

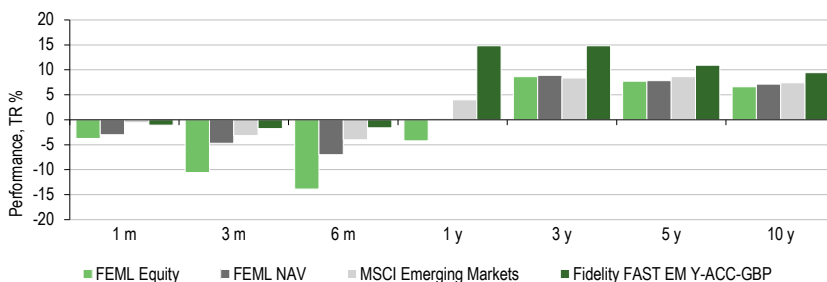
Fidelity Emerging Markets

Initiation of coverage

Refocusing on higher returns

Fidelity Emerging Markets (FEML, formerly Genesis Emerging Markets, GSS) was transferred to Fidelity in October 2021, following board recommendation and a favourable shareholder vote. FEML mirrors the FAST fund (£346m at 30 November, see chart below), which has achieved a strong track record over the past 10 years, consistently outperforming the MSCI Emerging Markets Index under lead fund manager Nick Price. Like FAST, FEML can take both long and short positions (subject to strict limits). It is differentiated by the ability to buy less liquid stocks, due to its closed-ended structure. Relative to long-only strategies, FEML can build a higher gross long exposure, which the Fidelity team believes offers greater scope for outperformance.

FAST* has outperformed the benchmark** over the past 10 years



Source: Refinitiv. Returns in sterling to 30 November 2021. *Fidelity FAST EM fund, ISIN LU0688696094, launched by FEML's lead portfolio manager Nick Price in 2011, is used as a model portfolio for FEML and illustrates the same long/short strategy which Fidelity applies to FEML. **MSCI EMs Index.

The opportunity

While FEML's portfolio is managed in a less constrained way than long-only mandates, it is subject to Fidelity's stringent risk management and oversight. Since FAST's launch, it has consistently achieved higher risk-adjusted returns compared to sector peers and the benchmark (see the performance section on page 10). FEML differentiates itself by the types of business in which the fund invests. Fidelity seeks to invest in companies with robust fundamentals and consistent returns at a reasonable price. With more than 45 analysts, Fidelity's research capability allows it to identify and invest in the widest range of high-quality EM growth opportunities.

Why consider FEML?

Under Genesis Investment Management, the company grew shareholder value over the long term, outperforming the benchmark. Fidelity aims to maintain this and to augment returns over the cycle, applying:

- resources that are available to Fidelity: research analysts based locally in Asia, who are industry experts, liaising with local managers as well as suppliers and competitors; and
- a broad range of investment techniques: maintaining net exposure at c 100%, investing in ideas with the highest conviction, shorting losers, using pair trades to achieve a return from both long and short positions, receiving additional income from the derivatives strategy.

NOT INTENDED FOR PERSONS IN THE EEA

Investment companies
Emerging markets equity

17 December 2021

Price Ord. 815.0p
Market cap £742.5m
AUM £1,106.3m

NAV* 922.1p
Discount to NAV 11.6%

*Including income. At 15 December 2021.

Yield 1.6%

Ordinary shares in issue 91.1m

Code FEML

Primary exchange LSE

AIC sector Global Emerging Markets

Benchmark MSCI Emerging Markets (EM) Index

52-week high/low* 948.0 785.0p

NAV* high/low 1,035.6p 903.3p

*Including income.

Gearing/cash

Gross market gearing* 34.1%

Net market gearing* 0.0%

*At 31 October 2021 (from the company's factsheet)

Fund objective

Launched in July 1989, Genesis Emerging Markets was one of the first emerging markets funds in the UK. Managed by Fidelity from 4 October 2021 (and renamed Fidelity Emerging Markets), it seeks long-term capital appreciation through investing in securities and financial instruments, providing exposure to emerging markets companies. Performance is benchmarked against the MSCI Emerging Markets Index.

Bull points

- Enhanced investment powers with measured risk approach.
- Substantial Fidelity resource, including local presence in emerging markets.
- The proactive board is committed to promoting the interests of the fund's shareholders and to narrowing the discount.

Bear points

- The EM asset class can be more vulnerable to periods of risk aversion.
- Due to the quality growth and large-cap bias, FEML might lag value-focused peers when value stocks are leading the market.
- Employing shorts and use of derivatives may not suit all investors.

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[Edison profile page](#)

**Fidelity Emerging Markets is a
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Fund profile: Capital growth & smart risk management

On 1 July 2021, FEML's board announced the appointment of Fidelity as the company's manager. The previous manager was Genesis Investment Management (Genesis), which launched the company in July 1989.

FEML aims to achieve long-term capital growth from an actively managed portfolio made up primarily of securities and financial instruments providing exposure to emerging markets (EM) companies, both listed and unlisted. The lead portfolio manager, Nick Price, supported by the co-portfolio manager, Chris Tennant, employs an actively managed global growth equity strategy with additional investment tools, enhancing the long-only approach. These include a series of complementary strategies, relaxing the typical constraints of traditional long-only strategies to generate enhanced risk-adjusted returns (for details see the Investment approach section on pages 4–5). At least 80% of the company's total assets (measured at the time of investment) are exposed to EM companies. The managers aim to maintain a diversified portfolio of a minimum of 75 holdings (comprising a mixture of long and short exposures) in companies listed in or operating across at least 15 countries. Gearing is permitted either through borrowing of up to 10% of net asset value (NAV) and/or by entering into derivative positions (both long and short), which have the effect of gearing, to enhance performance.

The fund manager: Fidelity

Change of manager

Following a review of the company's investment management arrangements and the tender for the investment management of the company, the board announced the appointment of Fidelity as the company's manager on 1 July 2021. Exhibit 1 compares the company's current and previous features.

Exhibit 1: Comparing the company's current and previous features

Feature	Fidelity	Genesis (before 4 October 2021)
The manager	FIL Investments Services (UK) (Fidelity)	Genesis
Fund manager(s)	Lead portfolio manager Nick Price, co-portfolio manager Chris Tennant	Investment team of 11 emerging markets equities portfolio managers (more than US\$24bn in AUM at end-June 2021).
Mandate	Global EM equity, capital growth	Global EM equity income and growth
Fund's Name	Fidelity Emerging Markets	Genesis Emerging Markets
Investment strategy	Quality growth	Income & growth
Investment objective	To achieve long-term capital growth from an actively managed portfolio made up primarily of securities and financial instruments providing exposure to EM companies, both listed and unlisted.	To achieve rising income and long-term capital growth through investment in a balanced portfolio of global equities.
Benchmark	MSCI Emerging Markets Index	MSCI Emerging Markets Index
Portfolio composition	c 130 stocks diversified across countries and sectors: c 50–70 long, c 50–70 short positions, c 100–110% net market exposure.	c 130 stocks diversified across countries and sectors
Stock limits	Minimum of 75 stocks listed or operating in at least 15 countries. At least 80% in EM companies. Can also invest in other transferable securities, investment companies, money market instruments, unlisted shares, cash and deposits, and can also use derivatives.	Maximum permitted exposure to any single country or sector is 25%.
Dividend yield (last 12 months)	c 1.4% (based on FAST fund)	c 1.5%
Derivatives	Income-enhancing derivative strategies: sale/purchase of options on held stocks, taking short positions on stocks/markets considered overvalued or impaired (maximum position of 100bp on a beta adjusted basis), use of long CFDs, foreign currency forwards. These are used on an opportunistic basis to enhance returns and control risk.	No
Annual management charge	0.6%	0.9%
Gearing	Maximum up to 10% of net assets	Maximum up to 10% of net assets

Source: Fidelity, Genesis, Edison Investment Research

The appointment of Fidelity took effect on 4 October 2021, following shareholder approval at the extraordinary general meeting (EGM) on 1 October.

The board undertook a review of investment management arrangements, looking to:

- gain access to a top performing EM strategy with a proven long-term track record, as the Genesis team's relative performance had weakened over the past few years;
- find a well-recognised investment management brand in the closed-ended retail, as well as institutional space, as Genesis is primarily focused on institutional investors; and
- reduce fees.

The board believes that it has addressed the above-listed considerations and we summarise the benefits for the company's shareholders listed in the board's announcement on 1 July:

- Access to Fidelity International's top-performing EM strategy.
- Reduction in management fee: a reduction from the existing 0.9% to 0.6% of NAV.
- Nine-month fee waiver from Fidelity.
- Fidelity's brand recognition and increased marketing focus: access to an award-winning investment company manager with extensive marketing capabilities led by a dedicated marketing team.
- Ongoing discount control: a commitment to both a performance-triggered tender offer in 2026 and the introduction of a continuation vote for the company to be held every five years.

Approximately 72% of the votes cast were in favour of its investment objective and policy change at the EGM on 1 October 2021. The company's name changed to Fidelity Emerging Markets Fund from Genesis Emerging Markets Fund and the new ticker is FEML, changed from GSS, all effective from 1 October 2021. Fidelity manages the fund in line with its established EM strategy to meet its growth investment objective.

In October, the company purchased up to 25% of its shares, pursuant to the tender offer (announced on 1 July), at 98% of the prevailing NAV at the time of repurchase, having proportionally scaled back from c 85% of shares being tendered.

The Fidelity team has largely restructured the fund, with the transition about 90% complete, based on commonality with the FAST Emerging Markets Fund on which FEML is broadly based (FAST, AUM c £346m at end-November 2021). Given extremely high commonality, FAST is used to illustrate FEML's investment strategy.

The following differentiate FEML from FAST:

- FEML has more flexibility in its investment mandate, such as the ability to invest in unlisted stocks. It is likely to have slightly different portfolio weightings because of its liquidity profile. However, these are very marginal.
- There are no retail share classes for FAST and it is not marketed to retail investors in the UK or overseas. Fidelity looks to market FEML to both institutional and sophisticated retail investors.

Fidelity

Established in 1969 as the international arm of Fidelity Investments, founded in Boston in 1946, Fidelity International became independent of the US organisation in 1980 and is today owned mainly by management and members of the original founding family. It has more than 28 years' experience in managing investment companies, and manages over £5.5bn in assets across six investment companies, including FEML. These are all focused on equity growth strategies. The alternative manager of FEML is FIL Investment Services (UK) (the alternative investment fund manager, AIFM, under the supervision of FEML's board), which delegated investment management responsibilities to its associate company, FIL Investments International (the investment manager).

The team

The company is managed by Nick Price and Chris Tennant, with the support of Fidelity's wider EM portfolio management team and 45 (as at 31 October 2021) equity research analysts responsible for the coverage of emerging market stocks. Both managers can also tap into the expertise of the EM debt team at Fidelity.

Price designed the approach applied to FEML. Having launched FAST, he has developed, managed and grown the strategy for more than a decade. He has 23 years' investment experience and has been with Fidelity since 1998. FAST has achieved a c 146% total return over 10 years (to end November), outperforming the peer group by c 21% (see Exhibit 13 on page 12).

The co-portfolio manager, Chris Tennant, is an emerging market specialist with 10 years' investment experience, all with Fidelity. Chris started his career as an analyst across various sectors before progressing to a portfolio management role in 2019.

The managers' view: Positioned for challenges ahead

Price and Tennant continue to focus on finding attractive companies for the fund. The strategy has worked even as the world watched Chinese stocks plummeting and remaining highly volatile during 2021. The resumption of concerns about COVID-19 variants and slowing global economic recovery allow the team to spot viable long and short opportunities. The fund's country and sector positioning are the result of a bottom-up stock-picking approach. The team finds the most compelling investment opportunities in high-return, well capitalised businesses with under-leveraged balance sheets. The managers believe that their ESG-aware positioning of the portfolio should mean the investee companies are better prepared for a challenging environment. With China in the spotlight, they have been prudently positioned in areas of the market subject to scrutiny and stress, for example, net short China property over the last year. The fund does not have direct exposure to oil stocks. Instead, holdings include high-quality financials in oil-producing countries such as Russia and Kazakhstan, as well as mining and gas companies across EMEA, Latin America and emerging Asia.

Asset allocation

Investment approach: Differentiated and established

FEML seeks to meet its investment objective by investing in a diversified portfolio of equity or equity-linked securities and derivative instruments providing exposure to EM companies. Portfolio Managers Nick Price and Chris Tennant adopt an active quality growth approach, seeking companies across the full market cap spectrum. Idea generation draws on Fidelity's EM investment platform, using multiple layers of due diligence on each stock. These include their own, broader EM and ESG teams' research.

The portfolio is run in an unconstrained manner and reflects the wider EM team's best ideas. Stock selection is bottom-up and driven by fundamentals and the team takes a consistent approach focusing on quality, consistency of returns and a reasonable price.

The managers utilise enhanced investment powers, seeking to exploit a broad range of opportunities by adopting an active 'extension' investment style. This results in long positions that are focused on dominant franchises, positioned to take advantage of structural growth opportunities, and short positions are targeted at the weakest stocks most exposed to competitive threats and financial distress. The short positions are very small. The 100 plus holdings portfolio typically has a 50:50 split between the number of longs and shorts, but long positions have much

larger weights. To ensure risks are controlled, the portfolio management (PM) team only shorts liquid mid- and large-cap stocks, where short interest is low. In addition, the average short positions are very small (at just over 30bps each), which helps to spread and control the risk. The team also uses stop loss orders for all short positions for risk management purposes.

Using pair trades (long/short) also differentiates the approach from long-only EM funds. The PMs intend to maximise potential returns across the market cycle, using both long and short positions, with a strong focus on risk control. Typically, they go 'long' in companies they believe will perform well in their specific sector and go 'short' in companies they expect to perform poorly. Other enhanced derivative strategies (such as sale/purchase of options on held stocks, use of long contracts for difference (CFDs), foreign currency forwards) are used on an opportunistic basis to enhance returns and control risk.

The fund's objective is to maintain overall market exposure at close to 100%. The PM team may short the MSCI Emerging Markets Index to achieve this balance in the portfolio. This strategy would be employed when there are more ideas on the long side. The managers aim to keep the index short exposure within 15%.

FEML differentiates from FAST slightly, as it can pursue unlisted (pre-IPO) and illiquid smaller companies opportunities in order to make the fullest use of the company's closed end structure. The PMs will only use this feature occasionally when they find exceptional opportunities.

The strategy has outperformed the MSCI Emerging Markets Index since launch in October 2011 and over shorter periods of one, three and five years (Exhibit 2). Exhibit 3 illustrates that FEML's strategy's higher gross exposure increases active money; Fidelity believes that the increased exposure provides the strategy a greater opportunity to outperform going forward.

Exhibit 2: Long-term track record of FAST (*gross of fees), in £ terms

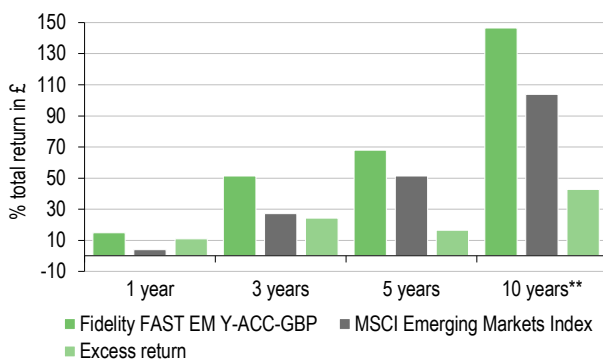
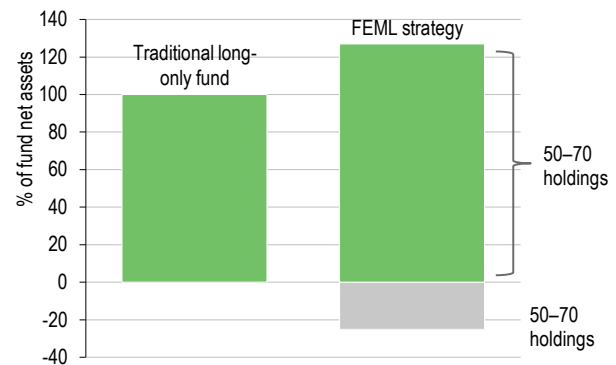


Exhibit 3: Potentially greater scope for outperformance of strategy with higher exposure for FEML*



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: *Fidelity FAST EM Fund, as at 30 November 2021. The green colour represents long and grey short exposure. **Performance since FAST's launch on 31 October 2011.

The portfolio turnover of FEML's strategy is typically c 100% pa, as the fund uses derivatives (107% for the 12 months to end-October 2021).

Investment process: Applied by local experts and ESG embedded

FEML defines EM as countries that have an EM stock market as defined by MSCI, countries or markets with low-to-middle-income economies as classified by the World Bank, and other countries or markets with similar emerging characteristics.

Fidelity EM's team uses a bottom-up investment approach. Sector analysts study financial factors and carry out additional qualitative analysis of potential investments. They examine the business,

customers and suppliers and often visit the companies in person to develop a view of every company in which Fidelity invests.

The Fidelity research function supports all PMs, including global, regional, emerging markets, single countries and sectors; this allows detailed coverage across industries, regardless of whether they are in or out of favour. Within and across regions, sector groups provide a framework for discussion of industry value chains both regionally and globally by holding weekly or monthly meetings in which trends and best ideas are debated. All of Fidelity's regional investment teams have access to, and share, research across asset classes and geographies automatically through a highly developed publishing system and regular meetings at global sector level. This constant interaction and extensive network of research resources is vital to provide global comprehensive coverage based on independent analysis and in-depth company meetings.

The portfolio is constructed in a benchmark agnostic manner, and the MSCI EM Index is used for performance comparison purposes. Sector and country allocation are therefore residual exposures resulting from the combination of the underlying individual long and short positions that are selected for the portfolio.

Fidelity maintains an ESG score for each covered stock. The team integrates ESG factors into its fundamental investment analysis, including the following activities:

- in-depth research,
- company engagement,
- active ownership, and
- collaboration within the investment industry.

Examples of ESG factors that the team considers, include:

- corporate governance (eg board structure, executive remuneration);
- shareholder rights (eg election of directors, capital amendments);
- changes to regulation (eg greenhouse gas emissions restrictions, governance codes);
- physical threats (eg extreme weather, climate change, water shortages);
- brand and reputational issues (eg poor health and safety record, cyber security breaches);
- supply chain management (eg increase in fatalities, lost time injury rates, labour relations);
- work practices (eg observation of health, safety and human rights provisions and compliance with the provisions of the Modern Slavery Act); and
- Task Force on Climate-related Financial Disclosures (TCFD): Fidelity has set two key net zero targets:
 - Halve the carbon footprint of investment portfolios by 2030, from a 2020 baseline, and reach net zero by 2050.
 - Achieve net zero emissions across Fidelity's corporate operations by 2030.

Fidelity's analysts have overall responsibility for analysing the environmental, social and governance performance of the companies in which it invests. In addition, a dedicated Sustainable Investing team works closely with the investment teams and is responsible for consolidating Fidelity's approach to stewardship, engagement, ESG integration and the exercise of its votes at general meetings. The Sustainable Investing team has a key role in assisting the investment teams with ESG integration. Fidelity also uses external ESG research sources and industry specific ratings from ESG rating agencies (including Moody's and S&P). Fidelity reviews its sources of external ESG research on a regular basis. The ESG ratings and associated company reports are included on Fidelity's centralised research management system.

Fidelity has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis.

An illustration of Fidelity's investment framework

We illustrate Fidelity's investment framework using an electric vehicles (EVs) market example. According to Fidelity, the research team uses a holistic cross-sector approach to analysis in order to understand the EV market. The global autos team concluded that the demand for EVs would accelerate at a significantly faster pace than anticipated - a conclusion which led a number of PMs (including FEML's team) to deploy capital to a series of related companies on a selective, bottom-up basis. Below are examples of holdings which are paired trades across the long and short books that the FEML team has employed to exploit these views. While Fidelity does not disclose the stocks here, please see selected stock examples on pages 9 and 10.

Autos

- **Long:** leading auto manufacturers with a compelling EV proposition, trading at attractive valuations.
- **Short:** Chinese EVs where valuations are stretched, and competitive intensity is rising.

Metals and mining

- **Long:** copper miners with low production costs and high-quality assets across Latin America and EMEA regions, given the role the commodity plays in EVs and related infrastructure, and given that pricing is underpinned by supply constraint.
- **Short:** a paired short with a relatively higher-cost producer with high social risk from water shortage issues and political risk from royalty reform in Chile.

IT

- **Long book:** industry leading component manufacturers within the EV supply chain, as mounting storage demand boosts outlook for manufacturers.
- **Selling call options:** to assist with position size management, and more opportunistically where share prices have rallied but Fidelity sees further upside. The option exposure of the strategy reduces the overall risk and volatility of the portfolio, while also providing an income stream.

Current portfolio positioning

After being appointed on 1 September, Fidelity's team executed the tender offer. The PMs took over the portfolio on 4 October and restructured it. At 31 October 2021, the portfolio had 148 holdings, including 87 long, 61 short positions (including a 16.1% MSCI EM index short position). Exhibit 4 presents the top 10 holdings.

Exhibit 4: Top 10 holdings

Fidelity			Portfolio weight %	Genesis			Portfolio weight %
Company	Sector	Country	31-Oct-21	Company	Sector	Country	31-Aug-21
Taiwan Semiconductor	Information technology	Taiwan	8.6	Taiwan Semiconductor	Information technology	Taiwan	6.7
Samsung Electronics	Information technology	South Korea	7.4	Tencent	Communication services	China	3.8
Kaspi	Financials	Kazakhstan	6.8	Heineken	Consumer staples	Netherlands	3.2
TCS Group	Financials	Russia	6.6	Alibaba	Consumer discretionary	China	3.1
HDFC Bank	Financials	India	5.8	Samsung Electronics	South Korea	Technology	2.9
Sberbank	Financials	Russia	5.1	Sberbank	Financials	Russia	2.6
China Mengniu Dairy	Consumer staples	China	5.0	Naspers	Consumer discretionary	South Africa	2.4
Alibaba	Consumer discretionary	China	5.0	AIA Group	Financials	China	2.2
Gazprom	Energy	Russia	4.7	Yandex	Communication services	Russia	2.0
First Quantum Minerals	Materials	Canada	3.8	Bidcorp	Consumer staples	South Africa	1.7
Top 10 (% of portfolio)			58.8				30.6
Number of holdings		148 (87 long, 61 short)				36	
Number of markets/countries		29				13	

Source: FEML, Fidelity, Edison Investment Research

FEML's portfolio has a higher concentration within the top 10 long positions at 58.8%, compared to the Genesis top 10 (30.6%).

As described in the investment approach section on page 4, Fidelity's team can build a higher gross long exposure, as part of its long/short strategy. At the same time, net exposure is targeted to be at a neutral c 100–110%. Fidelity's team believes that maintaining such positioning gives FEML's strategy potentially greater scope for outperformance.

Geographically, Fidelity's portfolio differs from the Genesis fund. Exhibits 5 and 6 illustrate the outcome of stock selection resulting in Fidelity's higher concentration within the top four countries (63% versus 53% at Genesis), but more even spread between those. China (including Hong Kong) is the highest country exposure in both portfolios (24.2% for Fidelity and 27.8% for Genesis).

Exhibit 5: Portfolio (Fidelity) breakdown by country*

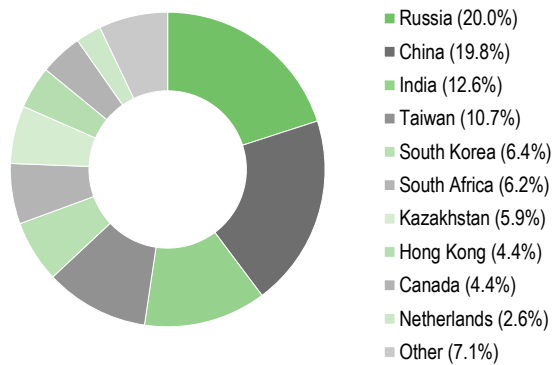
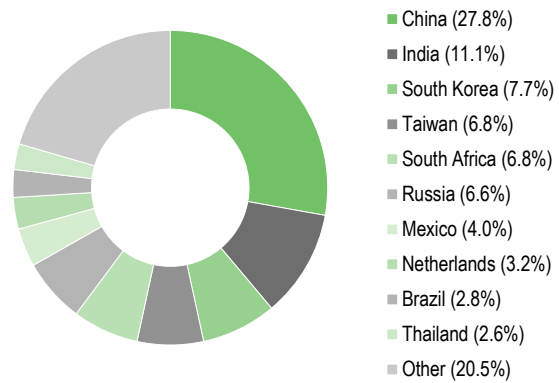


Exhibit 6: Portfolio (GSS) breakdown by country**



Source: FEML Fidelity, Edison Investment Research. Note: *FEML's portfolio at Fidelity at 31 October 2021. **Genesis at 31 August 2021. Rebased for cash and unclassified items for Fidelity.

Exhibit 8 shows GSS's portfolio by sector exposure as at end-August 2021. Exhibit 7 illustrates FEML's portfolio compiled by Fidelity and highlights the change in the sector mix.

Exhibit 7: Portfolio (Fidelity) breakdown by sector*

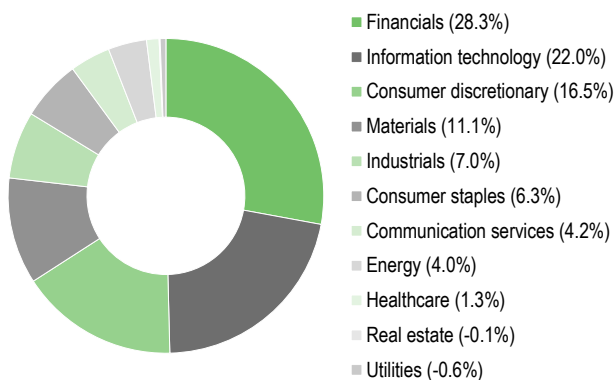
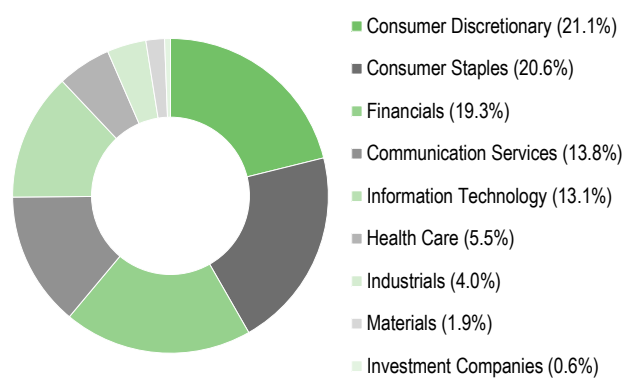


Exhibit 8: Portfolio (Genesis) breakdown by sector**



Source: FEML Fidelity, Edison Investment Research. Note: *FEML's portfolio at Fidelity at 31 October 2021. **Genesis at 31 August 2021. Rebased for cash.

Fidelity's portfolio top sectors are financials (28.3%), information technology (22.0%) and consumer discretionary (16.5%), compared with consumer discretionary (21.1%), consumer staples (20.6%) and financials (19.3%) in the Genesis fund. In our opinion, the larger information technology exposure within Fidelity's fund (22.0% versus 13.1% at Genesis) gives FEML more growth bias, compared with more defensive stance at Genesis. Genesis's portfolio was more defensive, with consumer staples being the second largest sector at 20.6% versus 6.3% in Fidelity's portfolio.

Selected stock examples from the long and short books

HDFC Bank (HDFCB IN, market cap US\$110bn), financials, large-cap stock

Long book

Fidelity believes that HDFC Bank is the best run bank in India. HDFC Bank is the largest bank in the country after State Bank of India. Fidelity notes that the bank has an impeccable track record, and consistently delivered superior earnings growth and a stable return on assets over the last five years. The team views its management, systems and processes as excellent. HDFC Bank has seasoned senior management with key management members in their roles since the inception of the bank. Additionally, there is no human discretion in key functions like credit appraisal, risk and treasury. Fidelity believes that this feature makes the business model more cost effective. HDFC Bank's key competitive advantage is its lowest cost of funds in the industry. It possesses the best leverage of technology in the industry. Fidelity also believes that since its formation HDFC Bank has made the best use of available technology. In Fidelity's view, the bank has immense future growth opportunities to use its leading position to increase its retail credit penetration, expand branches, gain market share and cross sell to existing customers.

Yes Bank (YES IN, market cap US\$5bn), financials, mid-cap stock

Short book, pair trade with HDFC Bank

NB. Fidelity does not disclose open short positions, this position has been covered. Yes Bank is included by way of example to demonstrate the attributes of a short position.

Yes Bank is India's fifth largest private sector bank. The business suffers from a fragile and shrinking deposit base. Fidelity believes that a high slippage ratio led to the fast and concerning accretion of non-performing assets. A deterioration in the bank's balance sheet was exacerbated by diminishing deposit support by state owned enterprises. Yes Bank exhibited one of the highest exposures to stress sectors and corporates and yet reported non-performing assets and credit costs lower than that of HDFC Bank. Given the quantum of stress coupled with low visibility on return on equity, it was hard for the team to justify the price-to-book multiple at which the bank was trading.

Daqo New Energy (DQ.US; market cap \$3.0bn), industrials, mid-cap stock

Daqo is a polysilicon manufacturer (polysilicon is used to produce solar panels). Polysilicon manufacturing requires leading technology and has a higher technological barrier to entry, compared with companies operating in the midstream solar supply chain. Hence Fidelity believes that the competitive landscape for polysilicon manufacturers is better. Daqo's production cost per unit is at the low end of cost curve, which, together with growing solar installation demand, helps it to maintain full capacity utilisation during fast capacity expansion. Energy trades as a commodity and all industrial users are price takers. Typically, energy suppliers with solar plants drive demand for polysilicon, and this has been growing. The Chinese government has accelerated its 'green' efforts, encouraging buyers of power to get energy from clean energy sources and reduce their buying share from coal plants. As a consequence, polysilicon capacity expansion lags behind demand and downstream capacity growth. Given the supply bottleneck, the company has enjoyed strong pricing power and the polysilicon price has rallied. Fidelity expects demand to continue to grow, as China continues its efforts to move further to clean energy sources.

Alphamin Resources Corporation (AFM.CN, market cap US\$1.2bn), materials, small-cap stock, DM listed, EM assets

Fidelity believes that Alphamin is a pure play in a metal with one of the best fundamental outlooks in the world: tin. The PM team highlights that AFM has the best tin deposit that exists by far, with about triple the grade of the second-best deposit in the world. The asset has c 10 years' life, but very clear potential to expand the life of mine by going deeper at Mpama North (located in the Democratic Republic of the Congo). The stock trades on an attractive valuation with strong double-digit free cash flow even at low tin prices. Upside optionality comes from either a higher tin price or doubling production with a similar sized mine/plant at Mpama South. Alphamin is testament to the scale of Fidelity's platform; the stock is not covered by the sell side at all.

Performance: Fidelity's strategy outperforms

Genesis's emerging markets team had been running the company since its launch in July 1989 until Fidelity took over, effective 4 October 2021. Therefore, FEM's historical performance until the start of October is attributable to Genesis (GSS). Exhibit 9 shows the company's NAV underperforming its MSCI EM benchmark over six months, one year and five years, and outperforming over three years and 10 years on a cumulative total return basis. Both underperformance and outperformance are by a relatively small margin over all periods shown.

We have also included the performance track record of the FAST Emerging Markets Fund, developed by the current fund manager, Nick Price, in 2011. Exhibit 10 illustrates that FAST outperformed the MSCI EM Index and Genesis's strategy that was applied to FEM historically on an NAV total return basis over all the periods shown. This was driven by notable outperformance during FY17, FY20 and FY21 (Exhibit 9).

Exhibit 9: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI World (%)	FAST* (%)
30/11/17	17.4	17.5	23.0	14.8	27.5
30/11/18	(3.5)	(4.0)	(3.2)	6.8	(13.0)
30/11/19	21.8	16.1	6.2	13.6	10.7
30/11/20	9.9	11.1	15.1	11.5	19.1
30/11/21	(4.2)	0.2	4.0	23.4	14.8

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. * Fidelity FAST EM Y-Acc-GBP.

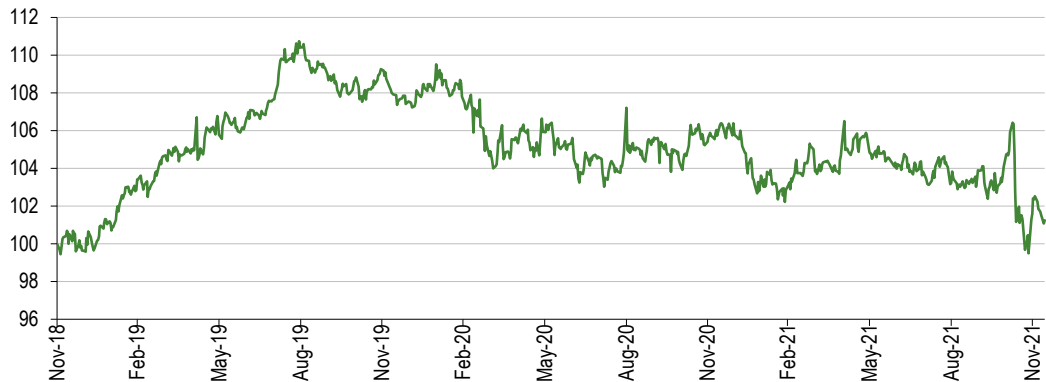
Exhibit 11 shows that the company's historical performance relative to its MSCI EM benchmark stalled during 2020 and 2021.

Exhibit 10: Share price and NAV total return performance, absolute and relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
GSS (FEM since October 4, 2021) equity	-3.8	-10.6	-13.9	-4.2	28.2	45.2	89.1
GSS (FEM since October 4, 2021) NAV	-3.0	-4.7	-7.0	0.2	29.2	45.7	99.3
FAST	-1.1	-1.8	-1.6	14.8	51.5	67.9	146.4
MSCI Emerging Markets	-0.6	-3.2	-4.0	4.0	27.2	51.5	103.8
Price relative to MSCI Emerging Markets	(3.2)	(7.7)	(10.3)	(7.9)	0.8	(4.1)	(7.2)
NAV relative to MSCI Emerging Markets	(2.4)	(1.6)	(3.1)	(3.6)	1.6	(3.8)	(2.2)
Price relative to FAST	(2.7)	(9.0)	(12.5)	(16.6)	(15.4)	(13.5)	(23.3)
NAV relative to FAST	(1.9)	(3.0)	(5.5)	(12.7)	(14.7)	(13.2)	(19.1)

Source: Refinitiv, Edison Investment Research. Note: Data to 30 November 2021. Geometric calculation.

Exhibit 11: NAV total return performance relative to benchmark over three years

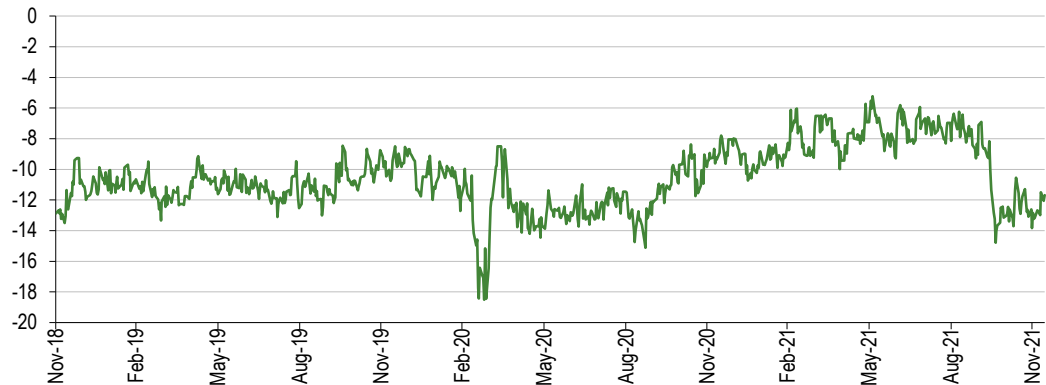


Source: Refinitiv, Edison Investment Research. Note: Data to 30 November 2021

Valuation: Discount has been narrowing

FEML is currently trading at a 11.6% discount to its cum-income NAV. As shown in Exhibit 12, the discount to NAV started to narrow during 2020, then widened a few points to over 14.0% before the company's transition due to uncertainties, inevitable during any transitional period, then began narrowing again. The average discounts over the past one and three years are 8.8% and 10.5%, respectively. The discount began narrowing in September 2021, as Fidelity was preparing to take over, when the market digested and began viewing Fidelity's appointment as positive.

Exhibit 12: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

FEML remains a conventional investment company with one class of share; there are currently 91.1m shares in issue.

The management fee is 0.6% per annum of the company's NAV, apportioned between the manager (FIL Investment Services (UK) Limited, whose entitlement is to 0.05% per annum of the NAV), and the investment manager.

Dividend policy and record

The fund's primary objective is to deliver long-term capital growth. However, when the company was managed by Genesis, the board recognised shareholders' desire for income, and in 2017 introduced an annual dividend. The board intends to maintain the total return investment objective, and while there is no specific dividend target the board would like to see the absolute level of dividend increase over time. The portfolio yield may also be enhanced by options overwriting as part of the derivatives strategy.

Dividends are declared in US dollars and paid in sterling using the exchange rate on the payment date.

Upon the transfer to Fidelity, the board maintained this dividend policy, and can propose dividends at its discretion. In FY21, the board proposed participating preference shareholders a dividend of 18 cents per share (13.44p), up from 17 cents per share (12.95p) in FY20, as income recovered during the year. This followed a difficult 2020, when the dividend per share was reduced by 1c, as the world began to normalise from the COVID-19 outbreak shock of 2020 and a number of investees resumed paying dividends.

Peer group comparison

Exhibit 13 shows what we believe are the most relevant six peers to FEML, from the AIC Emerging Markets sector. The company's performance to the end-October 2020 was principally down to Genesis, as Fidelity took over the company in October 2021. We also show the FAST EM fund's superior performance over FEML (Genesis run) and the sector average over one, three, five and 10 years.

Exhibit 13: FEML's peer group at 30 November 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Fidelity Emerging Markets	745.2	1.6	31.0	47.8	102.0	(11.7)	1.0	No	100	1.6
ScotGems	39.6	12.8	(2.3)			(21.5)	1.5	No	97	0.0
Fundsmith Emerging Markets	361.5	10.4	25.6	45.7		(9.2)	1.3	No	101	0.1
JPMorgan Emerging Markets	1,501.8	8.2	49.2	88.8	172.0	(7.5)	0.9	No	99	1.1
JPMorgan Global Emerging Mkts Income	431.0	15.8	40.1	60.7	135.2	(9.6)	1.0	No	106	3.5
Jupiter Emerging & Frontier Income	61.0	17.6	33.6	N/A		(7.5)	1.4	No	109	4.4
Templeton Emerging Markets	2,088.1	0.3	33.3	64.0	92.4	(10.7)	1.0	No	102	3.3
Sector average (seven companies)	746.9	9.5	30.1	61.4	125.4	(11.1)	1.2		102	2.0
Fidelity FAST EM fund		14.8	51.5	67.9	146.4					0.7
FEML rank in peer group	3	6	5	4	3	6	5		5	4

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 November 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

For the FAST fund, Nick Price (FEML's new fund manager) complements the long strategy with short positions and derivatives, which are used to gear the fund. Its total return is competitive. The fund outperformed the average of the six closed-ended funds over one, three, and five years and over 10-year period.

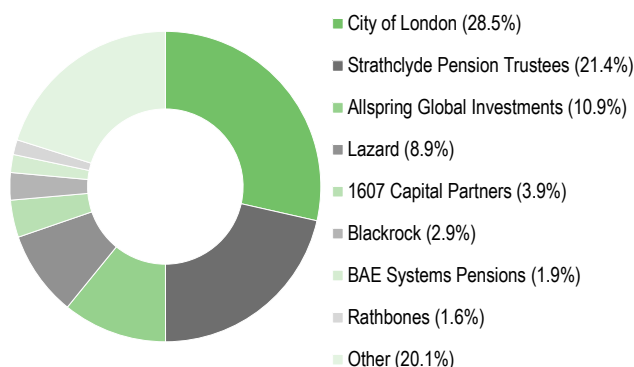
Exhibit 14 illustrates FAST's superior risk metrics relative to its peers and the MSCI EM Index. While FAST's share price volatility, measured by standard deviation, is lower than the sector average over one and five years, its Sharpe ratio (measuring excess return over a benchmark for the risk taken) is consistently higher over one, three and five years (a higher ratio means higher excess return for a unit of risk taken). We note that the five-year annualised volatility of returns of FEML when principally run by Genesis (all the periods shown in Exhibit 14) was almost equal to that of the index (13.3% versus 13.1%). FAST's five-year volatility at 13.9% was only slightly higher and its risk adjusted returns measured by the Sharpe ratio were consistently higher than those of the Genesis-run fund.

Exhibit 14: Risk metrics of FEML's peer group at 30 November 2021, % unless specified

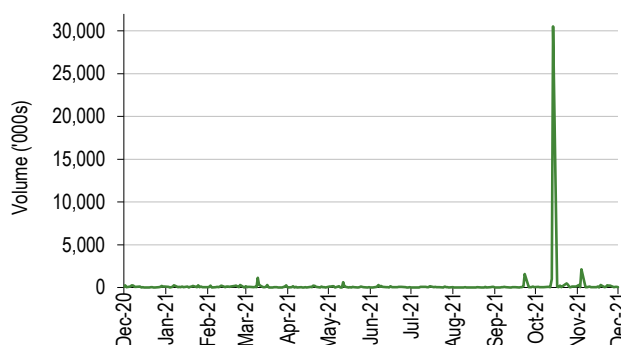
Name	Market capitalisation (£m)	Standard deviation* one year (month end)	Standard deviation** five-year (month end)	One-year Sharpe ratio	Three-year Sharpe ratio**	Five-year Sharpe ratio**
Fidelity Emerging Markets	745.2	11.1	13.3	0.1	0.7	0.7
ScotGems	40.7	8.3		0.9	(0.1)	(0.2)
Fundsmith Emerging Markets	375.9	11.2	12.3	1.0	0.7	0.8
JPMorgan Emerging Markets	1,547.0	12.8	14.2	0.6	0.9	0.9
JPMorgan Global Emerging Mkts Income	434.0	11.7	14.2	1.2	0.9	0.8
Jupiter Emerging & Frontier Income	62.0	10.6		1.4	0.7	0.5
Templeton Emerging Markets	2,154.2	14.0	15.8	0.1	0.6	0.7
Sector average (seven companies)	765.6	11.4	14.0	0.8	0.6	0.6
Fidelity FAST EM fund		10.2	13.9	0.5	0.9	0.8
MSCI EM		11.2	13.1	0.3	0.6	0.7

Source: Morningstar, Edison Investment Research. Note: *From the share price. **Annualised.

Major shareholders and trading volume

Exhibit 15: Major shareholders


Source: Fidelity, at end-November 2021

Exhibit 16: Trading volume


Source: Refinitiv, Edison Investment Research

The board

The board consists of six independent non-executive directors and is chaired by Hélène Ploix (who was appointed in November 2012 and assumed her current role in October 2015). Russell Edey is the senior independent director (appointed in January 2015). The other directors and dates of appointment are Sujit Banerji (October 2013), Katherine Tsang (July 2017), Simon Colson (July 2019) and Torsten Koster (July 2020). Russell Edey has expressed his intention to retire as a director of the company in 2023. Following his retirement, the board will be reduced to five directors.

Sujit Banerji and Hélène Ploix will retire from the board following the conclusion of the 2022 AGM. Hélène Ploix will serve as chairman of the company for an additional one-year period to ensure the handover to Fidelity and to her successor is complete. The board indicated in the FY21 annual report that an executive search consultant will be appointed to source additional non-executive directors and the new chairman will be elected in due course.

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