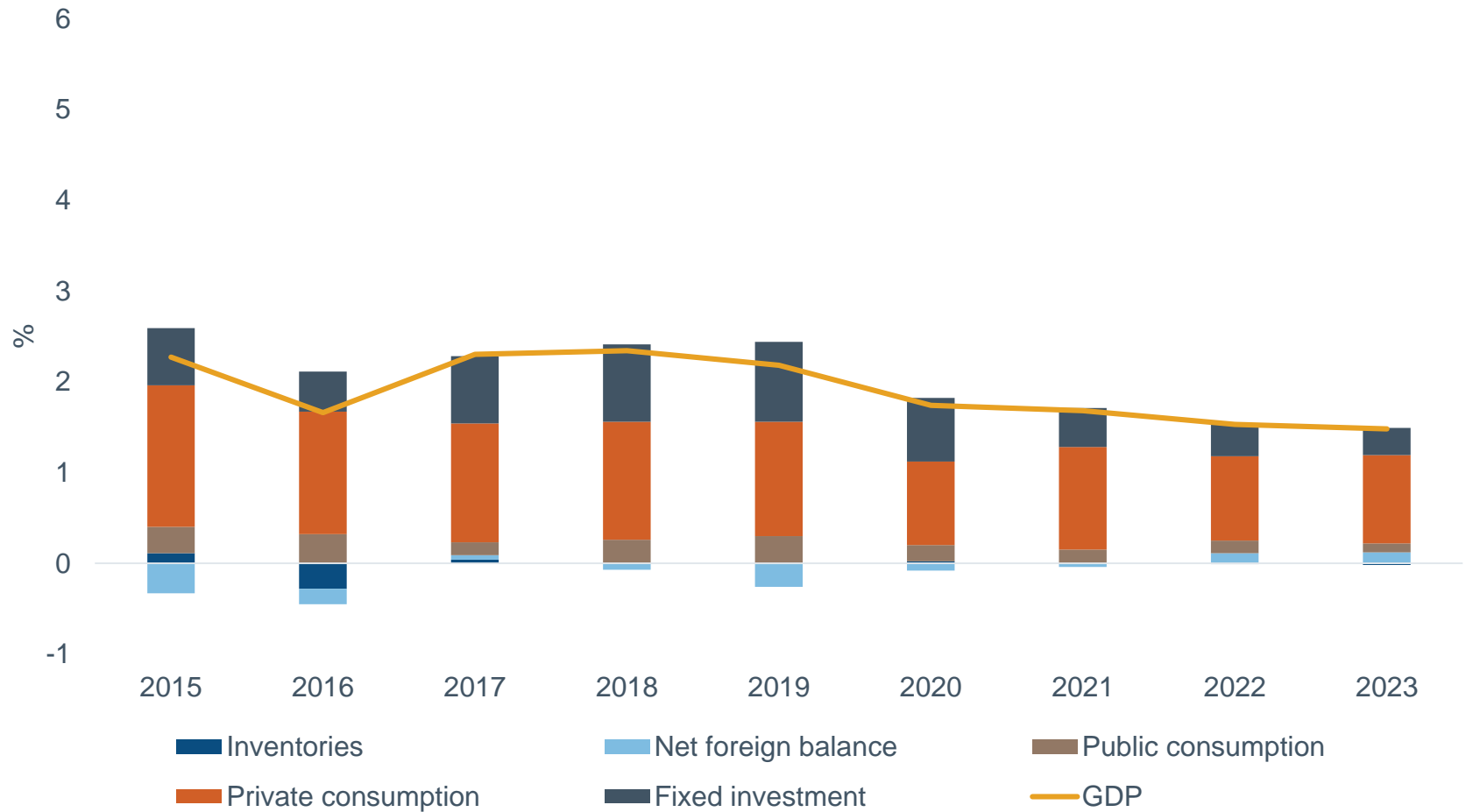
Germany, France and Italy represent 63% of euro area GDP



Source: Fidelity, Bloomberg, February 2019.

Advanced economic growth is expected to weaken

Investment to weaken significantly, dragging down GDP



Source: Fidelity International, IMF, February 2019.

A slowdown in Australia?

Australians are being bombarded with negative headlines

Why franking credits are crucial to
Australia's next election

Australian wages are still going nowhere

**NEGATIVE GEARING IS SHAPING UP AS AN
ELECTION BATTLEGROUND**

Economy shows worrying signs for government
ahead of election

RBA says it could cut interest rates over weakening
economy

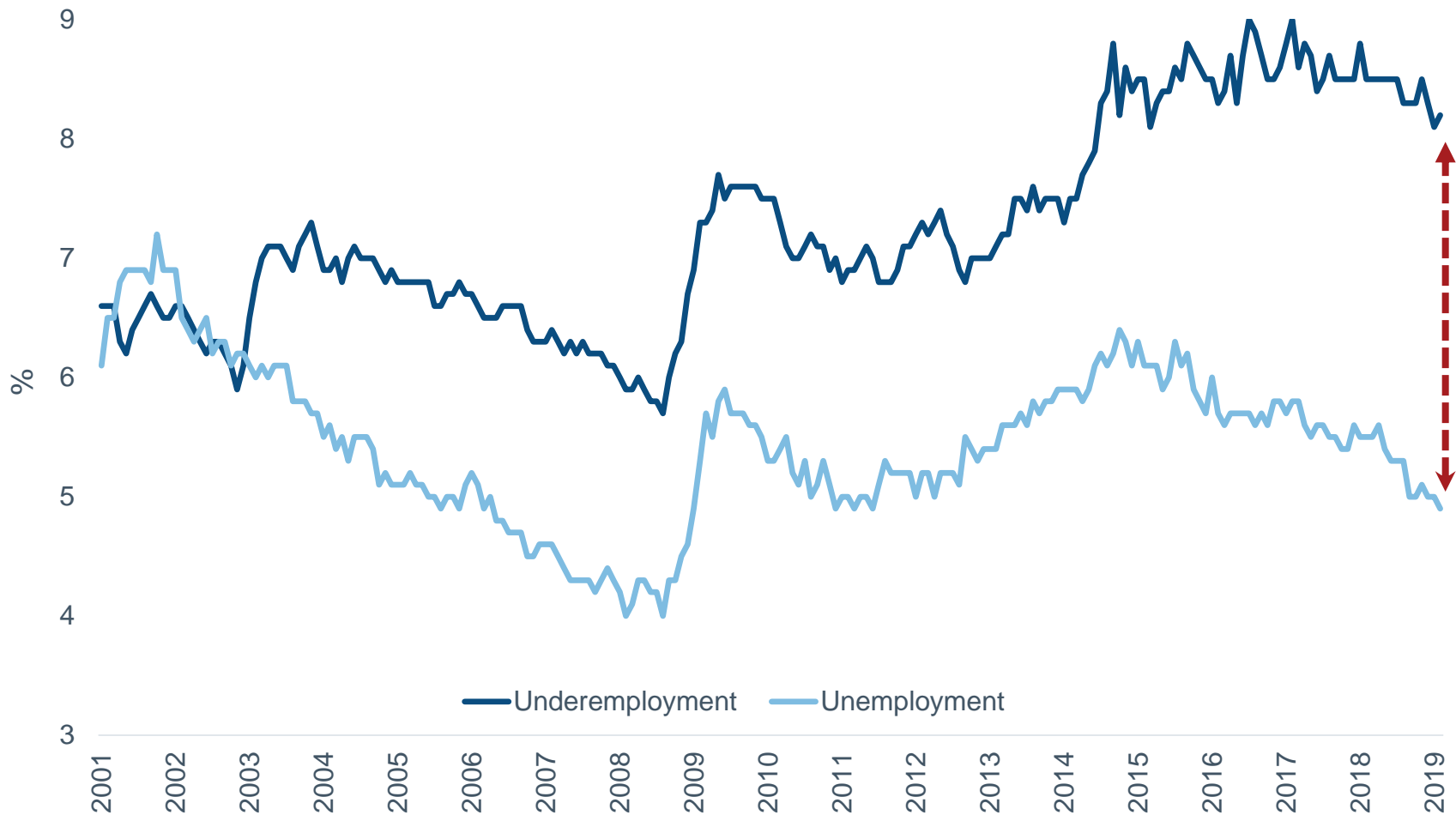
Buying a house? Here's how the banking royal
commission affects you

Wallabies struggling ahead of Rugby World Cup
following comprehensive defeat to England

Source: Fidelity, smallcaps.com.au, yourmoney.com.au, smh.com.au, businessinsider.com.au, abc.net.au, roar.com.au

Is the Australian labour market strong... or weak?

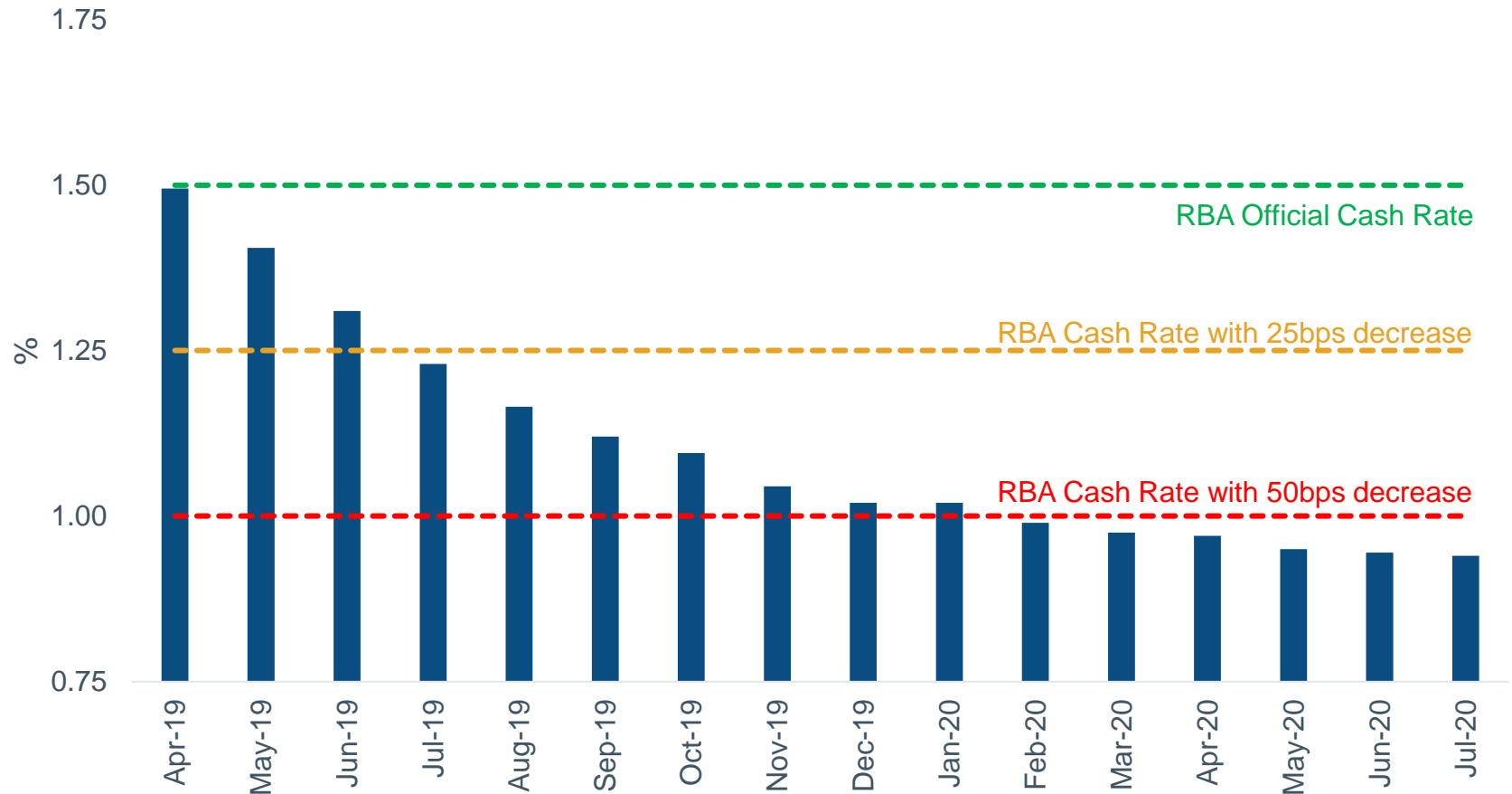
Underemployment in the labour force remains stubbornly high



Source: Fidelity, Bloomberg. February 2019.

The market is now pricing in an RBA rate cut in 2019

ASX 30 Day Interbank Cash Rate futures implied yield curve

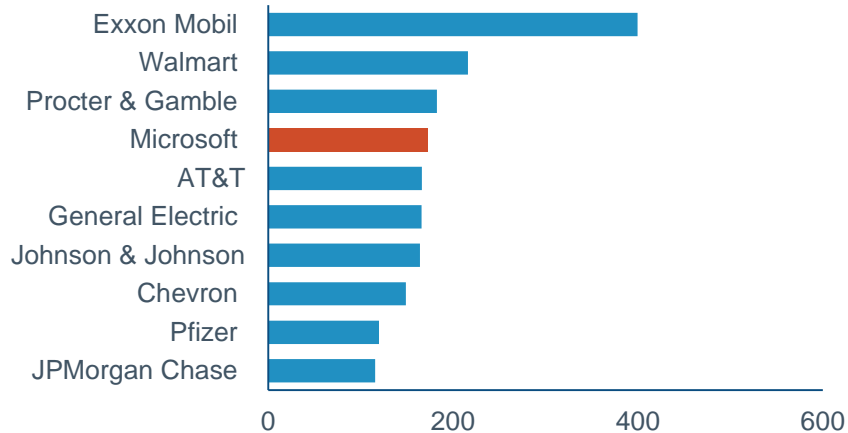


Source: Fidelity, ASX, April 2019.

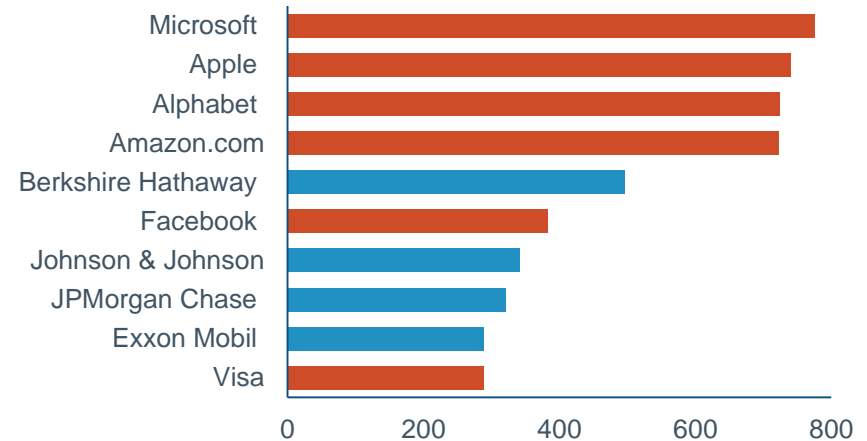
Market leadership has changed dramatically in the last 10 years

Many of the stalwarts of the past have lost their lead

Q4 2008: largest cos by market cap (in US\$ Bns.)



Q4 2018: largest cos by market cap (in US\$ Bns.)



Source: Fidelity International, 31 December 2018. Largest companies in the S&P 500 Index by market capitalisation. The information technology & tech related securities have been highlighted for two time periods. 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.

Implications for markets

There are pockets of value in global markets



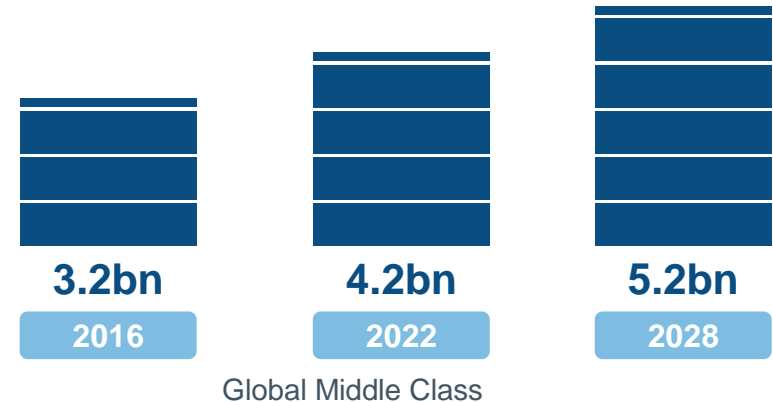
Unprecedented expansion of the middle class



Around 2020, the middle class will become a majority of the global population for the first time ever.

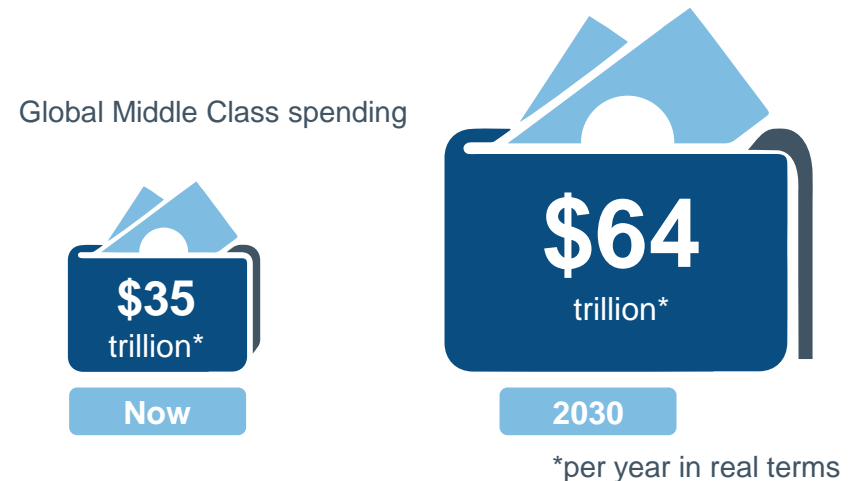
We are on pace to add another billion in seven years and another billion by 2028.

UPPER CLASS
.....
MIDDLE CLASS
.....
LOWER CLASS



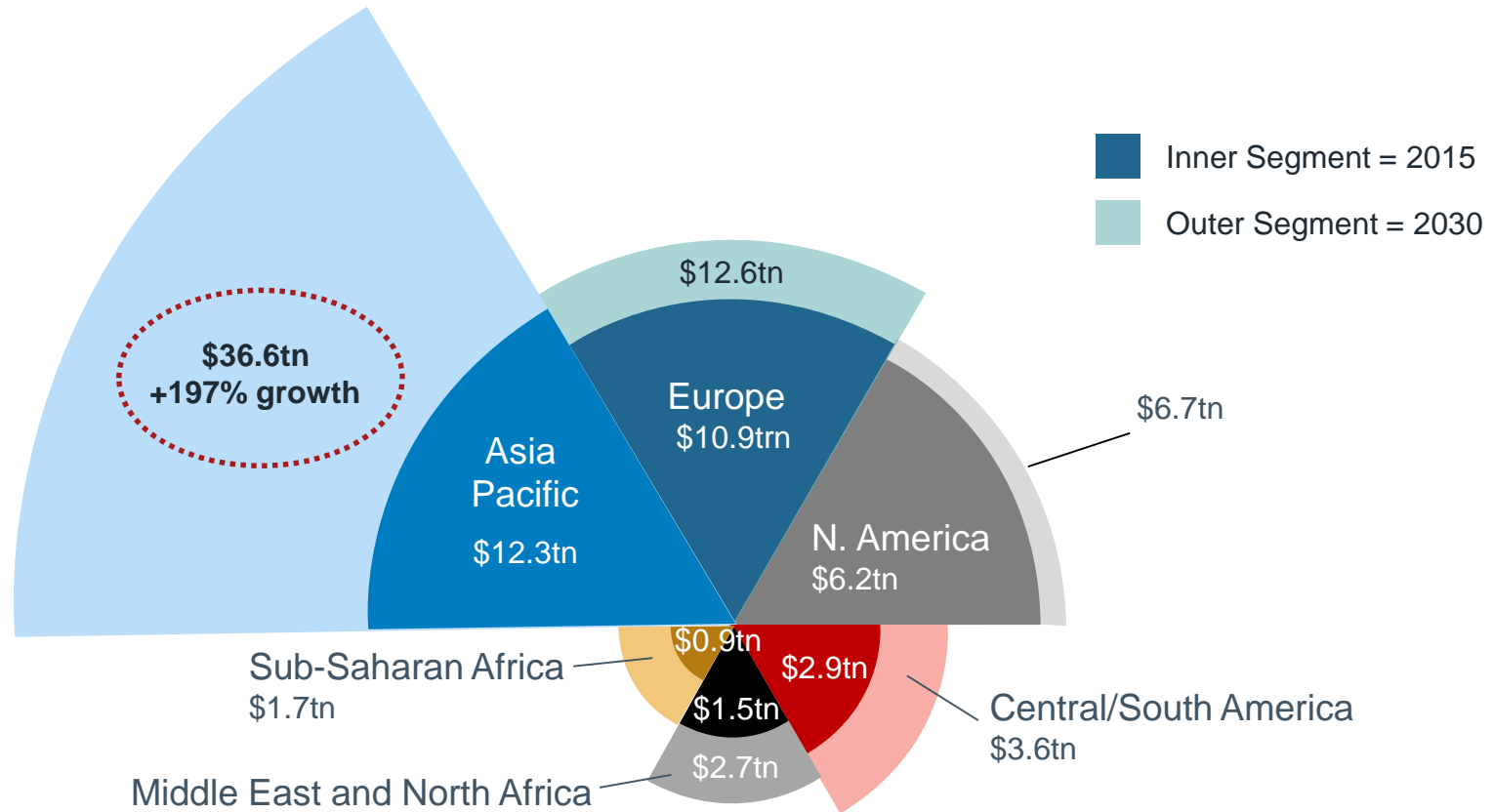
Globally, the middle class is already spending \$35 trillion, and could spend \$29 trillion more by 2030.

The market for middle class consumption could grow faster than global GDP growth.



Source: Fidelity Worldwide Investment, Brookings, Inner circle data is for the year 2015 and the outer circle is for the year 2030. OECD Development Centre, 2017.

By 2030, global middle-class consumption could be \$29 trillion more than in 2015

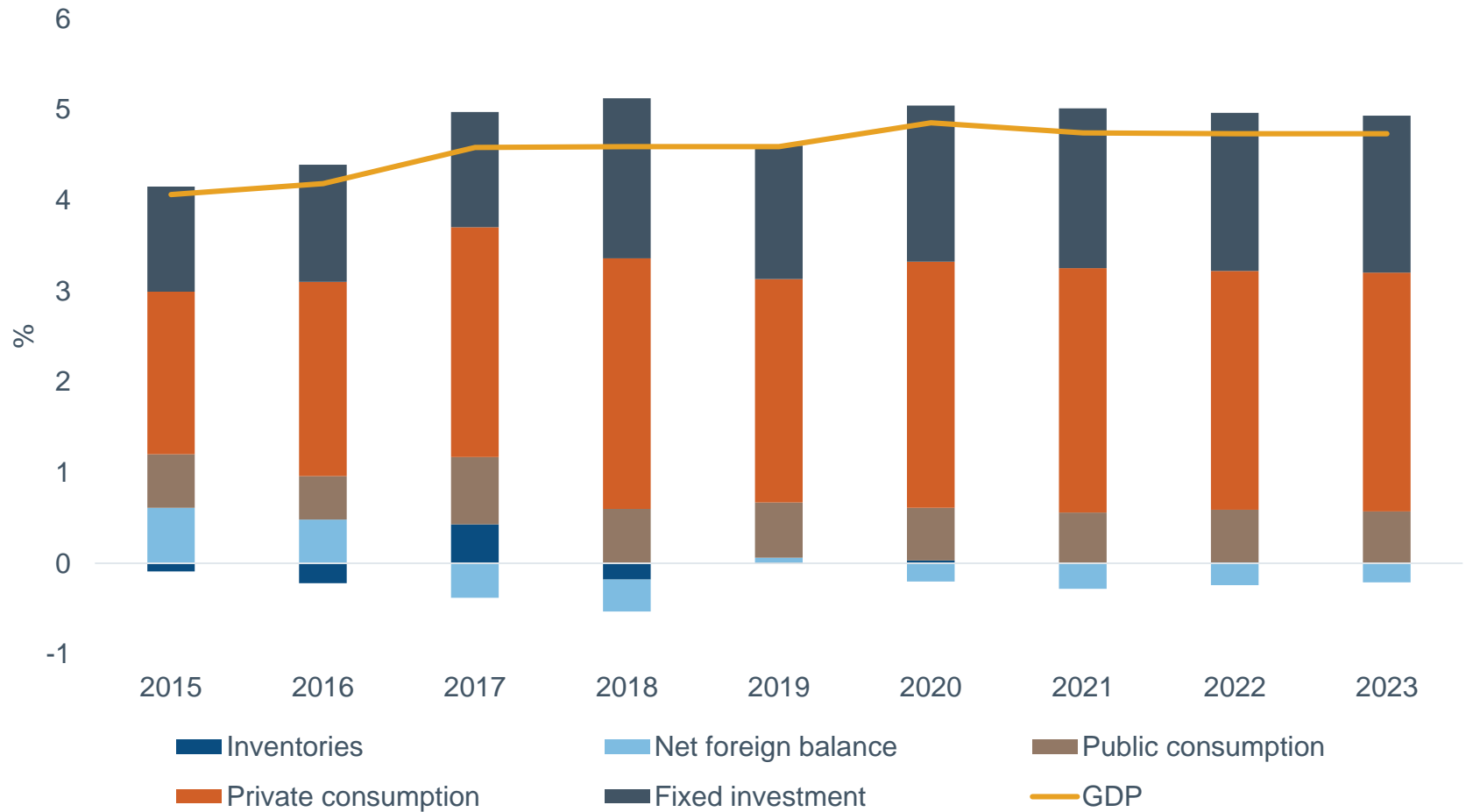


Middle class estimated consumer spending 2015 to 2030 in trillions of 2011 PPP US dollars

Source: Fidelity Worldwide Investment, Brookings, Inner circle data is for the year 2015 and the outer circle is for the year 2030. OECD Development Centre, 2017.

Emerging markets expected to show strong growth

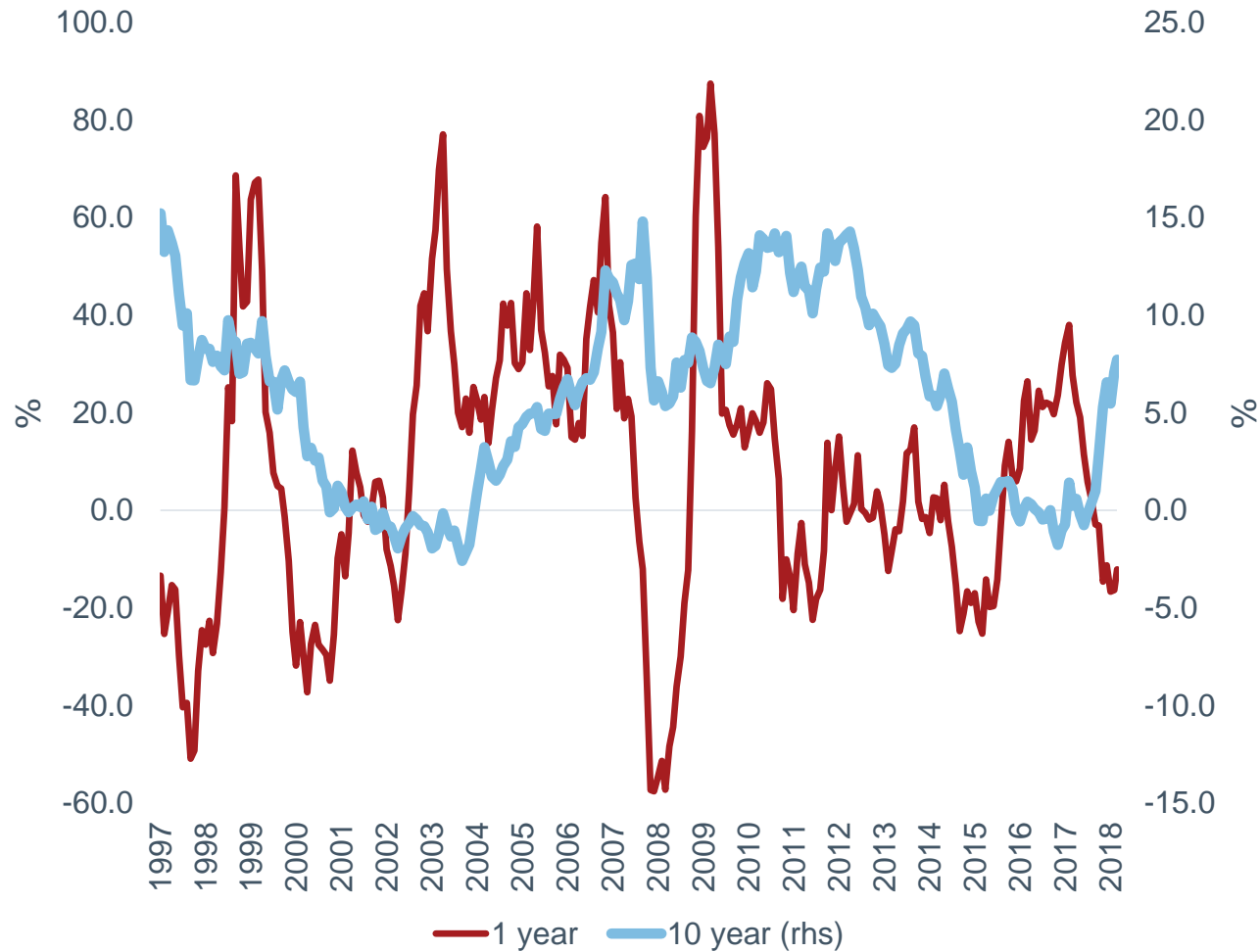
Strong consumption fuelled by rising incomes



Source: Fidelity International, IMF, February 2019.

Time is on your side

MSCI Emerging Market Index performance



10 year performance

Entire time period
(Dec 1997 – Feb 2019)

Positive – 83%
Negative – 17%

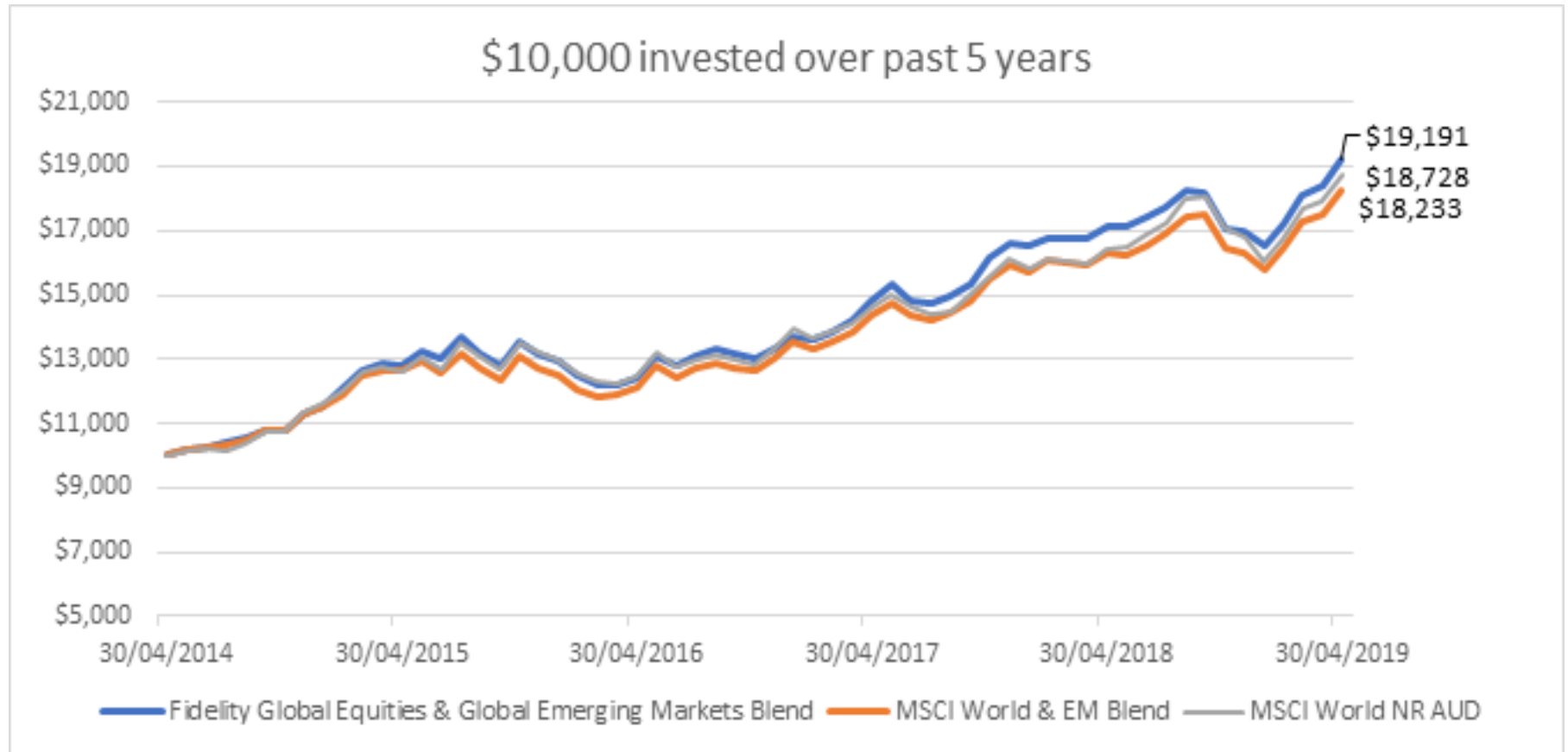
>5% - 59.6%

>10% - 21.2%

Source: Fidelity, Bloomberg, February 2019.

Time is on your side

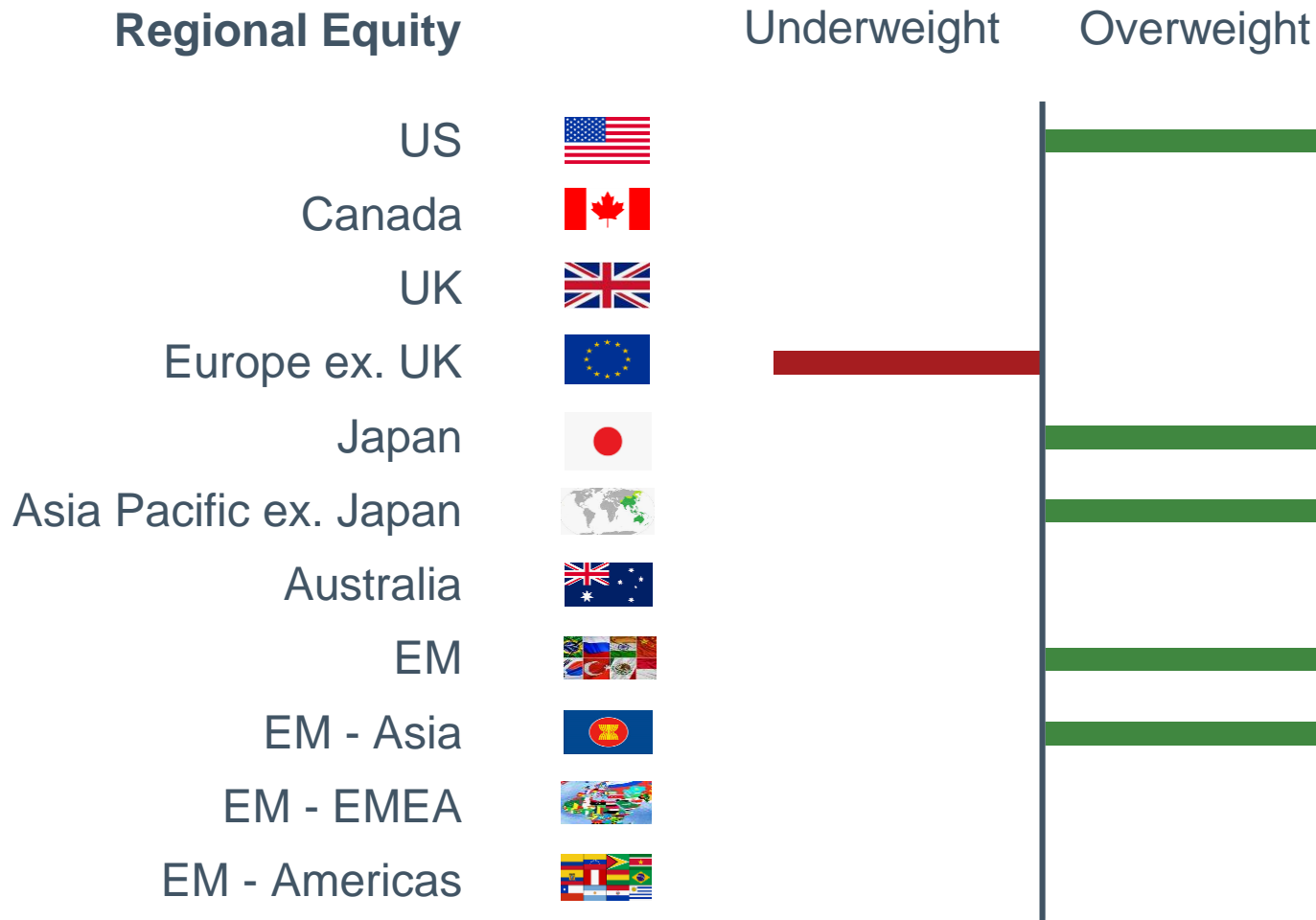
Blended portfolio of 80/20 MSCI Global and MSCI EM



Source: Fidelity, Bloomberg, February 2019.

Attractive valuations in some risk assets

Fidelity Multi Asset – Asset allocation view



Fidelity International – Global Investment Capabilities

Fidelity Australian Equities Fund	Fidelity Global Equities Fund	Fidelity Global Emerging Markets Fund
		
Portfolio Manager: Paul Taylor	Portfolio Manager: Amit Lodha	Portfolio Manager: Alex Duffy
Inception Date: 30 June 2003	Inception Date: 15 April 1998	Inception Date: 16 December 2013
Management Costs: 0.85%	Management Costs: 0.99%	Management Costs: 1.00%
AUM: \$5.8bn	AUM: \$340m	AUM: \$29m
<p>A core holding which invests in a diversified selection of around 30-50 Australian companies.</p> <p>Uses a bottom-up stock-selection approach that focuses on undiscovered earnings potential, value and growth.</p>	<p>A diversified portfolio of 80-120 of some of the best ideas globally drawn from Fidelity's global research and financial modelling.</p> <p>Uses a rigorous bottom-up stock selection process that focuses on finding companies with sustainable pricing power, strong management and companies investing for future growth</p>	<p>Invests in a concentrated portfolio of typically 30 to 50 companies in emerging markets.</p> <p>A rigorous bottom-up stock selection process that focuses on companies that we believe are well positioned to generate returns through market cycles and have demonstrated a track record of strong corporate governance.</p>

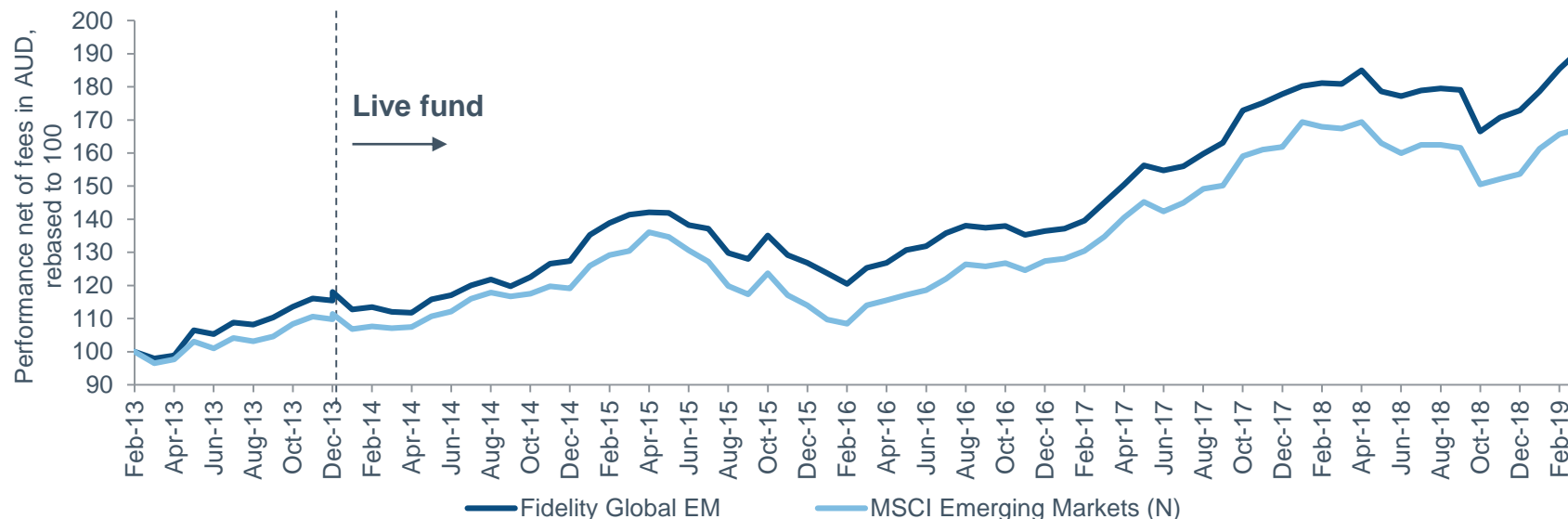
Source: Fidelity International

Fidelity Global Emerging Markets Fund

Key Features	Practical output
Prudent: Avoiding permanent capital loss	<ul style="list-style-type: none"> ▪ 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 long-term return profile
Focused: Benchmark agnostic absolute approach	<ul style="list-style-type: none"> ▪ Exploit best opportunities irrespective of location or industry driven by our global research platform ▪ +85% active money ▪ 30-50 stocks with absolute position sizes of 1% to 5% of TNA enabling each position to meaningfully contribute to output of the portfolio
Patient:	<ul style="list-style-type: none"> ▪ 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% pa ▪ Reduces transaction costs for the portfolio

Fidelity Global Emerging Markets Fund

Long term track record – Net of fees in AUD



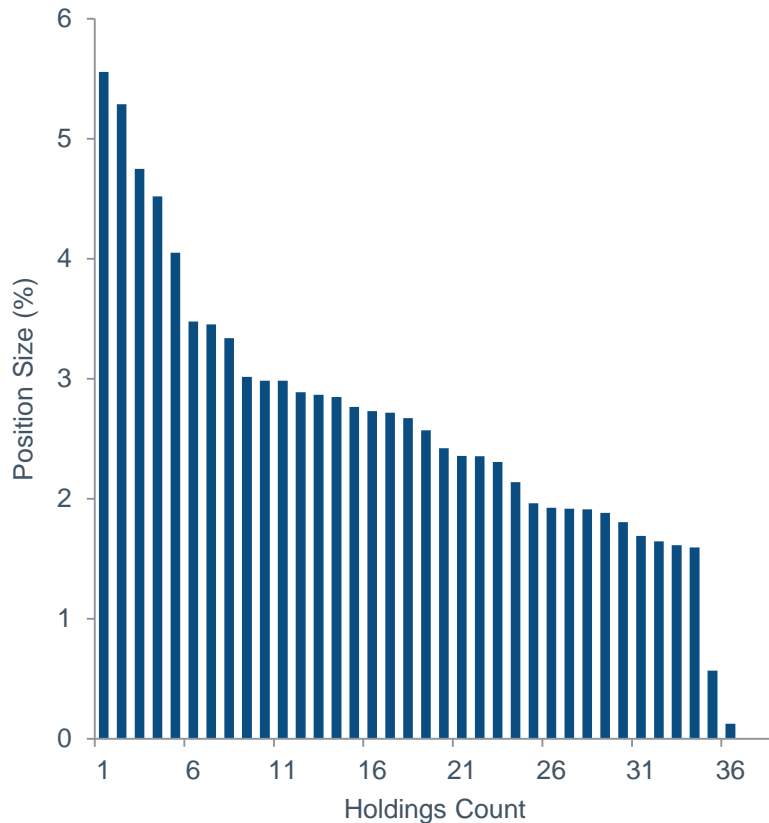
% Return	1 month	3 Months	6 Months	1 Year	3 Years Ann.	5 Years Ann.	Since Launch Ann.
Portfolio	3.0	10.5	6.7	5.6	15.1	11.3	10.0
Index	1.0	8.9	3.6	0.0	13.7	9.3	8.3
Relative	2.0	1.5	3.1	5.6	1.4	1.9	1.7
Peers beaten	89%	79%	80%	92%	85%	96%	100%

Past performance is not a reliable indicator of future results.

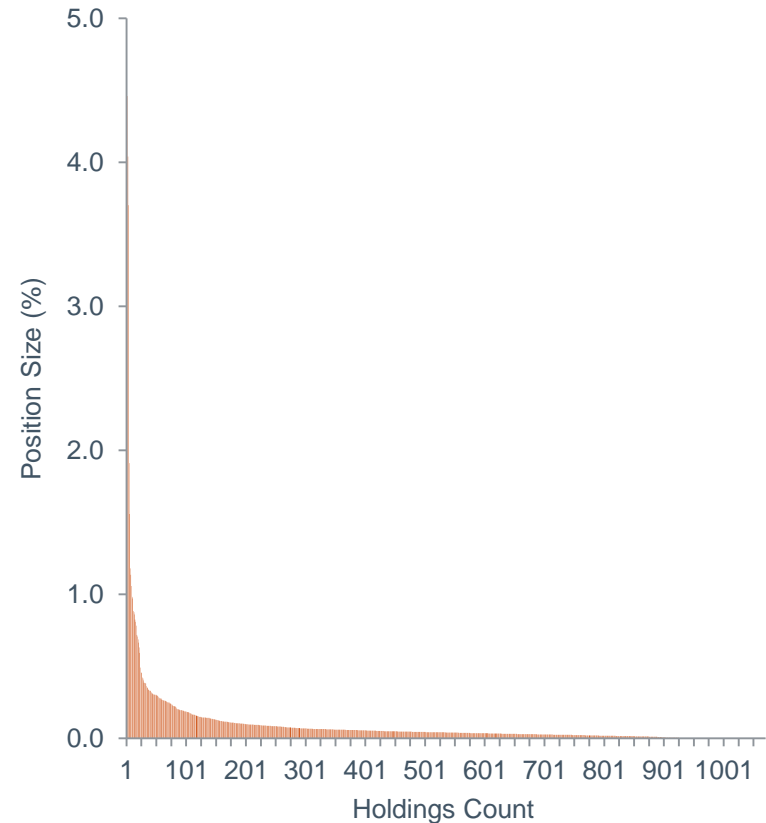
Source: Fidelity International, Morningstar Direct, 28 February 2013 to 31 March 2019. Net performance shown in AUD. The Fidelity Global Emerging Fund reflects chain-linked performance data constructed from the GEM pilot (27233) from commencement of performance on 28 February 2013 to 16 December 2013, and thereafter of the live Fidelity Global Emerging Markets Fund (28424). Live fund performance may differ from pilot performance based on the impact of actual expenses associated with live fund administration, transaction costs, and shareholder inflows and outflows. Pilots are funded entirely by Fidelity and are not available for client investment. All trading for pilots is transacted via Fidelity's centralised dealing desk, in the same way as a live fund. However, in the absence of sufficient liquidity, all client orders must be completed in full before a pilot receives any allocation. Pilots may also not trade with client accounts. Benchmark: MSCI Emerging Markets Index (N). Peer group: Australia OE Equity EM, AU60FID00318.

Holdings distribution

Fidelity Global Emerging Markets Fund



MSCI Emerging Markets Index

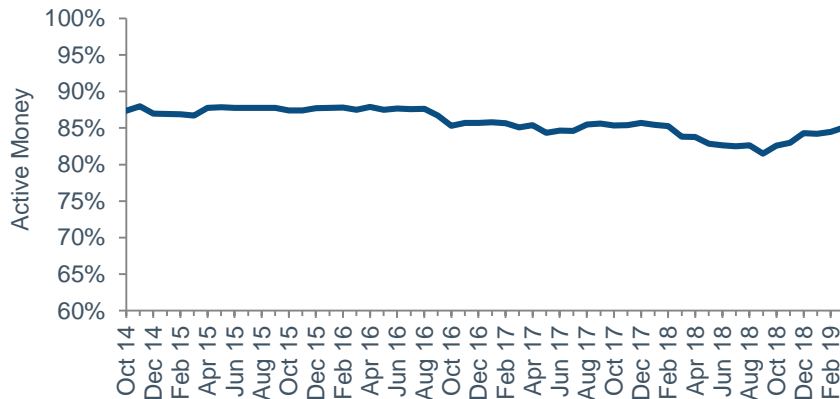


Source: Fidelity International. As at 31 March 2019. Cash = 4.3%. Index: MSCI Emerging Markets Index (N).

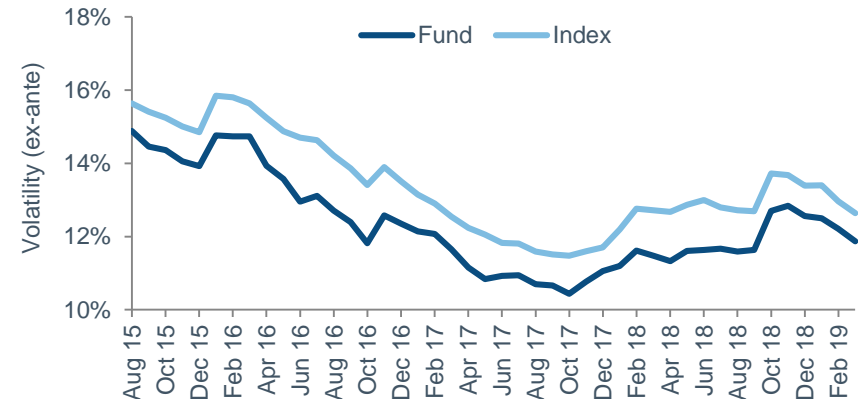
High active money, yet defensive versus the market

Outcomes from investment process

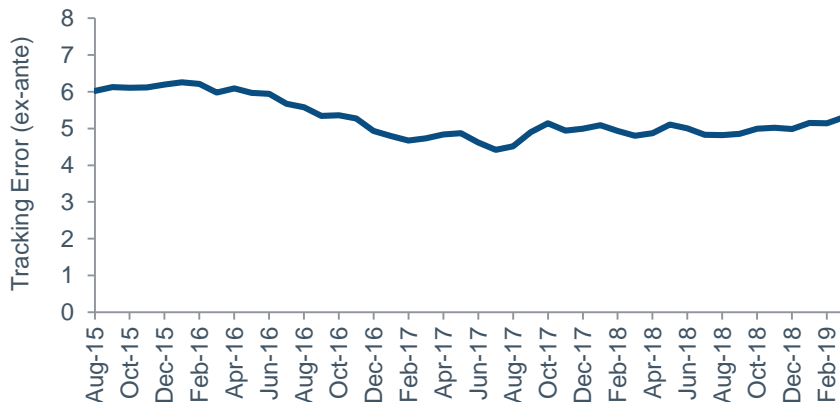
Active money consistently above 85%



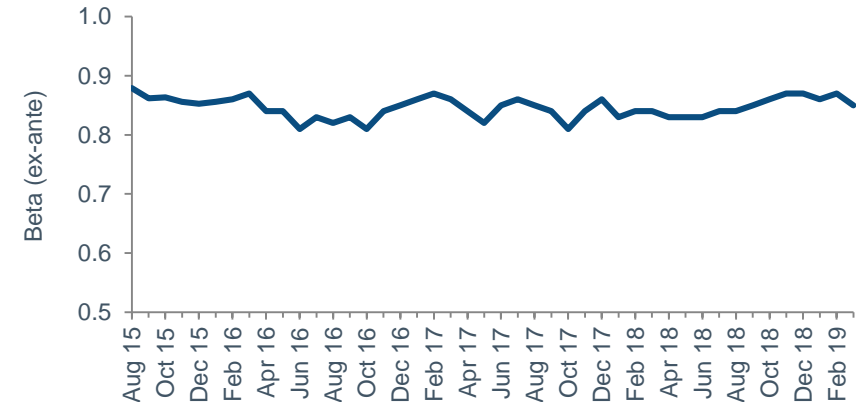
Volatility remains lower than the market



Tracking error c.4 – 7%



Beta lower than the market



Source: Fidelity International / FactSet, 31 March 2019. Data for Fidelity Global Emerging Markets Fund versus MSCI Emerging Markets Index (N) .

Top ten absolute positions

31 March 2019

Security name	Sector	Country	Fund (%)	Index (%)	Relative (%)
AIA Group	Financials	Hong Kong	5.6	0.0	5.6
Taiwan Semiconductor	IT	Taiwan	5.3	3.7	1.6
HDFC Bank	Financials	India	4.7	0.0	4.7
Bank Central Asia	Financials	Indonesia	4.5	0.4	4.2
Housing Dev Fin. Corp.	Financials	India	4.1	0.9	3.2
Zhejiang Supor Cookware	Cons. Disc.	China	3.5	0.0	3.5
Li Ning	Cons. Disc.	China	3.5	0.0	3.5
Techtronic Industries	Cons. Disc.	Hong Kong	3.3	0.0	3.3
Midea Group	Cons. Disc.	China	3.0	0.0	3.0
Foshan Haitian Flavouring	Cons. Stap.	China	3.0	0.0	3.0

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 2019. 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.

In summary



Global growth is slowing, and central banks are in wait-and-see mode. The RBA could cut interest rates this year.



We are underweight European equities, neutral on Australia and overweight emerging market risk



EM to perform well in 2019, supported by better valuations, economic adjustment, and a subdued Fed (and USD)

Source: Fidelity International, February 2019.

<https://www.fidelity.com.au/insights/>

Get a different view and a deeper understanding, with market commentary and helpful insights from our fund managers.

China's economic destiny: Choose your own adventure

How China develops over the next decade will have huge global ramifications. What does it mean for the rest of the world if China becomes the world's preeminent economic superpower? Alternatively, what does it mean if China gets stuck in the middle-income trap?

11 February 2019 | Fidelity International

Asian equities



The only certainty in investing is uncertainty

It is sometimes said that markets hate uncertainty. This is not strictly true. Uncertainty is a key feature of markets - it creates the tension between buyers and sellers that sets prices. Without



Podcast: The world in 2029

What could global markets look like in 2029? Will a worldwide recession have reset the economic and corporate clocks? How will changing tastes and technology affect the way we invest

Our picks



Trade tariffs: assessing the real impact

14 January 2019



The seeds of discontent

17 December 2018



2019 outlook: Australian Equities

12 December 2018



2019 outlook: Emerging markets Asia

12 December 2018

What is an Active ETF?



Important information

All investments carry risks, and diversification is not a guarantee for achieving returns nor a guarantee against potential loss of capital.

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