

Fund description

A concentrated high conviction portfolio, typically investing in 25-35 holdings across developed and emerging Asia (ex-Japan) and draws on the research capabilities of Fidelity's analysts based on the ground in Asia.

Fund facts

Portfolio manager: Anthony Srom
Benchmark: MSCI AC Asia ex-Japan Index NR
Inception date: 29 September 2005
Fund size: AU\$282.67M
Number of stocks: Typically 25-35
Management cost: 1.15% p.a.
Buy/sell spread: 0.40%/0.40%

Portfolio guidelines

Stocks: +10% overweight
Industry: +/-20% from benchmark
Country: +/-20% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings %

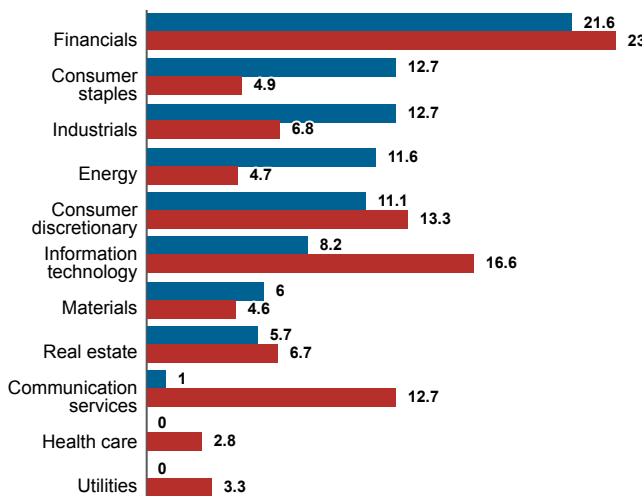
	Fund	B'mk
AIA GROUP LTD	10.0	2.6
KWEICHOW MOUTAI CO LTD	9.8	0.1
HDFC BANK LTD	8.8	0.0
TAIWAN SEMICONDUCTR MFG CO LTD	8.2	4.2
CHINA PETROLEUM & CHEM CORP	6.5	0.4
SUN HUNG KAI PROPERTIES LTD	5.7	0.6
HAN'S LASER TECHNOLOGY INDUSTRY GROUP CO LTD	4.8	0.0
BOC AVIATION LTD	4.5	0.0
MIDEA GROUP CO LTD	3.8	0.0
SHANDONG GOLD-MINING CO LTD	3.7	0.0

Past performance %

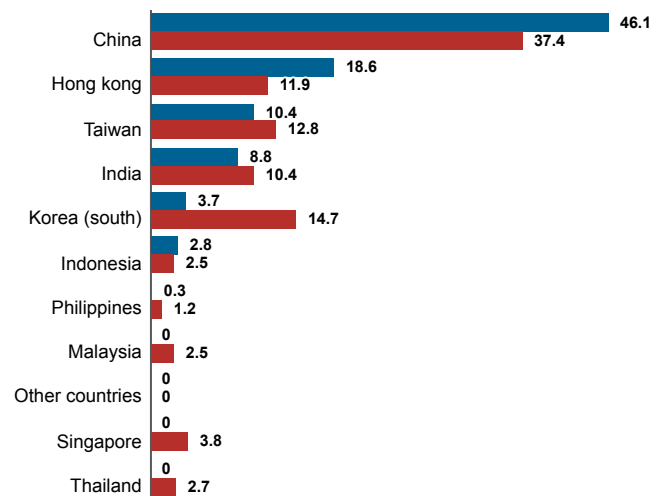
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	Since Inception p.a (29.09.2005)
Fidelity Asia Fund	2.07	14.93	7.88	12.64	17.99	17.82	16.48	13.28	10.74
MSCI AC Asia ex-Japan Index NR	1.87	10.43	3.67	2.35	14.90	12.27	11.89	10.75	8.20
Excess return	0.20	4.50	4.21	10.29	3.09	5.55	4.59	2.53	2.54

Past performance is not a reliable indicator of future performance. Total returns (net) have been calculated using mid prices and are net of Fidelity's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for tax or the buy/sell spread. Returns of more than one year are annualised. The return of capital is not guaranteed. **The benchmark is the MSCI AC Asia ex-Japan Index, effective 1 January 2010. Benchmark data prior to 1 January 2010 is a blend of the MSCI AC Asia ex-Japan Index and the MSCI AC Far East ex-Japan Index. The major difference between the two indices is the inclusion of India in the MSCI AC Asia ex-Japan Index.

Industry breakdown %



Geographic breakdown %



■ Fund ■ Benchmark

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Market performance

Asia Pacific ex Japan equities advanced during the quarter. Optimism around progress in US-China trade talks and a pause in interest rate hikes by the US Federal Reserve (Fed) boosted investors' risk appetite. Chinese equities reported one of their best quarters in more than four years, driven by optimism among domestic retail investors. Investor confidence further strengthened on hopes that fresh stimulus measures are likely to aid the economy. Real estate stocks in Hong Kong and Singapore advanced in a benign interest rate environment. Gains in industrials supported equities in Indonesia, Thailand and the Philippines. Additionally, easing inflationary pressures lifted investor appetite towards equities in the Philippines. Buying activity by foreign institutional investors buoyed Taiwanese, Indian and South Korean equities. Investor confidence towards the Taiwanese market also received support from positive developments on US-China trade negotiations, as the US is Taiwan's largest trading partner. In India, an appreciation of the Indian rupee against the US dollar further boosted sentiment. Meanwhile, in South Korea, investors pared some gains amid subsequent headwinds from lacklustre earnings outlook and the depreciation of the Korean won against the US dollar. Selling activity by foreign institutional investors weighed on the Malaysian market. All sectors in the region ended in positive territory. Of note, the consumer discretionary, real estate and information technology stocks ended higher.

Fund performance

The Fund outperformed the index over the quarter, due to rewarding security selection in the consumer staples and industrials sectors.

Consumer staples and industrials among key contributors

Liquor and beverage maker Kweichow Moutai advanced as sales volume growth, higher average selling prices and cost controls resulted in upbeat earnings. Laser equipment manufacturer Han's Laser Technology Industry Group added value on expectations of a potential upside to earnings growth from strong demand for electric vehicles (EV) and an upcycle in Apple orders in 2020.

Improved earnings outlook lifted certain positions

Hong Kong-based AIA Group aided returns in light of upbeat quarterly earnings. Additionally, it received regulatory approval to set up new sales and service centres in China, which is likely to boost growth in the value of its new businesses. Home appliances manufacturer Midea Group advanced in anticipation of market share gains in the near term, owing to an improvement in its retail strategy. Sentiment towards the stock also received a boost after the Chinese government announced plans to roll out stimulus measures to boost sales of home appliances. Elsewhere, property developer Sun Hung Kai Properties rose amid expectations of a stabilisation in property prices and growth in sales volumes in Hong Kong in the near term.

Energy stocks held back gains

South Korean refiner SK Innovation underperformed on concerns that lower refining and chemical margins would hurt its profitability in the near term.

Major contributors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Kweichow Moutai Co., Ltd. Class A	9.76	4.06
AIA Group Limited	10.16	1.49
Han's Laser Technology Industry Group Co., Ltd. Class A	4.21	1.47
Midea Group Co. Ltd. Class A	3.26	0.97
Sun Hung Kai Properties Limited	5.12	0.94

Major detractors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Alibaba Group Holding Ltd. Sponsored ADR	--	-1.41
Samsung Electronics Co., Ltd.	--	-0.56
Tencent Holdings Ltd.	2.14	-0.45
Ping An Insurance (Group) Company of China, Ltd. Class H	--	-0.27
Reliance Industries Limited	--	-0.23

Market Outlook

We expect Asian equity markets to witness increased volatility combined with a moderation in global growth. We have long maintained a cautious view on the market and still do not believe that potential risks ahead have been fully discounted. Given this, we remain very selective and have been focusing on companies with above market earnings expectations and strong balance sheets. Despite earlier comments, a diverse portfolio can still be achieved. The Fund currently holds overweight positions in the materials (gold) and energy sectors, which are unlikely to be 'consensus' positions. We also continue to believe that crude oil prices will be higher for longer due to limited supply growth. This should support earnings for companies that are exposed to such a dynamic. The portfolio holds close to its maximum allowed cash position, but will look to deploy this into ideas at more attractive valuations. The Fund has begun to accumulate some positions in Chinese companies as markets have pulled back, but we are yet to build them into more meaningful exposures.

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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: Alex Duffy
Benchmark: MSCI Emerging Markets Index NR
Inception date: 16 December 2013
Fund size: AU\$27.19M
Number of stocks: 30 to 50
Management cost: 1.00% p.a.
Buy/sell spread: 0.40%/0.40%

Portfolio guidelines

Stocks: Max 5% at initiation of position
Industry: Unconstrained
Region: Unconstrained
Country: Unconstrained
Frontier Markets: Up to 20% maximum
Cash: Target range between 0-10%

Top 10 holdings %

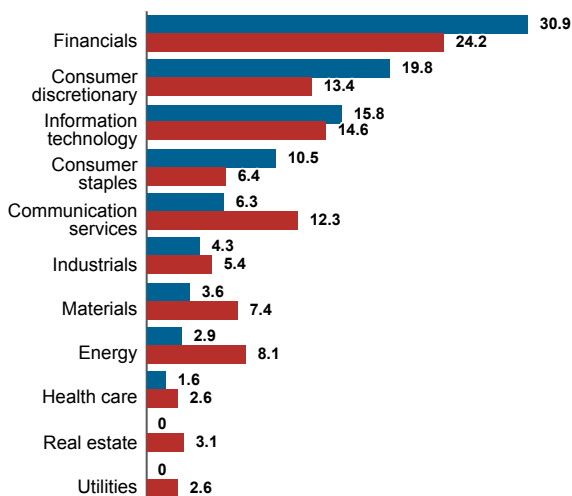
	Fund	B'mk
AIA GROUP LTD	5.6	0.0
TAIWAN SEMICONDUCTR MFG CO LTD	5.3	3.7
HDFC BANK LTD	4.7	0.0
BANK CENTRAL ASIA TBK PT	4.5	0.4
HOUSING DEV FINANCE CORP LTD	4.1	0.9
LI NING CO LTD	3.5	0.0
ZHEJIANG SUPOR COOKWARE CO LTD	3.5	0.0
TECHTRONIC INDUSTRIES CO LTD	3.3	0.0
MIDEA GROUP CO LTD	3.0	0.0
FOSHAN HAITIAN FLAVOURING & FOOD COMPANY LTD	3.0	0.0

Past performance %

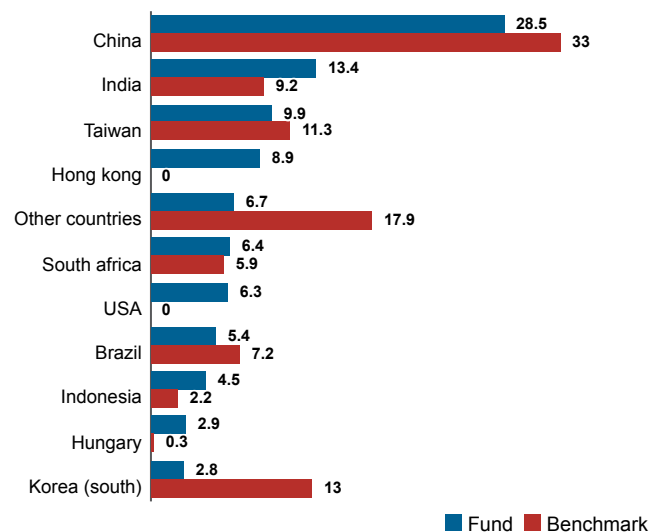
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception p.a (16.12.2013)
Fidelity Global Emerging Markets Fund	2.97	10.46	6.66	5.57	15.08	11.26	9.98
MSCI Emerging Markets Index NR	1.00	8.94	3.60	-0.02	13.66	9.34	8.29
Excess return	1.97	1.52	3.06	5.59	1.42	1.92	1.69

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Industry breakdown %



Geographic breakdown %



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Market performance

Emerging market equities delivered strong performance over the quarter. Progress in US-China trade talks and expectations of encouraging manufacturing data in China lifted sentiment towards riskier assets. However, concerns over Chinese growth weighed slightly on equities. Chinese stocks rose after the MSCI announced that it would substantially increase exposure to mainland shares in its indices. In the country's annual legislative session, Chinese policymakers promised to implement tax cuts and infrastructure funding over the year to boost economic growth. In Latin America, Brazilian stocks advanced as the new government announced reform measures. However, gains were limited by the arrest of former President Michel Temer on graft charges. Russian stocks rose amid higher oil prices, notwithstanding the risks of additional sanctions by the US.

Fund performance

The Fund delivered strong absolute returns and outperformed the index, driven by stock selection in the consumer discretionary and financials sectors. At a country level, Chinese and Hong Kong holdings added value.

Consumer discretionary gained

The exposure to sports apparel company Li Ning enhanced gains as it reported solid results. Chinese A-Shares benefited as the MSCI announced greater inclusion of these shares in its indices. The allocation to Zhejiang Supor Cookware and electrical appliance manufacturer Midea Group advanced. In staples, shares in Foshan Haitian Flavouring & Food rose. Its market-leading position and large distribution channel enabled it to deliver strong annual profits.

Financials aided returns

The holding in insurer AIA Group added value after the Chinese regulator allowed the company to set-up new sales and service centres in two more cities in mainland China. Investors saw this move as an opportunity for the company to speed-up its expansion plan. The position in Chailease Holding rose as its annual results reflected strong loan growth driven by China, the Southeast Asian region and Taiwan.

South African names fell

Shares in food company AVI detracted from performance as it issued a poor trading update on its sales for the Christmas holiday season. Elsewhere, the lack of exposure to Alibaba Group weighed on relative returns as its share price rose.

Market Outlook

The environment for emerging market equities is positive. US dollar strength had been a significant headwind for the asset class. However, more recently, markets breathed a sigh of relief as the US Federal Reserve (Fed) paused interest rate hikes this year.

China remains firmly in the spotlight, but an alleviation of trade tensions given the ongoing dialogue between China and the US supported sentiment. Following the 2018 sell-off, the Chinese market is attractively valued, with continued scope for re-rating despite a strong start to 2019. Positive moves by the government in the form of stimulus measures such as tax cuts, a relaxation of reserve requirement ratios and early signs of an improvement in credit conditions (following a period of significant deleveraging in 2018) are supportive of Chinese equities.

Consumption remains an area of promise for the selective investor. It is apparent that the trend in premiumisation continues, driving demand for goods with higher price points. In 2018, the market took an incredibly negative view on these topics, and the subsequent de-rating has now created a buying opportunity.

In Latin America, the Brazilian market has garnered much interest post Jair Bolsonaro's victory in the Presidential elections. There is material hope for Brazilian reform, but the likelihood of watered-down reforms presents some downside risks. In Mexico, the new President Andrés Manuel López Obrador has revealed his populist leaning, which resulted in a rapid de-rating. At this stage, it is best to adopt a more cautious stance towards the country.

In the months ahead, the Indian elections will likely lead to bouts of volatility in the country's equities. The market would like to see current Prime Minister Narendra Modi being re-elected with a continuation of his reform programme. While periods of uncertainty may be unpalatable, overall, the outlook on India remains positive given its structural growth prospects and high-quality companies. In the near term, a more defensive positioning in India seems appropriate, with a strong focus on high quality companies being the most appropriate route to taking exposure to the market.

Elsewhere, South Africa's upcoming election is important. It appears likely that the African National Congress will be re-elected. Within the emerging Europe, Middle East and Africa (EMEA) region more broadly, Russia remains extremely cheap, but is subject to the ongoing risk of further sanctions. The dividend profile of certain stocks is noteworthy, with companies delivering attractive and sustainable shareholder returns through dividends.

Major contributors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Li Ning Company Limited	3.48	1.37
Zhejiang Supor Co., Ltd. Class A	2.82	1.16
AIA Group Limited	5.54	1.00
Midea Group Co. Ltd. Class A	2.71	0.79
Techtronic Industries Co., Ltd.	3.20	0.76

Major detractors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Alibaba Group Holding Ltd. Sponsored ADR	--	-1.19
AVI Limited Class Y	2.59	-0.34
Tencent Holdings Ltd.	2.25	-0.34
Naspers Limited Class N	--	-0.32
Lupin Limited	1.77	-0.24

Commodities clearly play a critical role in emerging markets, and here, selectivity remains critical. Oil appears to be finding a sustainable level given production cuts by the Organisation of the Petroleum Exporting Countries (OPEC). This is likely to provide a better backdrop to assess the environment for producers, while placing less pressure on consumers. More broadly, supply restrictions are evident in iron ore and copper, bolstering prices particularly for the former.

From a global perspective, businesses that are market leaders in their respective segments and that can deliver sustainable earnings and cash flow are the most compelling investment ideas. The rising purchasing power of emerging market consumers indicates opportunities in many consumer-related businesses across a range of segments. Above all, the manager continues to focus on identifying good quality companies, which can deliver attractive shareholder returns over the medium to long term. Many emerging market companies can sustain high levels of economic growth for several years to come, driven by attractive demographic profiles, immature markets, an abundance of untapped natural resources and generally low levels of consumer indebtedness.

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. The returns shown have been calculated using the net asset value of the Fund from one period to the next. The returns include any re-invested distributions and are after fees and expenses. 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. For periods greater than one year returns have been annualised.

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Fund description

Designed to be a core international holding of 80-120 of Fidelity's best global ideas, researched by our 400 experienced investment professionals located around the world. A truly active manager, we take a 360 view of every company we invest in, refreshing our views every 120 days to ensure we take advantage of the best opportunities globally and have a portfolio built with conviction. Stock selection favours mis-valued businesses and structural growth stories.

Fund facts

Portfolio manager: Amit Lodha
Benchmark: MSCI All Country World Index NR
Inception date: 15 April 1998
Fund size: AU\$325.16M
Number of stocks: 80 to 120
Management cost: 0.99% p.a.
Buy/sell spread: 0.30%/0.30%

Portfolio guidelines

Stocks: +/-5% from benchmark
Industry: +/- 10% from benchmark
Region: +/- 20% from benchmark
Country: Unconstrained
Emerging markets: maximum 20% of the portfolio (typically less than 10%)
Cash: Target range between 0% and 10%

Top 10 holdings %

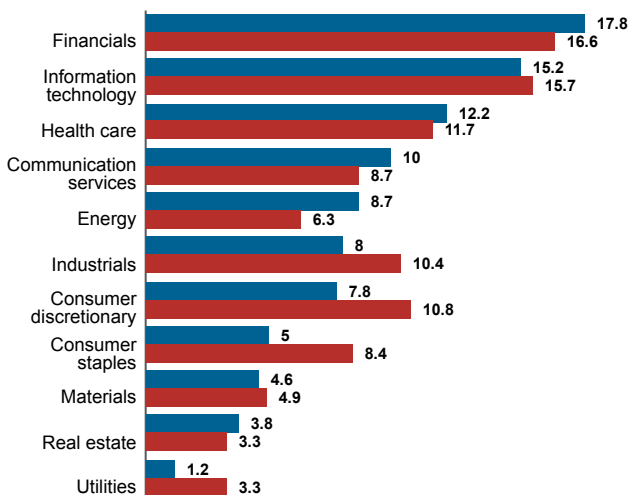
	Fund	B'mk
MICROSOFT CORP	2.4	1.9
ALPHABET INC	2.4	1.6
MERCK & CO INC NEW	1.8	0.5
VISA INC	1.7	0.6
ROCHE HOLDING LTD	1.6	0.4
ORACLE CORP	1.5	0.3
ROYAL DUTCH SHELL PLC	1.5	0.6
AMERICAN TOWER CORP	1.4	0.2
JPMORGAN CHASE & CO	1.4	0.7
SAP SE	1.4	0.3

Past performance %

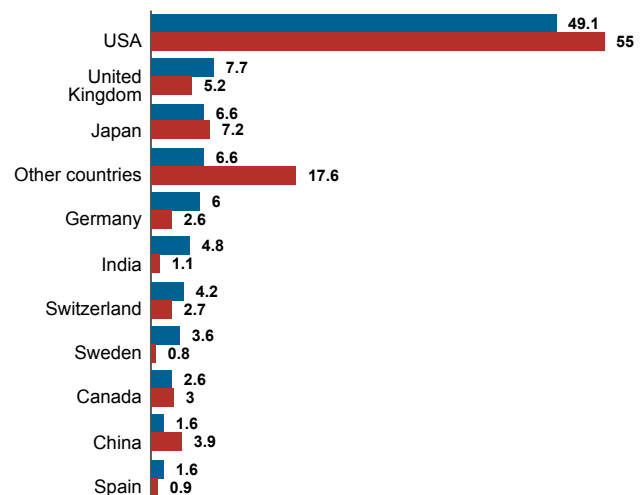
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	20 yrs p.a.	Since Inception p.a. (15.04.1998)
Fidelity Global Equities Fund	1.46	11.29	0.03	10.67	14.49	13.33	15.33	12.93	8.69	4.25	5.97
MSCI All Country World Index NR	1.41	11.17	-0.31	10.79	13.65	12.27	14.43	11.54	6.92	3.87	4.29
Excess return	0.05	0.12	0.34	-0.12	0.84	1.06	0.90	1.39	1.77	0.38	1.68

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Industry breakdown %



Geographic breakdown %



■ Fund ■ Benchmark

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Market performance

Global equities advanced sharply (in AUD terms) over a resurgent first quarter amid receding risk-off sentiment in financial markets. Investor confidence was buoyed after the US Federal Reserve (Fed) signalled a more cautious stance on interest rate increases and indicated that it would adopt a flexible approach to balance sheet reduction. Signs of potential progress on trade negotiations between the US and China also eased investor concerns. While US equities rebounded over the period, an inversion of the yield curve raised some concerns about the health of the economy. European equities rose as the European Central Bank (ECB) deferred the first interest rate hike in nearly eight years to 2020 at the earliest and provided additional monetary stimulus to support growth. UK markets rebounded in line with other global markets despite continued uncertainty around Brexit. Equities in export-dependent Japan started the year on a strong note as the yen weakened against the US dollar and apprehensions over US-China trade frictions receded. However, gains were limited by increasing concerns over global economic growth. Emerging markets trended higher on positive global sentiment, led by a strong advance in Chinese equities. At a sector level, energy companies performed well as crude oil prices recovered. This was driven by increasing investor confidence over the Organization of the Petroleum Exporting Countries' (OPEC) ability to uphold production cuts in 2019.

Portfolio performance

The fund outperformed the index by 0.1% over the quarter.

High conviction consumer holdings among top contributors

UK online supermarket Ocado Group was the top contributor to returns due to positive news flow through the quarter. This included a deal with Marks and Spencer to deliver its food and beverages, and the announcement of two new Kroger warehouses using the company's proprietary technology. A rapid shift to online grocery shopping and an increasing uptake of its technology by major grocers are secular tailwinds to the company's longer term thesis. Online marketplace eBay also added value on reports of restructuring amid activist investor interest. The company's core marketplace, online ticketing and classifieds franchises offer scope for sustained growth. Improved execution and cash returns over the next few years are expected to support investor returns.

Energy stocks added value, aided by uptick in oil prices

Energy stocks Hess and Texas Pacific Land Trust were among the top contributors to returns due to an increase in oil prices. Investors remain positive on these stocks given the strong production outlook for their assets (in Guyana for Hess and in the Permian Basin for Texas Pacific).

Certain financials detracted from returns

CME Group, the largest US futures exchange, declined amid a weak start to 2019 volumes due to decreased volatility levels. Nevertheless, the integration of the recently acquired NEX Group and multiple recent product launches, such as SOFR Futures, BTIC and FX Link, are expected to support growth going forward. Japanese financial services group Orix declined on weak quarterly results. Nevertheless, its recent stake purchases and acquisitions in Avolon, NXT Capital, NTI Connect and Daikyo are expected to drive growth. These purchases also provide Orix with the optionality to shift focus for sustained growth even in a difficult macroeconomic environment.

Major contributors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Ocado Group PLC	0.99	0.61
Hess Corporation	0.89	0.35
Texas Pacific Land Trust	0.89	0.33
Booz Allen Hamilton Holding Corporation Class A	1.07	0.28
Norfolk Southern Corporation	1.28	0.28

Major detractors to quarterly performance %

As at 31/03/2019

	Active positions	Contribution
Apple Inc.	0.44	-0.28
Facebook, Inc. Class A	--	-0.21
Amazon.com, Inc.	0.72	-0.14
Alibaba Group Holding Ltd. Sponsored ADR	--	-0.14
Exxon Mobil Corporation	--	-0.13

Outlook

We remain cautious on the outlook for global equities in view of risks in the current late-cycle environment. Fears of an economic slowdown and uncertain trade outlook present headwinds to the global economy. At a regional level, weak corporate earnings in the US and Brexit-related uncertainty in Europe are areas for concern. Nevertheless, we still believe the late cycle is positive for risk assets. A volatile environment can create interesting dislocations and throw up attractive buying opportunities that can add value.

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The case for emerging markets

Take advantage of shifting global dynamics

Emerging markets (EM) have been growing rapidly in recent years. In fact they now represent nearly 60 percent of global growth and more than 50 percent of global GDP. Once dominated by agriculture and cheap manufacturing, EM countries are today home to some of the world's fastest growing economies and most innovative companies.

What is an emerging market?

An emerging market economy is simply one transitioning from low-to-middle income to high income. However, unlike a frontier economy, an emerging market economy already shares some of the characteristics of a developed market. This includes a functioning stock exchange where shares can be easily traded, access to debt and some form of predictable government regulation – all of which help smooth its path to development.

EM economies include growing powerhouses such as India, Indonesia, Brazil and China, as well as smaller more nimble economies like Morocco, The Philippines and Thailand.

The rise and rise of emerging markets

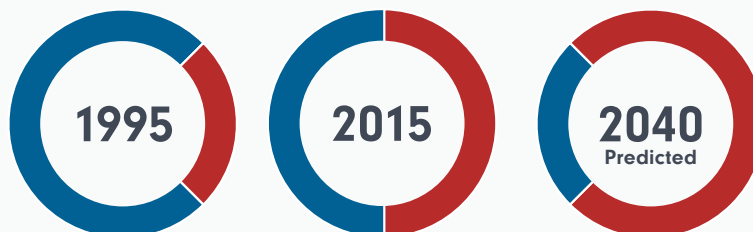
As trade and production become more integrated, emerging markets have become more and more important to the way the global economy functions.

A quick look at the labels in your wardrobe or the appliances in your kitchen makes it easy to understand that China now produces more than 25% of everything manufactured around the globe. But other developing economies are powering ahead too. For instance, South Africa is a leading producer of motor vehicles, as well as precious metals, iron and steel. Brazil is home to four of the world's 100 largest banks, as well as Embraer, the world's third largest aircraft manufacturers.¹ And India's economy is booming to the point where merchandise exports and imports grew 11.02% and 21.04 % respectively in the year to February 2018.²

As money flows in, these economies are beginning to account for a much higher percentage of global GDP. In fact, 'The World in 2050' a PWC report into the growth of the 'E7', (the seven largest emerging market economies) showed that in 1995 these nations had a combined GDP less than half that of the G7 (the seven largest advanced economies). By 2016, the two were level.³

Projected change in shares of world GDP

- Developed[†]
- Emerging[‡]



However, by 2040, it's estimated that emerging economies will have an output that is double the developed world. In other words, in the space of 45 years emerging markets will have gone from a peripheral position in the world economy to a central one.

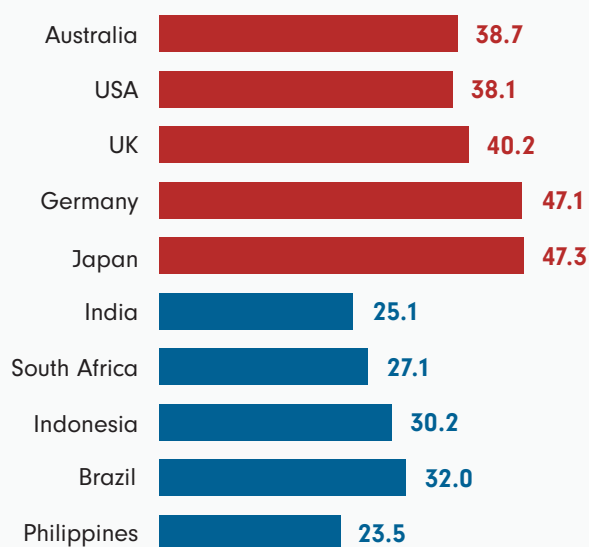
Despite this, they still account for just a fraction of most Australian investment portfolios.

A demographic shift

If you're wondering why emerging markets are experiencing such solid growth, you've hit upon the second part of the emerging markets equation – many emerging markets are undergoing a profound demographic shift.

While much of the developed world struggles to come to terms with the cost of supporting an aging population, developing economies typically don't have this problem as much of their population is still young. For example, India has a median age of 27.9, compared to the EU median age of 42.6 which means there are still plenty of productive workers to keep the economy running and fewer retirement age workers to support.⁴

Median age



As more of these productive aged workers find meaningful work, they also tend to have more disposable income which means we're seeing a new middle class rising out of emerging market economies. Between 2009 and 2030, China alone is expected to add 850 million people to its middle class, in the process taking it from 12% of its population to 73% of its population.⁵

“ Business confidence and conditions are above long-term averages... ”

With this increased affluence comes increased consumption – not just of consumer goods such as cars, technology and electrical goods, but of more sophisticated products and services. China's healthcare industry for example grew four-fold between 2006 and 2016. China is now also the second largest global market for financial services – behind only the United States – with home loans, deposits, life insurance and investment advice all becoming more integral to the way the economy functions and people live their lives.⁶

Investment pouring in

So while emerging markets started with manufacturing and exporting, domestic consumption is becoming an important economic driver. As it does, emerging markets become less reliant on the developed world and their businesses become less correlated with Western ones.

That means emerging market equities don't just offer Australian investors growth potential, they also increasingly offer genuine diversity and possible protection from an economic downturn in the developed world. Furthermore they're good value – EM equities currently trade at around a 25% discount to what we would pay for equivalent investments in more advanced economies.

[†] Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[‡] China, India, Brazil, Indonesia, Russia, Mexico and Turkey.

For these reasons, many established businesses, as well as institutional investors, are beginning to see that investing in emerging markets is a vital part of both their growth and risk management plans.

“ Emerging markets increasingly offer genuine diversity and possible protection from an economic downturn. ”

The importance of active management

Given emerging markets are often less stable and transparent than more advanced economies, it's important to help mitigate risk by creating a diversified portfolio and select companies that are well positioned to generate returns through the ups and downs of market cycles.

At Fidelity we believe an active investment approach offers crucial advantages for investors as it allows our investment team to select opportunities from a much broader universe than those available in the Index.

The advantage to investors is two-fold; greater diversification across countries, sectors and companies which helps reduce risk and importantly provides more opportunities to create meaningful value.

What sort of companies can you access?

Today EM economies are home to some of the world's most innovative companies such as China's Alibaba or Samsung in Korea. Many of these companies are also positioned to benefit from the structural shifts or demographic trends that many emerging markets are experiencing.

Let's look at an example:

Bank Central Asia: Invest in the bank that's financing Indonesia's growing middle class

Bank Central Asia (BCA) is Indonesia's largest bank by market value, with a market capitalisation of approximately \$A52 billion. In 2017, it outperformed market expectations, with profits rising by 13%, largely due to in Indonesia's expanding mortgage market. It's now South-East Asia's largest lender.

BCA has a long heritage and is closely bound to the country's economic performance. It was founded in 1955 but its real success came as a result of the Asian Financial Crisis, while other financial institutions fell, BCA re-invented itself, with a change of ownership and a renewed focus on employee and customer engagement.

The bank has established itself at the forefront of Indonesia's financial services market, servicing both individuals and businesses. With the same management team in place for almost two decades, it offers a diverse range of loan and deposit products - in much the same way as Australia's Big Four banks.

Importantly, with the Indonesian economy expected to rise spectacularly over the coming years, BCA is expected to provide much of the private finance that will fuel the countries development.

Like to know more?

If you'd like to know more about the Fidelity Emerging Markets Fund, visit our website or call or email our client services team:

Telephone
1800 044 922

Email
auclientservices@fil.com

Website
fidelity.com.au

1 Source: S&P Global Market Intelligence

2 Indian Ministry of Commerce & Industry.

3 PWC report "The World in 2050"

4 The World factbook

5 2010 OECD working paper

6 www.mckinsey.com



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Active ETF product distinctions



How does an Active ETF differ to other products?

There are an increasing number of ways investors can access investment funds. Some are available on the Australian Securities Exchange (ASX) and others aren't, whilst some are actively managed and others track an index – like an Exchanged Traded Fund (ETF). The table below highlights some of the key differences between investment fund types.

	Active ETF	Passive ETF	Managed Fund (unlisted)	Listed Investment Company (LIC)	Listed Investment Trust (LIT)
Availability	ASX quoted	ASX quoted	Unlisted	ASX listed	ASX listed
Management style	Actively managed	Passively managed / index tracker	Actively and passively managed	Actively managed	Actively managed
Corporate structure	Trust	Trust	Trust	Company	Trust
Liquidity	<ul style="list-style-type: none"> Open-ended Issues / cancels units daily Fund acts as a market maker to provide liquidity 	<ul style="list-style-type: none"> Open-ended Regularly issues / cancels units Trades on the ASX Uses third-party market makers to provide liquidity 	<ul style="list-style-type: none"> Open-ended Regularly issues / cancels units Does not trade on the ASX 	<ul style="list-style-type: none"> Closed-ended Can only grow through placements, rights and Distribution Reinvestment Plans (DRPS) 	<ul style="list-style-type: none"> Closed-ended
Pricing	<ul style="list-style-type: none"> Live pricing on the ASX Generally expected to trade at a tight spread around the NAV, reflecting the open-ended nature of the fund Instant price confirmation No cooling off rights (same as other listed securities) 	<ul style="list-style-type: none"> Live pricing on the ASX Generally expected to trade at a tight spread around the NAV, reflecting the open-ended nature of the fund Instant price confirmation No cooling off rights (same as other listed securities) 	<ul style="list-style-type: none"> Entry / exit price generally not known until trade + 1 day Cooling off rights as outlined in the Product Disclosure Statement (PDS) 	<ul style="list-style-type: none"> Live pricing on the ASX Can trade at a significant premium or discount to NAV, reflecting the closed-ended nature of the structure 	<ul style="list-style-type: none"> Live pricing on the ASX Can trade at a significant premium or discount to NAV, reflecting the closed-ended nature of the structure.
Disclosure	All holdings are disclosed quarterly with a two-month lag, subject to ASX approval.	The daily basket of holdings are typically disclosed.	Typically, holdings are disclosed monthly with a 30-day lag.	Required to disclose NAV monthly, but not required to provide portfolio information.	Required to disclose NAV monthly, but not required to provide portfolio information.
Minimum investment	No minimum	No minimum	Typically A\$25,000	No minimum	No minimum
Application process including anti-money laundering (AML) and know-your-customer (KYC)	<ul style="list-style-type: none"> Must have a broker account No application form, AML or KYC required apart from the initial application for a brokerage account. 	<ul style="list-style-type: none"> Must have a broker account No application form, AML or KYC required apart from the initial application for a brokerage account. 	<ul style="list-style-type: none"> Investing directly requires an application form, AML and KYC documents for each fund manager. 	<ul style="list-style-type: none"> Must have a broker account No application form, AML or KYC required, apart from the initial application for a brokerage account. 	<ul style="list-style-type: none"> Must have a broker account No application form, AML or KYC required, apart from the initial application for a brokerage account.
Franking credits	All trust structures (including LITs), must distribute all underlying income and realised capital gains to investors on an annual basis. The level of realised capital gains depends on trading activity within the strategy and the level of embedded capital gains within the portfolio holdings. As a trust, unitholders are responsible for any tax obligation arising from the distribution and should seek professional tax advice on this matter.			LICs have the ability to pay franked dividends.	LITs must pay out any surplus income to investors in the form of distributions. These distributions carry the franking credit level allocated by the underlying investment.

How do I access Active ETFs?

An Active ETF is bought and sold via a broker in the same way you buy or sell a share on the ASX. The difference is that this one trade gives you access to a diversified portfolio of shares. You can view your Active ETF holdings alongside any other direct share holdings you have.

Via your broker or licenced adviser*

- 1 Place a 'buy or sell' Active ETF order with your broker.
- 2 Your broker initiates a transaction with the ASX via the ticker code.
- 3 The ASX settles the transaction via CHESS.

Direct with online trading account

If you have an online trading account, you can type in the fund's ticker code and invest immediately.

The Active ETF is held in your portfolio, beside your other investment holdings.

*Your adviser must be licenced to buy and sell shares on the ASX.

Where do I go for more information?

To learn more about how Fidelity's Active ETF can offer global exposure in a single product available locally – such as the Fidelity Global Emerging Markets Fund (Managed Fund) (ASX:FEMX), please visit us at www.fidelity.com.au/funds/fidelity-global-emerging-markets-fund

If you're new to investing, you might like to learn more on our learning hub available at www.fidelity.com.au/learning-hub/active-etf

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From the desk of Amit Lodha

March 2019

A time for imagining

Market leaders have changed dramatically over the last ten years. We've seen the rise of companies that have either disrupted an existing industry or challenged incumbents. So what have we learnt from the past decade that we can apply for the future?

Noted sociologist Elise Boulding once said, 'If one is mentally out of breath all the time from dealing with the present, there is no energy left for imagining the future.' Indeed, the 2020s are just around the corner. So, let's take the long lens view to imagine what could be the make-up of the largest companies of the next decade.

The decade that was

We assume that the rise of technology companies into the top ten positions in the S&P 500 index has been a recent phenomenon.¹ However, if you look at the top constituents' composition ten years ago, Microsoft, IBM and Google (now Alphabet) were all on the list, with Microsoft even then appearing in the top five and Apple knocking at the door at number 23. In fact, IBM was the number one stock by market capitalisation as far back as 1980 and maintained its position through to 1990, after which it lost it to new innovators Microsoft and Cisco.^{1,2} The change in composition of the top ten has really been a function of continued strong growth and execution by one set of companies, and the failure of management to make the right strategic calls in the other set.

The shining light of strong execution has been Apple, which had delivered a 25% ten-year annualised return on the back of the iPhone, which led it to become the first trillion-dollar company in August 2018.² On the other hand, General Electric (which exited from the DOW in June 2018) has been the poster child of poor execution.

Other former members of the top ten have also made some strategic errors, leading to their exit from this esteemed list:

- Walmart did not react appropriately to the threat of e-commerce and Amazon, and neither did Procter & Gamble.
- IBM seems to have been bypassed by the entire cloud services revolution, leaving Amazon and Microsoft to steal the show.

- Mobile companies like AT&T were reduced to 'dumb pipes' by the rise of ubiquitous data and new technologies (3G/4G), as well as the technical excellence of the iPhone. AT&T now has the dubious honour of being the communication services company with the largest debt in the world (US\$177 billion).³
- Oil dropped from a heady US\$100+ level of the early 2000s to lows of US\$40+ levels, driven by the rise of shale – a revolution that both ExxonMobil and Chevron have been late to capitalise on.

It is also quite evident that the past ten years has seen the rise of companies that have:

- disrupted an existing industry and challenged incumbents, such as the brick-and-mortar retail model by Amazon, linear TV to internet TV by Netflix, and taxis by Uber;
- gobbled up the existing pool of advertising dollars, like Facebook/Alphabet; or
- spearheaded the global penetration of new productivity tools, such as Apple.

As always, the common success factors have been few and simple:

- Moats/near-monopolistic industry positions and pricing power – Alphabet in search, Microsoft with its office productivity tools, Amazon with e-commerce, Facebook on social media, etc.
- Strong management teams with clear strategy and strong execution capabilities – JPMorgan, Bank of America.
- Good investment management – Berkshire Hathaway.
- An ability to adapt to change and innovate to turn threat into opportunity – Netflix, Amazon.

The decade that will be

As a bottom-up stock picker (who has also polled the research team on this topic very recently!), I think that a management team with clear, strong execution, operating in a good and growing industry, with differentiated products and services, remains the key mantra for success. And, with the pace of disruption and change only rising, an ability to

adapt and change to the ever-evolving market environment through consistent innovation remains the key bulwark to shaping what will be the driving factors of the top ten in the decade ahead.

Having said that, today's valuations mean it is extremely unlikely that the pace of strong returns that investors have enjoyed over the last decade is repeatable in the next decade. We all tend to extrapolate the immediate past but, if Amazon were to maintain that same 35% – 40% CAGR over the next ten years as it has done over the past ten years, its market capitalisation would be US\$15 trillion, or approximately 60% of the total current capitalisation of the US market.²

Warren Buffett once said: 'Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.' In that spirit, let's try to imagine the composition of the S&P 500 in 2029.

First, some basic math:

- Microsoft has been the most consistent compounder (ten-year returns CAGR of 15%) in the top ten, and with businesses like Cloud (through Azure), Windows/Office productivity tools, and gaming, it looks set to continue to match its historical compounding. Assuming it compounds at about two-thirds the rate (10% over the next ten years) that it has done in the past ten years, Microsoft's market capitalisation would be in the region of US\$2 trillion.

This basic maths above leads to some interesting conclusions:

- Despite the pace of accelerating disruption, incumbency has a huge advantage.
- Apple has had one of the best ten-year CAGRs of 25% – yet to get into the vicinity of Microsoft's 2029 projected market capitalisation, the company we are investing in today needs to have a starting market capitalisation of greater than US\$200 billion. That narrows down the potential list of candidates, substantially.
- Size constraints are also management constraints – the complexity of managing a business increases with its size. There is a high degree of probability that over the next ten years we'll see the technology goliaths breaking up into smaller, more manageable entities, either due to government intervention or on the back of managements trying to create both shareholder value and reduce the complexity of these organisations to more bite-sized portions.

Keeping these points in mind – what does the future hold?

Hypothesising a future S&P 500 top ten List

A good portfolio, in my opinion, has a backbone of steady compounders (growth at reasonable value) with some disruptive high growers (moon shots) and, at the same time, needs to avoid the poor managers who will destroy value.

With that in mind, let's take a closer look at possible future leaders:

Technology – The past rhymes with the future – I expect Amazon/Alphabet and maybe Microsoft to split their businesses within the next three to five years, either driven by increased regulatory scrutiny or by management attempting to reduce complexity. Key interesting candidates from a ten-year perspective would be:

- Alphabet – Separate listing of search, YouTube and self-driving (Waymo) project would be on the cards. All these have the potential to be independent candidates for the top ten, with Waymo having the most potential to create value.
- Amazon – Separate listing of Amazon Web Services (AWS), Amazon's cloud business would definitely be on the cards, and maybe divisions of Amazon's core business into business-to-business and business-to-consumer.
- Microsoft – The company has stayed relevant by always being responsive to end-consumer needs, and going forward analysts could push the case for Microsoft (Azure) to do the same. Microsoft also has some interesting plays in the quantum computing area. (CEO Satya Nadella has talked about this at some length in his book 'Hit Refresh').
- Facebook – will need to evolve, as social media loyalty appears to be fickle and regulatory challenges could potentially force them to separate their online properties like WhatsApp.

The new entrant in this space would be a start-up which changes the paradigm on artificial intelligence/robotics/quantum computing – to meet a completely unmet need. Within this, it's my hope that with all the R&D investments and excess cash piles with top US corporates, these start-ups will be absorbed within the likes of Facebook and Alphabet. For Apple, this is especially imperative as its dependence on the iPhone is currently too great. It needs to be early on the next wave of innovation, and inorganic growth could be the only way ahead.

Healthcare has been a consistent presence in the top ten (Pfizer, Merck, Johnson & Johnson) and it is likely that one of these pharmaceutical majors, especially one which has adopted personalised medicine, will be the leader of the next decade. With the rapidly growing old-age population, healthcare representation in the top ten is sure-fire for any company that addresses any of the various unmet needs of cures for Alzheimer's, cancer, or diabetes, or develops new-paradigm care through gene therapy. Illumina is a company focused on DNA sequencing, which shows great potential, but in my view is likely to be acquired by a pharmaceutical major over time (Roche did try in the past!).

Energy/green energy – Oil companies have been a consistent presence in the S&P 500 top ten list and I expect them to continue their representation. Saudi Aramco (if it lists in the US) and ExxonMobil are likely candidates here. The left-field disruptors will be any company able to harness renewable technology without undue requirement of scarce materials. For now, battery technology requires the use of scarce raw materials (like cobalt or lithium) and, so far, it seems difficult to see these technologies scale at the right price to replace oil as a source of transportation fuel in the next ten years. For the sake of all of us, this is one prediction I would gladly hope to be wrong on.

Moon shots – Start-ups working on artificial intelligence, big data, healthcare, energy technology, food innovation, space travel, or autonomous vehicles are all potential candidates and maybe there is one new entrant which we don't know about today. A company which successfully commercialized space exploration (I confess, I am a Star Trek fan!) would be my nomination for this position.

The exits – Lastly, of the current crop of top ten companies, Apple needs to dramatically innovate if it is to make the cut to the 2029 top ten. Social media as a phenomenon, in my view, now causes more harm than good, and companies like Facebook need to significantly reinvent themselves if they are to stay relevant. Good capital allocation is the single most important driver of future performance and this is what makes Warren Buffett, and by extension Berkshire Hathaway, unique. My second forecast of this note (the exit of Berkshire Hathaway from this list by 2029) is one which I would gladly celebrate being wrong – perhaps by attending Berkshire's 2029 annual meeting in Omaha!

What this means for investors in the Fidelity Global Equities Fund

With the accelerating pace of disruption across industries, it is important to consistently evaluate what makes a company a winner of tomorrow. Assessing the ingredients of long-term winners – including strong management teams and good industry structure in a growing market gives us the insights we need to build a successful portfolio for our investors. The Fund currently has exposure to Visa, Microsoft, Alphabet, Illumina, Merck, and Roche, amongst others.

1. ETF Database, Visual History of the S&P 500.
2. Fidelity International, Bloomberg, 31 December 2008.
3. Fidelity International, Bloomberg, Latest Company Filings, 31 December 2018.

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Fidelity Global Emerging Markets Fund

(Managed Fund) (ASX:FEMX)



The Fidelity Global Emerging Markets Fund (Managed Fund) is an Active ETF designed for investors seeking a diversified selection of quality emerging market companies. We select companies that we believe are well positioned to generate returns through market cycles, with a focus on companies with a track record of robust corporate governance.

“ Emerging markets have always been important in the global economy due to their size. If you look back over the last 20 to 30 years, you can see that emerging market GDP has gone from around 30 to 40% of global output to about 60% of global economic activity today.

Alex Duffy, Portfolio Manager

Why invest in FEMX?

- 1 One trade gives you access to a diversified portfolio of 30 to 50 actively managed emerging market shares.
- 2 One trade gives you access to Fidelity's investment expertise in emerging markets, with a track record backed by more than 20 years' investing in emerging markets.
- 3 One trade gives you access to a prudent, focused investment process designed to provide you with attractive returns over time, and minimise downside risk.
- 4 There is no paperwork for investors with a trading account and no minimum investment size.

Actively managed access to emerging markets

The Fidelity Global Emerging Markets Fund (Managed Fund) is an Active ETF which gives investors access to a diversified portfolio of 30 to 50 quality companies in emerging markets. The Fund is actively managed, which means investors access a portfolio of carefully selected globally listed securities exposed to emerging markets, which may or may not be in the Fund's benchmark. See Table 1 which compares the country holdings of The Fidelity Global Emerging Markets Fund versus its benchmark (the MSCI Emerging Markets Index NR).

The portfolio manager actively seeks companies with a track record of robust corporate governance; selecting companies we believe are well positioned to generate returns through market cycles.

With access to research and insights from 400 investment professionals worldwide, and more than 50 on-the-ground analysts in emerging markets, we have the resources and the expertise to discover some of the best opportunities in some of the world's fastest growing economies.

Our process

At Fidelity, we recognise that a major risk in emerging markets stems from poor corporate governance or poor balance sheet structures. Based on this belief, our investment process is designed to mitigate these risks and concentrate on the areas we can add value.

We mitigate risk through:

1 Prudent corporate governance

We consider ownership, shareholder structure and management incentives to ensure the interests of investors are properly aligned with those of the major decision makers.

2 Balance sheet health

Balance sheet analysis ensures the balance sheet is robust enough to fund the growth of the company across the economic cycle. The team also pays close attention to accounting standards.

We add value through bottom-up research and portfolio construction by:

3 Understanding the return profile

Understanding how a company makes money and the key drivers of returns is crucial. We stress test the return profile against a range of assumptions to understand the underlying resilience of a company's cash flow generation across an economic cycle.

4 Evaluating valuations

The team starts by looking at cash flow generation in year one. We then look at reinvestment opportunities and examine the compounding potential over the three to five-year time horizon.

5 Portfolio construction

Portfolio Manager Alex Duffy selects the stocks for FEMX. Alex's approach is absolute in nature and his decisions are made according to his belief in the quality of the company and its expected return.

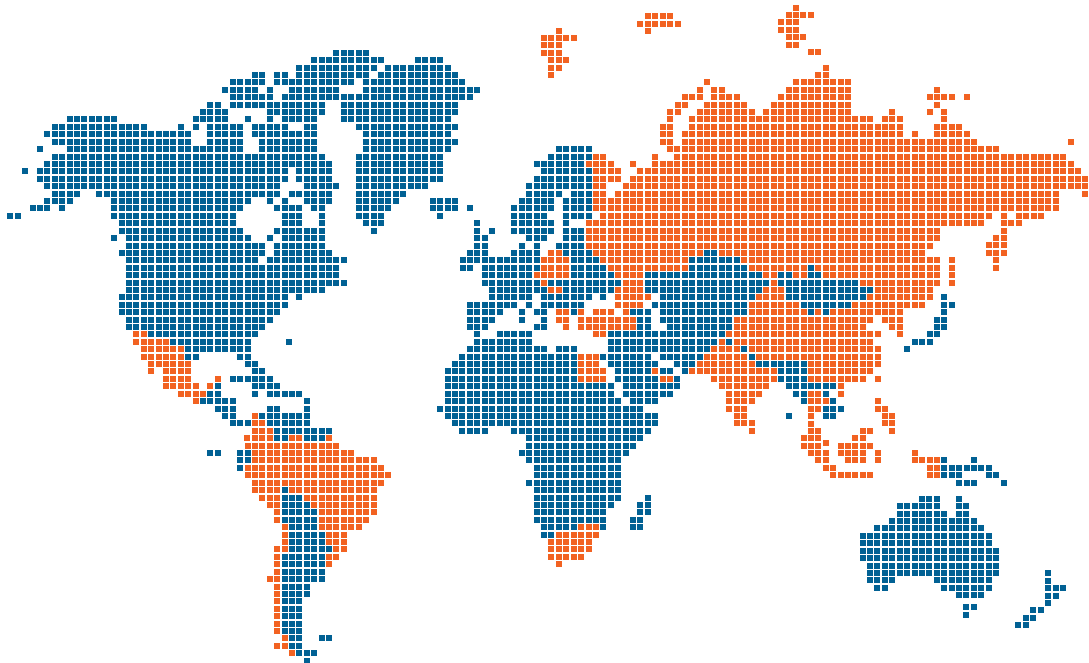


Table 1
Countries in the MSCI Emerging Markets Index

Americas	Europe, Middle East + Africa	Asia
Brazil	Czech Republic	China
Chile	Egypt	Hong Kong
Colombia	Greece	India
Mexico	Hungary	Indonesia
Peru	Poland	Korea
	Qatar	Malaysia
	South Africa	Pakistan
	Turkey	Philippines
	United Arab Emirates	Taiwan
	Russia	Thailand

Country exposure of the Fidelity Global Emerging Markets Fund (Managed Fund) (ASX: FEMX) as at 31 March 2019 is listed in bold¹.

The Manager



Alex Duffy, Portfolio Manager, Fidelity's Global Emerging Market Funds

Alex has 14 years' experience in investing, joining Fidelity in 2004. He manages the successful Fidelity Global Emerging Markets Fund (unlisted) which was launched in Australia in 2013 and now the quoted Active ETF, Fidelity Global Emerging Markets Fund (Managed Fund) (ASX: FEMX). Prior to becoming a portfolio manager in 2008, Alex was a research analyst covering raw materials and natural resources before moving into portfolio management.

Since April 2015, Alex has been solely focused on managing global emerging market equities.

The Fidelity difference

Fidelity specialises in active fund management that focuses on bottom-up global research. With one of the largest buy-side research teams in the world, we have the unique ability to identify investment themes and ideas across different market cycles.



Foresight

We have a team of more than 400 investment professionals connecting ideas across asset classes, sectors and regions to see things others may miss.



Further

We attend more than 16,000 company meetings a year. We believe that by going further we gain better insights and knowledge, to make better investment decisions.



Future

Privately owned for nearly half a century, Fidelity is an independent company and investment is our only business. We help investors build long-term wealth by thinking well-ahead.

Fund facts

Objective	To outperform the MSCI Emerging Markets Index NR over the suggested minimum investment time period seven years plus
Benchmark	MSCI Emerging Markets Index NR
Inception	29 October 2018
Number of stocks	30-50
Management costs	0.99% pa
Distributions	Annually (with option of DRP)

* '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.

How to invest

Via your broker or licenced adviser

- 1 Place a 'buy or sell' order with your broker.
- 2 Your broker initiates a transaction with the ASX via the ticker code.
- 3 The ASX settles the transaction via CHES.

Direct with online trading account

If you have an online trading account, you can type in the fund's ticker code and invest immediately.

fidelity.com.au



Important information

¹ Note: International Securities: 90% to 100%. Generally, a minimum of 70% of the portfolio will be invested in securities which are either incorporated in or listed in an emerging market, or where a company generates at least 50% of revenues, profits or has substantial assets in emerging markets. The remaining maximum limit of 30% will constitute up to 20% in frontier market securities and up to an additional 10% in companies that FREAL deems to have exposure to emerging markets. Cash: 0% to 10% Derivatives: 0% to 10%.

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