



Fidelity Sustainable Emerging Markets Ex China Strategy

Next Generation Forum 2023

Robert Pearce and Zoltan Palfi
Portfolio Management Team

January 2023



This material is for investment professionals only, and should not be relied upon by private investors

Important Information

- The value of investments and the income from them can go down as well as up so you/the client may get back less than you/they invest.
- This strategy invests in overseas markets and so the value of investments can be affected by changes in currency exchange rates.
- This strategy invests in a relatively small number of companies and so may carry more risk than strategies that are more diversified.
- This strategy invests in emerging markets which can be more volatile than other more developed markets.
- The strategy uses financial derivative instruments for investment purposes, which may expose the strategy to a higher degree of risk and can cause investments to experience larger than average price fluctuations.
- 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.
- Investors should note that the views expressed may no longer be current and may have already been acted upon.
- Past performance is not a reliable indicator of future returns.
- Overseas investments will be affected by movements in currency exchange rates.
- The Investment Manager's focus on securities of issuers which maintain favourable ESG characteristics or that are sustainable investments may affect the strategy's investment performance favourably or unfavourably in comparison to similar strategies without such focus. When referring to sustainability-related aspects of the promoted strategy, the decision to invest should take into account all characteristics or objectives of the promoted fund as detailed in the Prospectus. Information on sustainability-related aspects is provided pursuant to SFDR at <https://www.fidelity.lu/sfdr-entity-disclosures>

Introduction

Sustainable Emerging Markets ex China portfolio management team

Expertise across regions and industries



Zoltan Palfi
Co-Portfolio Manager
Based in: London
Industry start date: 2007
Fidelity start date: 2013

Portfolio Management Responsibilities

Global EM, EMEA, Global EM ex China, EM Opportunities

Prior Fidelity Experience:

Latin America, EMEA Energy, EMEA Financials (Insurance, Banking, Exchanges, Fintech)

Previous Industry Experience

Credit Suisse – Equity Analyst (Russian TMT, Russian Oil & Gas),
UBS – Equity Analyst (EMEA Telecoms)

Education

Masters in Finance from Corvinus University of Budapest; CFA
Charterholder



Mohit Mandhana
Co-Portfolio Manager
Based in: Singapore
Industry start date: 2010
Fidelity start date: 2010

Portfolio Management Responsibilities

Global EM Consumer, Global EM ex China

Research Responsibilities

Asia ex China Healthcare (Pharmaceuticals, hospitals and consumer
health in India, Indonesia, Thailand, Malaysia, Singapore, Korea,
Taiwan)

Prior Fidelity Experience:

India Tech Services, ASEAN Consumer (FMCG, Retail, Indonesia,
Thailand, Philippines and Malaysia)

Education

B. Tech, Indian Institute of Technology, Delhi; MBA, Melbourne
Business School; CFA Charterholder



Rob Pearce
Co-Portfolio Manager
Based in: London
Industry start date: 2014
Fidelity start date: 2014

Portfolio Management Responsibilities

Global EM Consumer, Latin America, Global EM ex China

Research Responsibilities

Latin America Consumer (Staples, Disc, Ecommerce, Healthcare,
Education)

Prior Fidelity Experience:

EMEA Financials (Banks, Insurance)

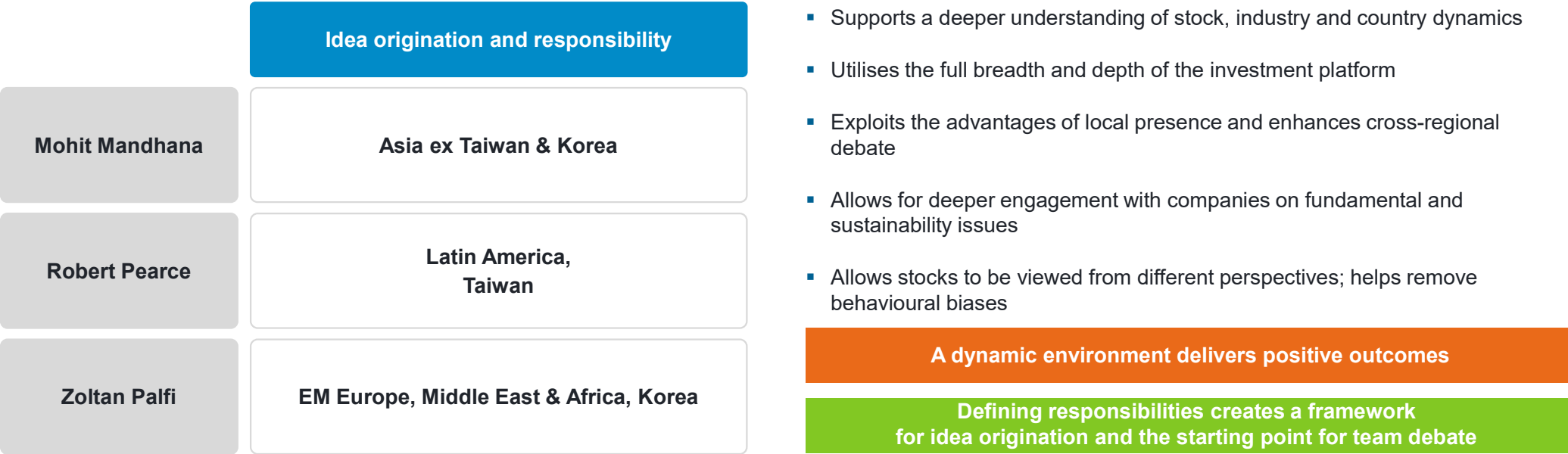
Education

MA in Economics & Management (1st class Hons) from the
University of Cambridge;
CFA (passed levels 1, 2 and 3)

Source: Fidelity International, December 2022.

Our optimal portfolio management team structure brings multiple benefits

We have a deep & collective knowledge of emerging markets



Source: Fidelity International, December 2022. A minimum of 70% of the strategy's net assets will be invested in securities deemed to maintain sustainable characteristics, as described in the section entitled "Sustainable investing framework" in the prospectus. The strategy will consider a wide range of environmental and social characteristics on an ongoing basis. Environmental characteristics include but are not limited to climate change mitigation and adaptation, water and waste management, biodiversity, while social characteristics include but are not limited to product safety, supply chain, health and safety and human rights. Controversies involving environmental and social characteristics are measured through the use of sustainability ratings.

Why Fidelity Sustainable Emerging Markets ex China?

Pioneering sustainable investing in EM ex China

Attractive opportunity set



- A standalone EM ex China solution with limited holdings overlap vs traditional strategies
- Exposure to a region with appealing fundamentals and long-term structural growth drivers

Collaborative team structure



- Collegiate team-based structure exploits the advantages of local presence
- Allows for deeper engagement with companies on fundamental and sustainability issues

Unique approach to ESG



- Using our local presence and forward-looking ESG analysis to gain an informational edge
- Meaningful engagement to uncover strong sustainability performers and improvers

High conviction portfolio



- A concentrated, high conviction, sustainable strategy
- Focus on high growth, sustainable companies with quality characteristics

Source: Fidelity International, December 2022.

1. Why sustainable EM ex China?

The reasons to consider an allocation to EM ex China

Growing demand for a standalone allocation

China has assumed a dominant role in the index with further scope for expansion given technical factors

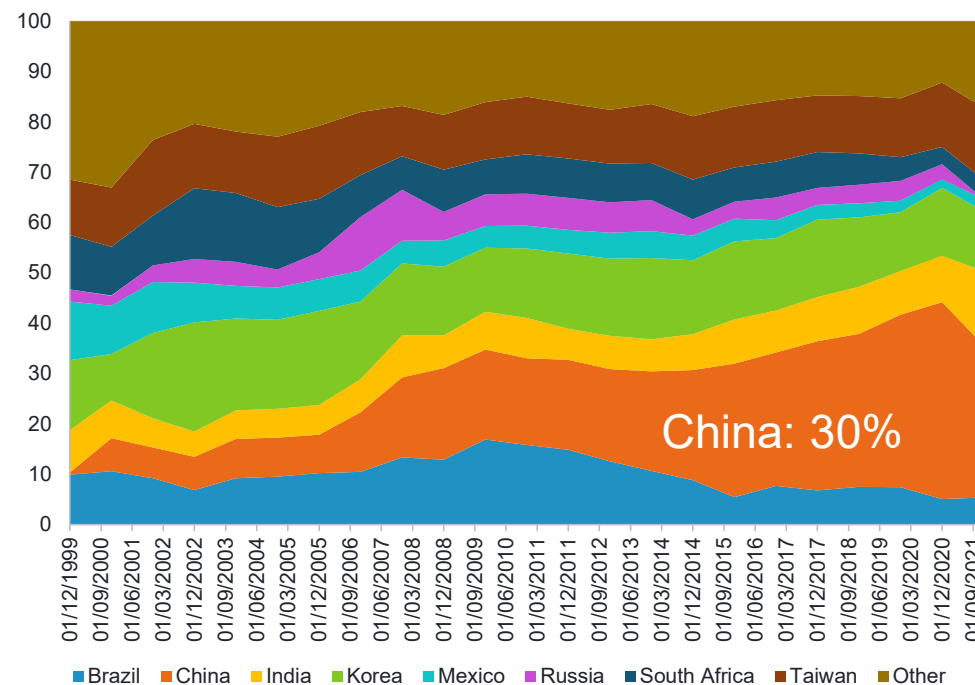
The region can offer attractive diversification benefits, as more and more investors allocate to China on a standalone basis

Provides exposure to companies adopting more sustainable business practices and improving their ability to generate stable long-term returns

A proliferation of high growth companies in earlier stages of development; ripe for success and growth

Strong structural drivers underpinned by an attractive demographic backdrop and rising penetration

MSCI Emerging Markets Index: Country weights (%)



Source: Fidelity International, MSCI, 31 December 2022.

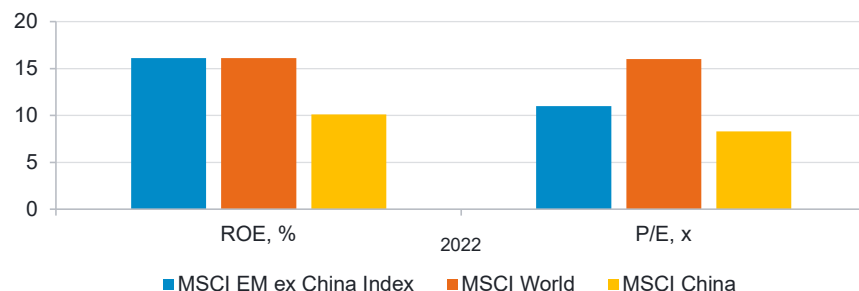
An attractive opportunity set

Features of the index

MSCI Emerging Markets ex China Index

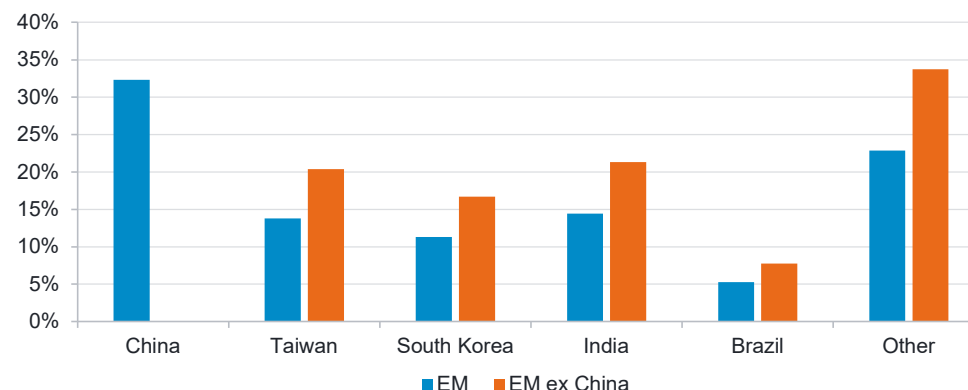
- More balanced by geography; absence of a single dominant market
- Whilst Taiwan, South Korea, India and Brazil form the largest block, more than a third of the index is comprised of a further 20 markets
- The presence of global leaders in the tech sector results in Taiwan and South Korea's more prominent position
- Energy and materials carry a higher weighting given exposure to the commodity rich EMEA and Latin America regions
- The 'new economy' appears less represented, however this reflects that many companies are in earlier stages of development, ripe for success and growth; similar ROE but lower valuations than MSCI World

ROE and valuations

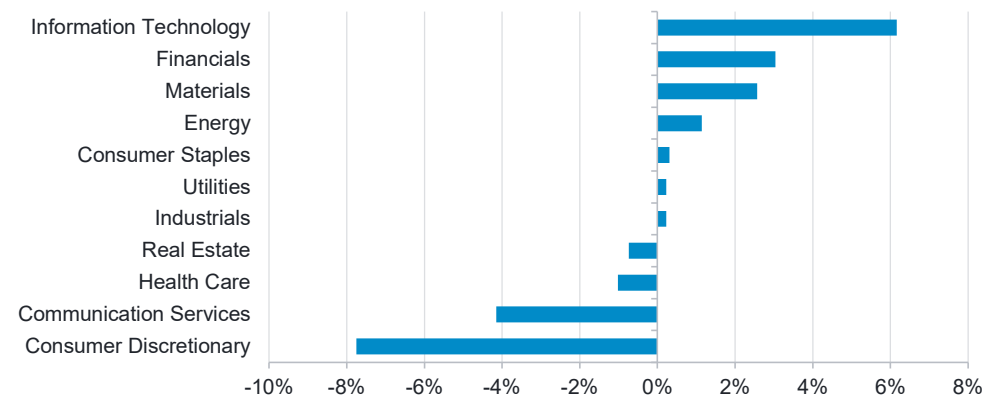


Source: LHS, Bloomberg, Fidelity International, November 2022. RHS: MSCI, 31 December 2022.

MSCI EM ex China v MSCI EM – country weightings



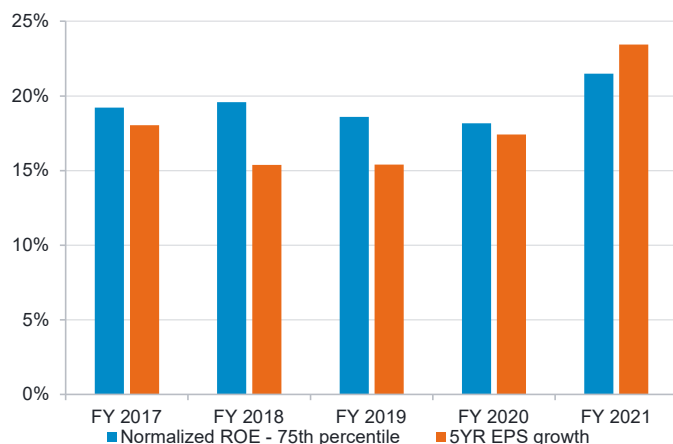
MSCI EM ex China v MSCI EM – sector weightings



A rich environment for stock pickers

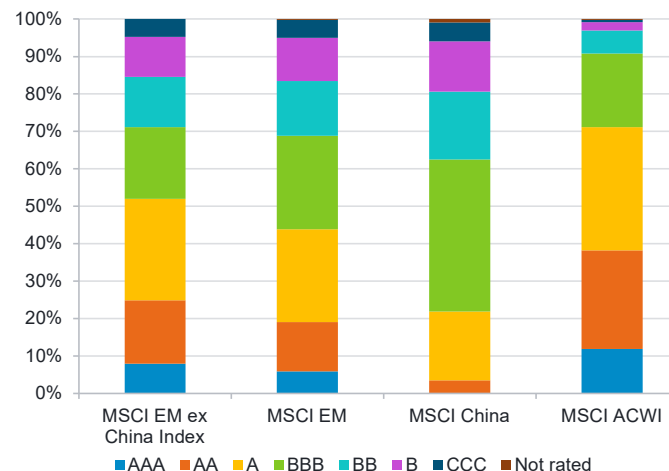
Appealing fundamental characteristics, long-term structural drivers, exposure to ESG improvers

EM ex China index: ROE and EPS growth



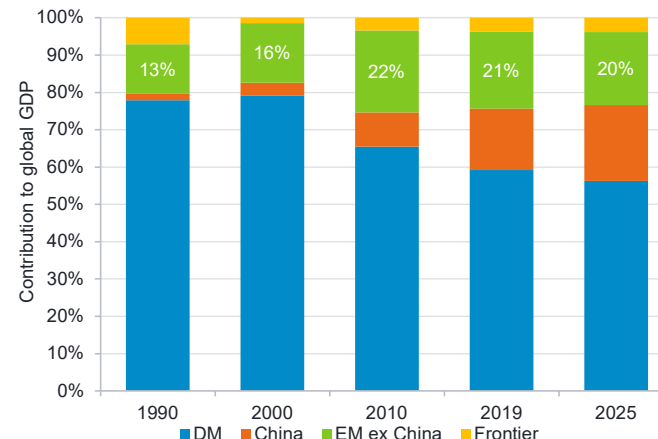
- The top 25% of companies have strong ROE and EPS growth
- Companies that can deliver ROE of c.20% and can grow earnings at a mid-teens rate should form good investments over time

MSCI ESG ratings by equity universe



- Sustainability in EM ex China lags developed markets, but the region has better ESG characteristics than the broader EM index
- Offers exposure to companies that are adopting more sustainable business practices and are improving their ability to generate stable, long-term returns

Robust contribution to the global economy



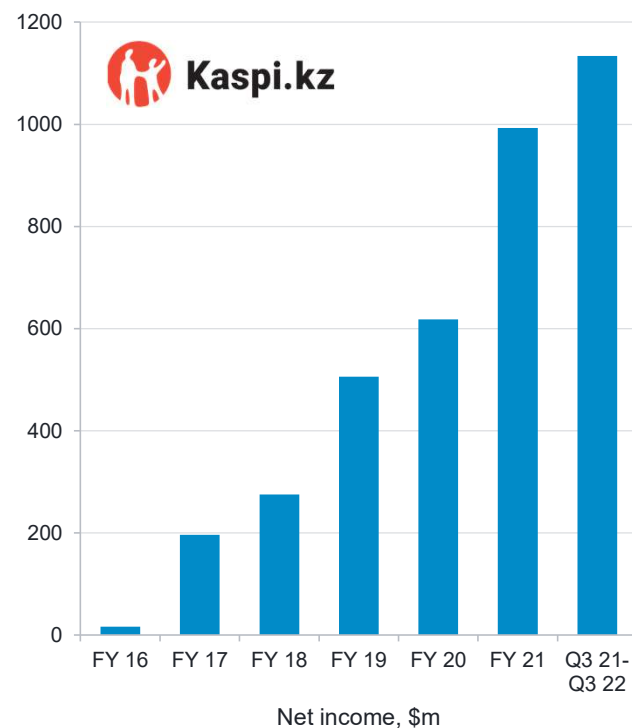
- High rates of economic growth with a robust contribution to the global economy.
- A relatively young population and burgeoning middle class supports longer term growth potential

Source: LHS: Bloomberg, 30 September 2022. Middle: MSCI, 31 October 2022. RHS: IMF WEO October 2020 edition. Numbers from 2021 are estimates.

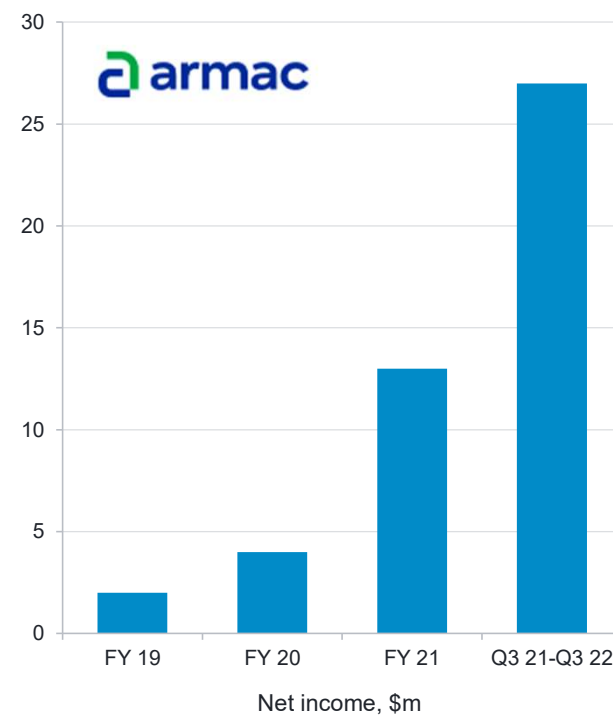
An abundance of opportunities

Unearthing strong growth companies at the early stages of development

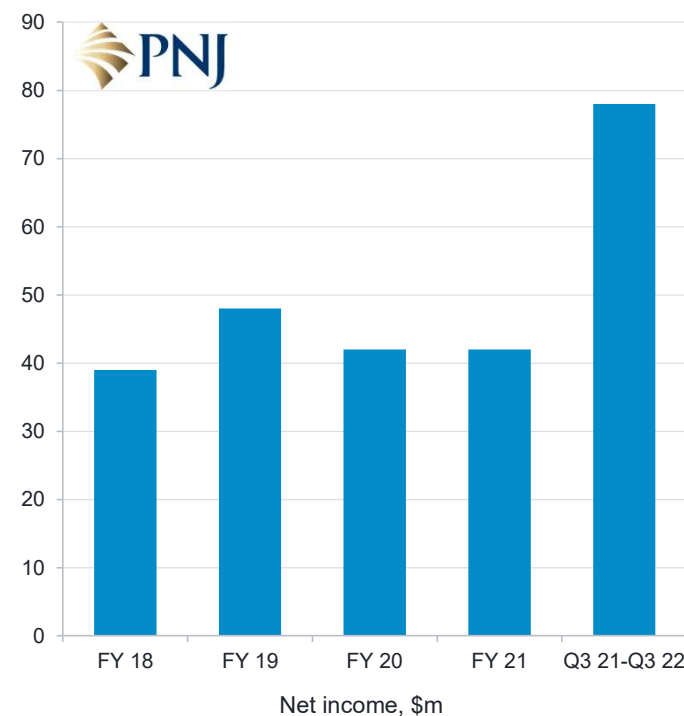
Kaspi



Armac



Phu Nuan Jewellery



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: Bloomberg, November 2022.

On the ground insights

Using our local presence to unearth appealing growth companies

Fidelity visit to an Armac site, Brazil, July 2022



armac

Visiting a Phu Nuan Jewellery shop, Vietnam, December 2022



PNJ

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Source: Fidelity International, December 2022.

The challenges associated with investing sustainably in EM ex China

Sustainability challenges in the region

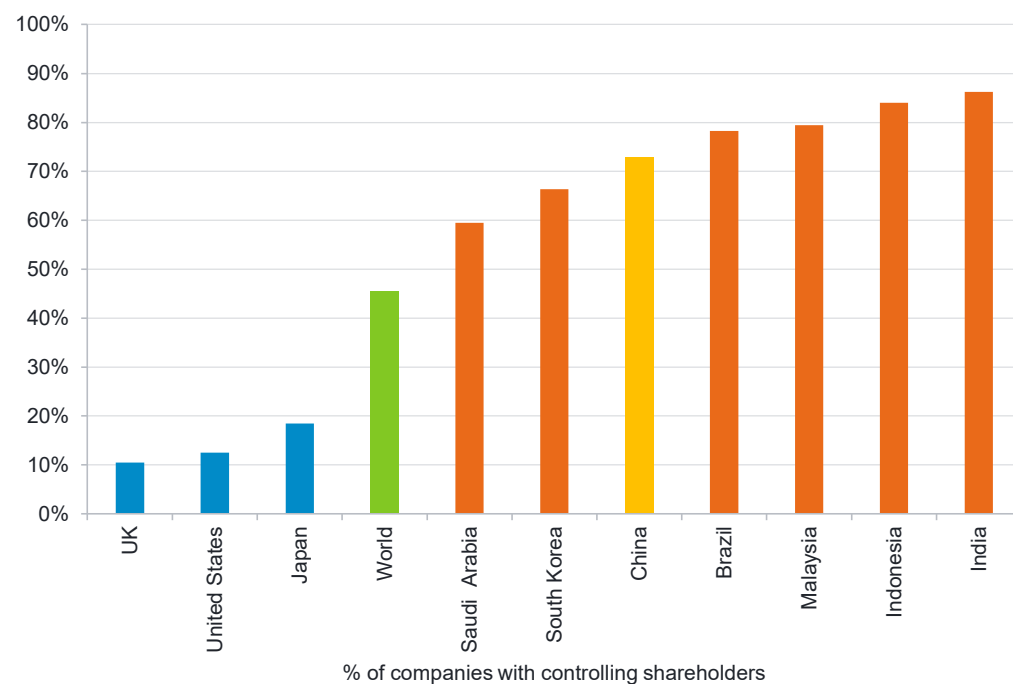
Unique local practices

Concentrated ownership

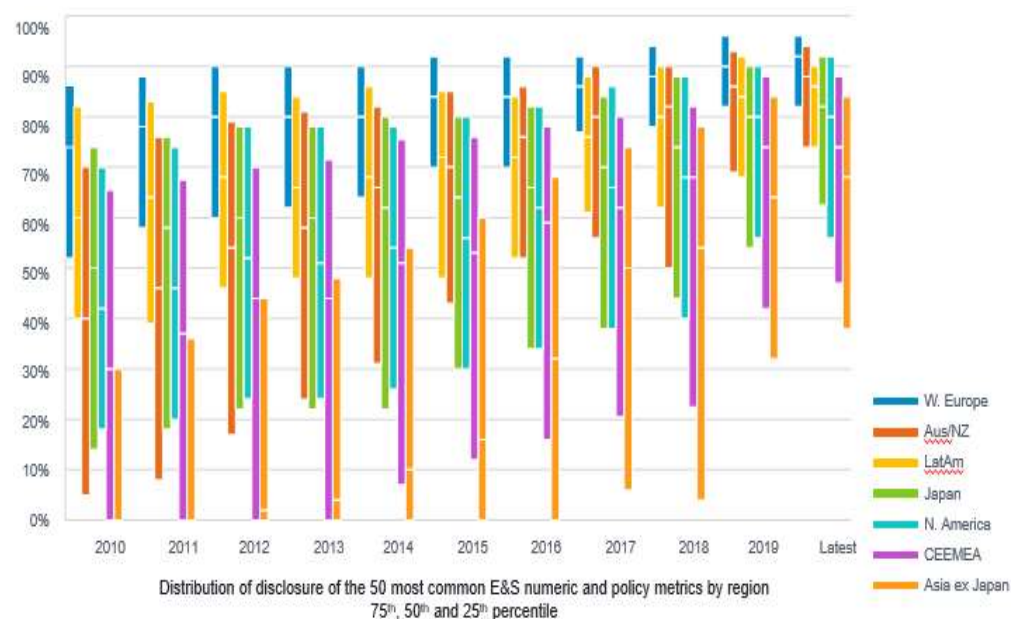
Limited disclosure

Lack of regulation

Controlling shareholders still prevalent



A lack of reporting standards



Source: LHS: MSCI ESG Manager, Fidelity International, June 2022. RHS: Refinitiv, Goldman Sachs Global Investment Research, 2022.

Using our approach to ESG to gain an informational edge

Overcoming the challenges using our local presence and ESG integration



Local presence



- Our local presence and experience managing regional emerging market portfolios
- *Allows for a deeper understanding of sustainability characteristics*



Fidelity ESG ratings



- Fidelity's proprietary ratings achieve broader ESG coverage of the investment universe
- *Helps identify the sustainability factors driving material risks and opportunities*



Engagement



- Collegiate team-based structure provides deeper insights
- *Improves our ability to engage and influence corporate behaviour*

Using our local presence and forward-looking ESG analysis to gain an informational edge

Source: Fidelity International, December 2022.

2. Why this strategy?

A high conviction, sustainable portfolio

Strategy overview

Portfolio Managers		ESG characteristics		Typical style & risk characteristics	
<u>Co Portfolio Managers</u> Robert Pearce, Zoltan Palfi, Mohit Mandhana		Integration	<ul style="list-style-type: none">A high conviction, fundamental, bottom-up approach, primarily seeking high growth stocks with strong sustainable and quality characteristicsA minimum of 70% of the fund’s net assets will be invested in securities deemed to maintain sustainable characteristics*A maximum of 30% of a fund’s net assets are allowed in issuers that are not deemed to maintain sustainable characteristics, but which demonstrate improving sustainable indicators**.	Number of holdings	40 – 60
				Active share	Targeting over 70%
				Stock positions	No specific target, high active weight reflects conviction
Key features		Engagement	<ul style="list-style-type: none">Fund integrates return, risk and sustainability criteria, while focusing on engagement to improve outcomes.	Sector/country positions	Largely residual, typically up to +/- 15% vs. index
Objective	Long-term capital growth	Exclusions	<ul style="list-style-type: none">Firm level: Cluster munitions, landminesSustainable family level: violators of UN Global Compact, controversial weapons, semi-automatic firearms¹, tobacco¹, thermal coal¹, conventional weapons¹, oil sands¹, arctic oil & gas¹, defined excluded sovereigns.	Expected turnover	30 – 60% p.a.
Region	EM ex China			Market cap bias	All cap, with a mid to large cap focus
Reference Index	MSCI EM ex China Index			Investment Style	Quality growth
Key differentiators					
Sustainable		+	EM ex China	+	Team structure
					High conviction

Source: Fidelity International, 31 December 2022. 1Exclusions are based on a 5% revenue threshold and are applied at issuer level - calculated as recent-year percent of revenue, or maximum estimated percent, a company has derived from these sectors related business activities. *Defined as MSCI AAA-BB, or if unrated by MSCI, rated A-C by Fidelity for sustainability as described in the section entitled "Sustainable Investing and ESG integration" in the prospectus. Further details on the methodology applied are set out at <https://fidelityinternational.com/sustainable-investing-framework/> and may be updated from time to time. **Improving sustainable indicators are issuers classified as such through the trajectory outlook of Fidelity Sustainability Ratings or issuers which in the view of the Investment Manager demonstrate the potential for improvement through the implementation and execution of a formal engagement plan.

Investment philosophy

High growth companies with quality characteristics and sustainable business models

We believe that stock returns exhibit positive correlation with realised EPS growth and underlying company profitability. These beliefs underpin the search for:

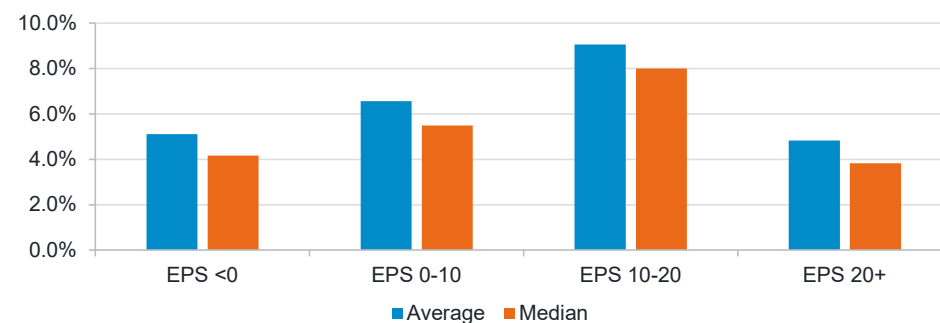
- Companies that can deliver sustainable and consistent revenue growth leading to higher profits and subsequently higher EPS;
- High and sustainable return on capital, with a preference for high ROE, ideally currently or on a mature-business basis;
- Businesses with the ability to generate attractive levels of FCF, which also reflects in long-term growth in EPS;
- Companies where growth should comfortably outpace likely currency depreciation, given that FX fluctuations are important determinants of stock returns and USD EPS growth is harder to come by the weaker the currency

These important attributes are married with a consistent focus on:

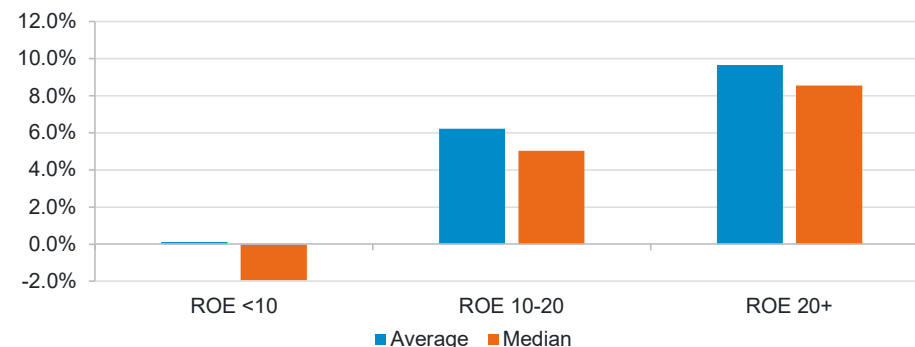
- Management quality and solid corporate governance practices;
- Evidence of strong sustainability credentials;
- A long-term view on valuation, focused on a 5 - 10 year horizon rather than near-term valuation metrics.

Source: LHS: Fidelity International, December 2022. A minimum of 70% of the strategy's net assets will be invested in securities deemed to maintain sustainable characteristics, as described in the section entitled "Sustainable investing framework" in the prospectus. The strategy will consider a wide range of environmental and social characteristics on an ongoing basis. Environmental characteristics include but are not limited to climate change mitigation and adaptation, water and waste management, biodiversity, while social characteristics include but are not limited to product safety, supply chain, health and safety and human rights. Controversies involving environmental and social characteristics are measured through the use of sustainability ratings. RHS: Bloomberg, Fidelity International, September 2022.

EM ex China, annualized return vs realized EPS growth

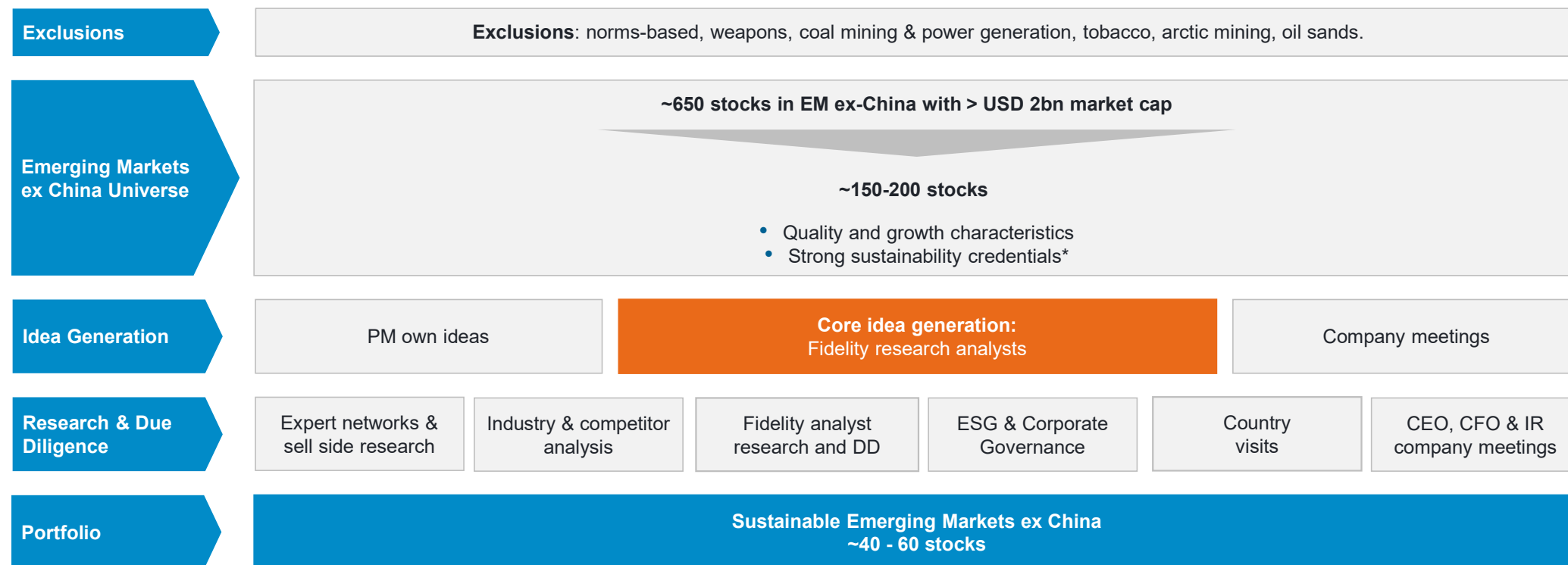


EM ex China, annualized return vs profitability



We make use of Fidelity's extensive research outfit to identify opportunities

Inputs to the investment process



Source: Fidelity International, 31 December 2022. *Good ESG ratings based on the Fidelity SFF framework whereby a minimum of 70% of the strategy's net assets will be invested in securities deemed to maintain sustainable characteristics, as described in the section entitled "Sustainable investing framework" in the prospectus. In addition, the strategy prefers companies rated A-C according to Fidelity's proprietary sustainability ratings. The strategy will consider a wide range of environmental and social characteristics on an ongoing basis. Environmental characteristics include but are not limited to climate change mitigation and adaptation, water and waste management, biodiversity, while social characteristics include but are not limited to product safety, supply chain, health and safety and human rights. Controversies involving environmental and social characteristics are measured through the use of sustainability ratings.

Emerging Market Equities – Team visit to Brazil



Nick Price
Portfolio Manager

Robert Pearce
Analyst & Portfolio Manager

Punam Sharma
Director of Research & Portfolio Manager

Zoltan Palfi
Analyst & Portfolio Manager

Laura Stafford
Equity Research Analyst

Josh Han An Xin
Equity Research Analyst

Fenella Atkinson
Equity Research Analyst

Source: Fidelity International, 31 December 2022

**7 team members,
37 company meetings,
Multiple industries**

Aviation	Financial services	Poultry
Banking	Private Equity	Software
Car / vehicle rental	IT	Telcos
Retail & apparel	Health	Logistics and transport
Digital platforms	Iron ore, Steel	Telcos
eCommerce	E&P	Engineering

- Gathers local insights through a series of considered interactions and forums, as the team meets with:
 - Core holdings, new ideas
 - Competitors, suppliers and customers (listed and unlisted)
 - Local experts
 - Undertakes site visits to view operations and test the consumer experience
- Team members split into sub-groups to maximise time on the ground. Groupings are aligned to areas of specialisation and expertise
- Collaborative efforts allow for effective daily / post-trip debriefing and facilitate value add cross sector assessment.

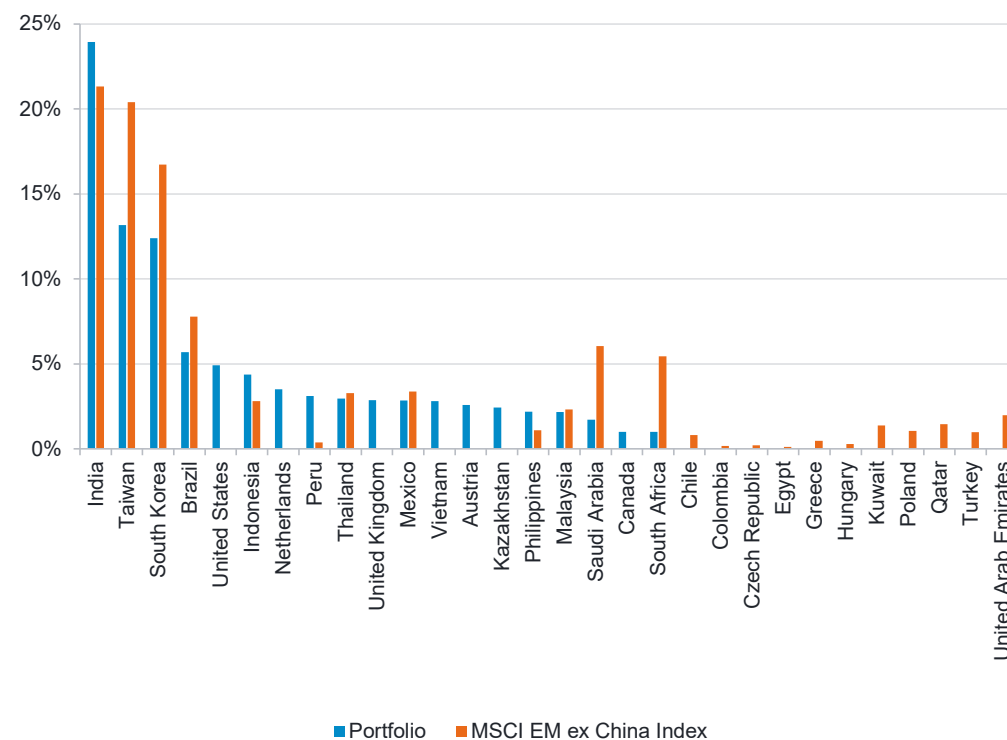
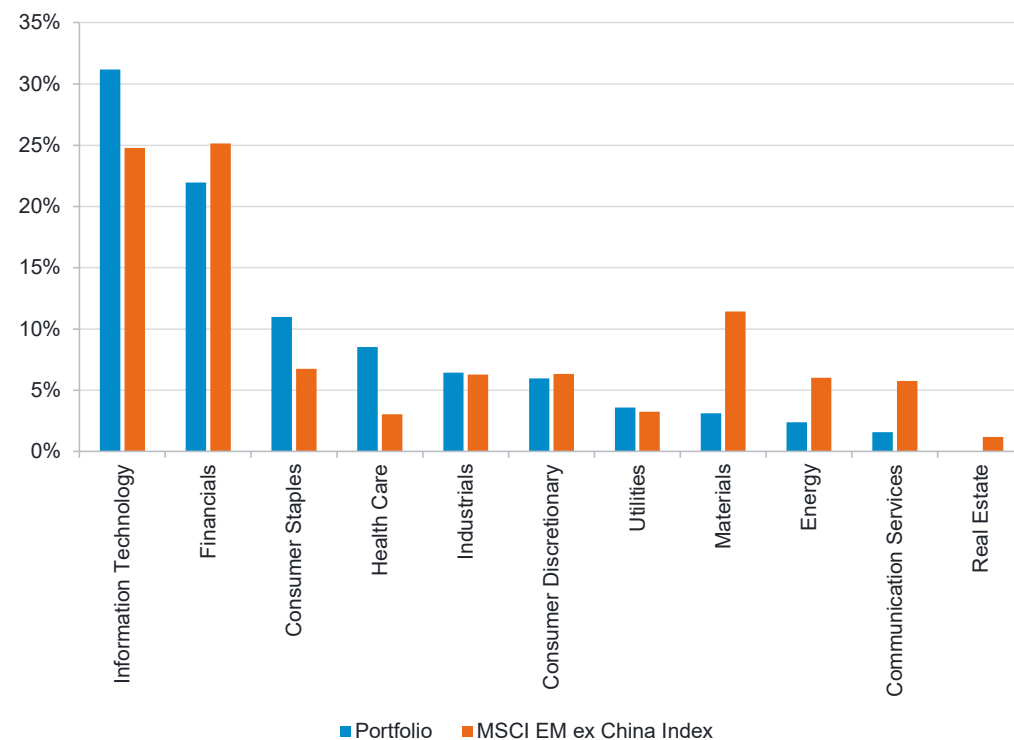
Other 2022 trips



3. How do we put it into practice?

Our positioning is a result of our bottom-up approach to stock picking

Model portfolio outcome: Sector and country positioning



Source: Fidelity International, 31 December 2022. The portfolio refers to the model portfolio, which is subject to change and may differ from the live strategy.

We take a go-anywhere approach, driven by opportunities at the stock level

Model portfolio: Top 10 relative positions

Holdings Distribution

Security Name		Sector	Country	Strategy (%)	Index (%)	Relative (%)	Fidelity ESG rating
ASML		I.T.	Netherlands	3.5	0.0	3.5	A (Stable)
Mercadolibre		Cons. Disc.	Brazil	3.1	0.0	3.1	B (Improving)
Chularat Hospital		Health Care	Thailand	3.0	0.0	3.0	B (Stable)
Marico		Cons. Staples	India	2.9	0.1	2.8	A (Improving)
Kaspi		Financials	Kazakhstan	2.4	0.0	2.4	B (Stable)
Unilever		Consumer Staples	UK	2.3	0.0	2.3	B (Stable)
SK Hynix		I.T.	S. Korea	3.1	0.8	2.3	A (Improving)
Chailease		Financials	Taiwan	2.5	0.2	2.3	A (Improving)
Power Grid Corp of India		Utilities	India	2.4	0.2	2.2	B (Improving)
Heineken Malaysia		Consumer Staples	Malaysia	2.2	0.0	2.2	Not rated

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Source: Fidelity International, 31 December 2022. The portfolio refers to the model portfolio, which is subject to change and may differ from the live strategy.

Stock example: Kaspi

ESG is core to our assessment of a business



Kaspi: Kazakhstan's payments, ecommerce and lending platform

Key fundamental characteristics

- **Strong growth:** Total payment value has accelerated as more merchants recognise the popularity of the ecosystem; the average net loan portfolio is up 50% YoY; and travel has now reached 10% of total marketplace GMV
- **Leadership position:** Dominant in payments, ecommerce, mobile banking and consumer lending; innovation has driven strong net income growth.

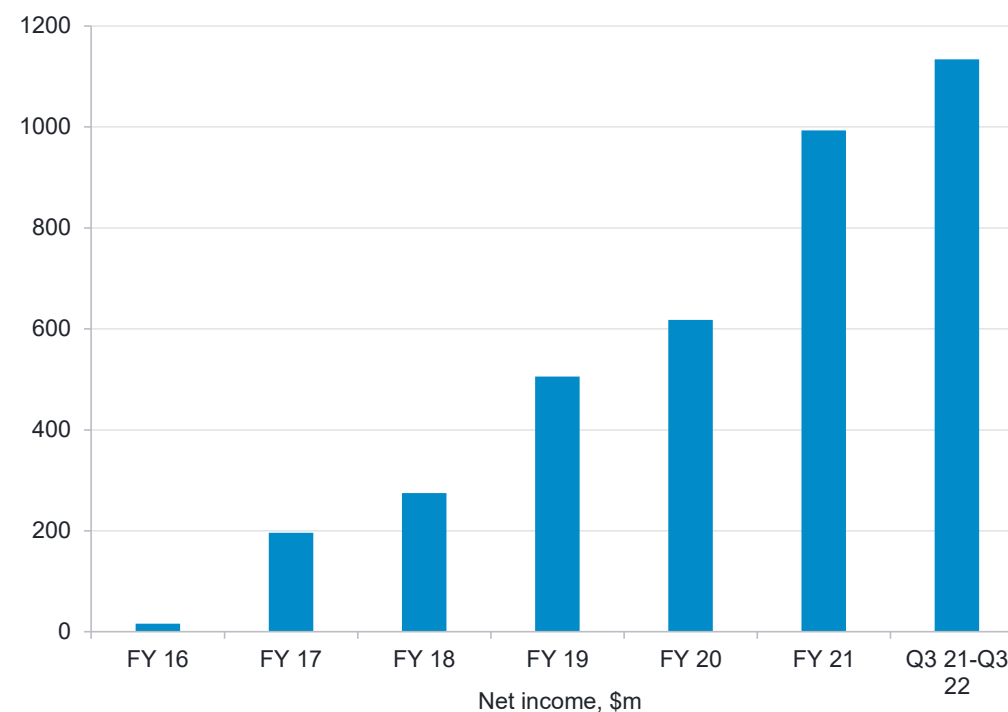
Areas of best practice

- **Best-in-class approach to responsible lending:** Non-performing loans do not compound after 90 days, limiting the debt, and no charge for early loan repayment.
- **Good communication and disclosure practices:** Credit terms in simple to understand format for the customer. Workout options for loans.
- **Strong corporate culture:** Key performance indicators well documented and the company's option programme is tied towards the achievement of KPIs. Customer satisfaction is front and centre.

Areas for improvement

- **Ownership:** The ultimate beneficiaries of the CEO's stake in the company are unclear.

Kaspi's net income



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Source: Fidelity International, Bloomberg, November 2022.

Stock example: Nubank

ESG is core to our assessment of a business



Nubank: A Brazilian bank

Key fundamental characteristics

- **Strong business model:** The customer proposition drives client growth above and beyond what we tend to see from good fintechs
- **Profitable:** The company is now profitable and asset quality is in good shape

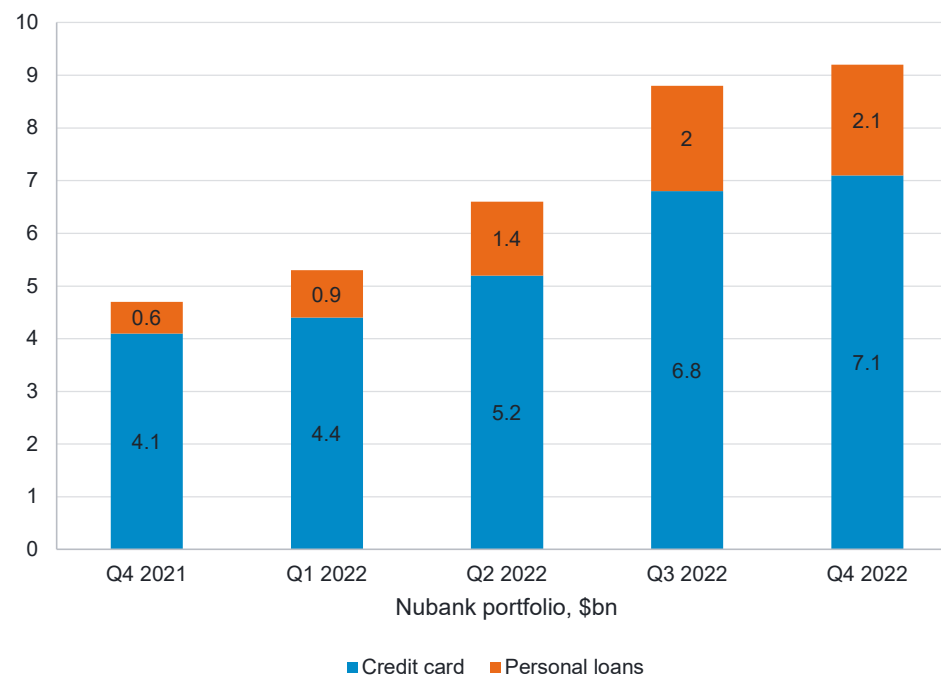
Areas of best practice

- **CEO forfeit of share award:** Our engagement with Nubank made it clear the CEO acted in good faith and unilaterally transferred value from himself to all other shareholders.
- **Social impact:** Drives financial inclusion across Latin America

Areas for improvement

- **Acquisitions:** A recent acquisition was expensive and although they grew the number of investment product users, they did not manage to grow AUC per client.

Accelerating portfolio growth



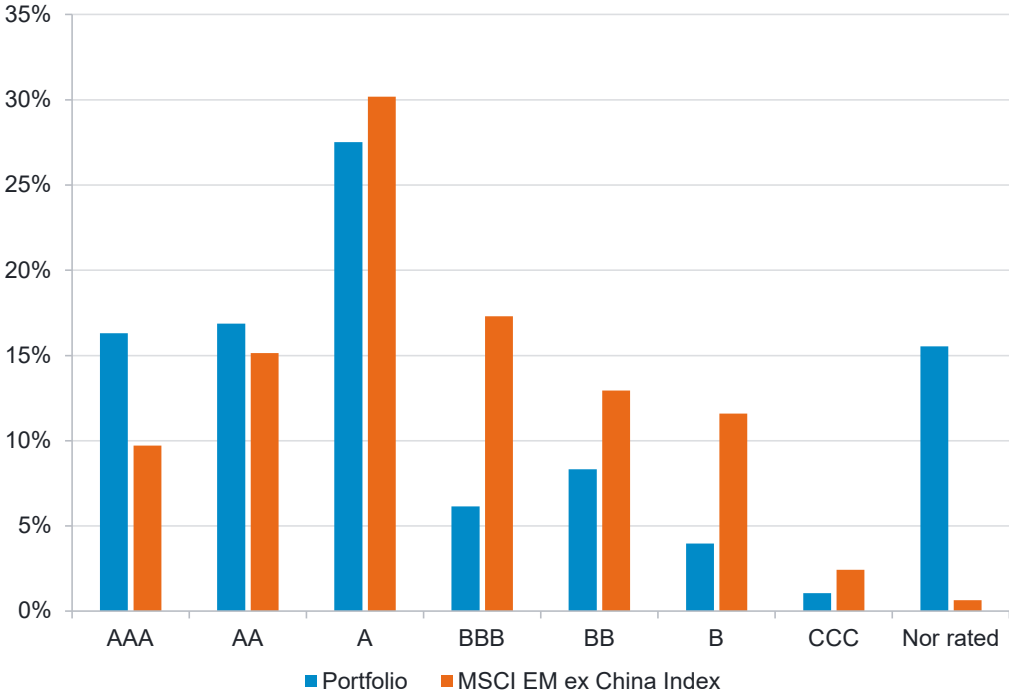
Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Source: Fidelity International, company reports, November 2022.

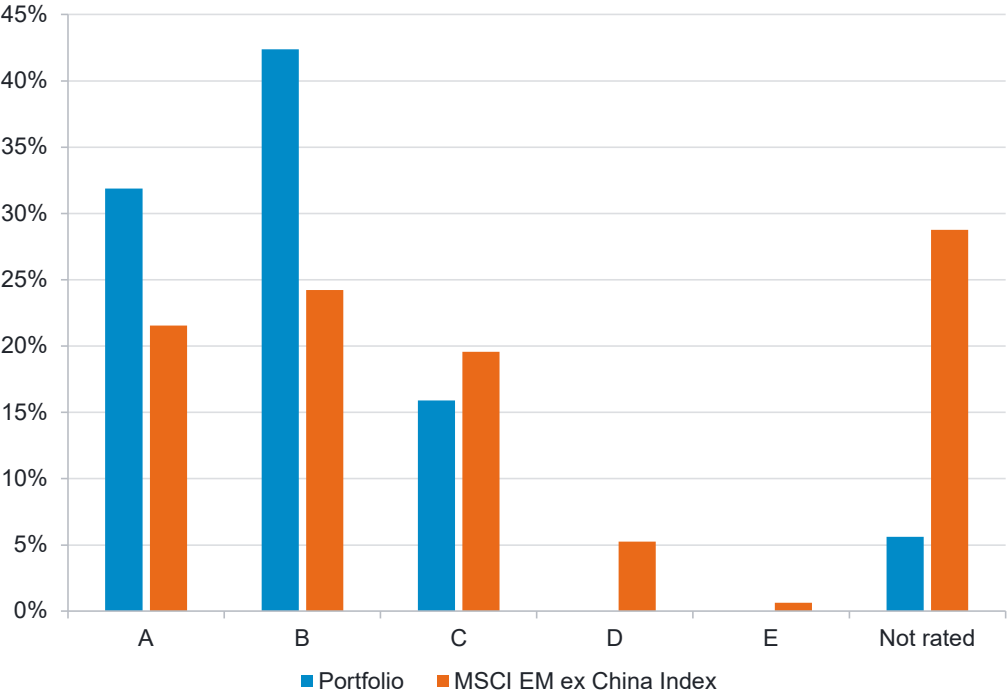
Our portfolio has strong sustainability characteristics

Superior ESG credentials

ESG MSCI Ratings Distribution



ESG FIL Ratings Distribution



This is a snapshot of the portfolio at the date indicated above. ESG ratings distribution may vary over time.

Source: Fidelity International as at 31 December 2022. Portfolio = FF Sustainable Global Emerging Markets ex China. Benchmark = Index: MSCI Emerging Markets ex China Index. Not Rated stocks will be rated by Fidelity's internal ratings in due course. This is a snapshot of the portfolio at the date indicated above. ESG ratings distribution may vary over time. The Fidelity Sustainability Ratings were launched in June 2019. As at 30 September 2022, they cover a universe of over 4,100 issuers in equity and fixed income. Fidelity have a five scale rating of A (best) to E (worst). Excludes cash.

Conclusion

Why Fidelity Sustainable Emerging Markets ex China?

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Source: Fidelity International, December 2022.

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