Fidelity Emerging Markets (FEML)

FEML's go-anywhere mandate and ability to short companies differentiate it from peers in the sector...

Update
16 May 2025

Overview

Managed by seasoned emerging market investors Nick Price and Chris Tennant, Fidelity Emerging Markets Limited (FEML) offers a highly flexible, active investment approach focussed on uncovering opportunities across both emerging and frontier markets. The managers employ a high-conviction, go-anywhere strategy, investing across sectors and geographies, and make extensive use of derivatives, including through short positions, to target companies with fundamental vulnerabilities—be it weak balance sheets, poor management, or structurally challenged business models—as additional sources of return. This flexibility sets FEML apart from more traditional emerging market funds.

Over the past 12 months, the managers have actively adjusted the **Portfolio** amid market volatility. They have taken advantage of deratings among pockets of the China market earlier in the period, adding long positions in companies with strong competitive moats and long-term fundamentals at attractive valuations, like Full Truck Alliance. They have also increased exposure to gold—capitalising on a favourable pricing environment as well as robust fundamentals for miners.

At the same time, the managers have adjusted exposure to India, including exiting the position in Axis Bank and trimming exposure to IT services, reallocating the proceeds not only to high-quality Chinese holdings but also to other emerging markets where the managers see particular value in financials.

Over the past 12 months to 30/04/2025, FEML delivered a NAV total return of 2.1%, marginally behind the 2.2% return from the MSCI Emerging Markets Index (see **Performance**). Within the long book, several financial stocks held up well, alongside positive contributions from a number of the trust's materials exposure, most notably Lundin Gold. Conversely, the trust's underweight to China, primarily the position in Samsonite, and the portfolio's lack of exposure to Xiaomi and underweight to Tencent were the main drag on performance (although this was offset in part by the position in Naspers).

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Analyst's View

Short-term volatility in emerging markets appears inevitable, with Trump's tariff plan and broader geopolitical tensions weighing on sentiment. However, we believe this could prove an opportune moment to add exposure. Valuations remain historically low—both relative to their own history and compared to developed markets like the US—whilst long-term structural growth drivers remain intact. For active stock pickers, this presents fertile ground, and FEML stands out as a differentiated way to access it.

The managers have focussed efforts on identifying quality names for the long book, notably through China, where deratings in parts of the market have created attractive entry points into high-quality companies. Whilst tariff headlines have driven sentiment lower, direct US revenue exposure remains limited, and further geopolitical pressure may spur targeted stimulus—especially in consumption-led sectors where FEML is already positioned.

In India, the team continues to see long-term value, especially in financials, but has pared back exposure to overheated areas. Additionally, several shorts have been established in the consumer staples sector where companies trading on extended multiples are struggling amid slowing urban consumption, intensifying competition, and deteriorating pricing power. This flexibility allows the managers to express conviction on both sides of the trade, generating genuinely differentiated alpha. In a higher-rate environment, the ability to target fragile business models becomes increasingly valuable. It also makes FEML less reliant on rising markets—something few peers in the AIC Global Emerging Market sector can match.

Whilst performance under Fidelity's management has lagged the index, driven largely by significant underperformance in 2022, we think the trust's strategy remains compelling. Near-term volatility is expected but the managers' active, high-conviction approach and capacity to generate alpha in varied conditions make FEML a distinctive long-term holding for investors seeking exposure to emerging markets' complex and dynamic potential.

BULL
Extensive resources on the long and short side, including highly experienced managers
A well-established, on-the-ground research team is an advantage in stock selection
Emerging market valuations look attractive versus developed markets

BEAR
Political risks remain present in many key emerging markets, such as China
A highly active approach can lead to underperformance when positions don't work
Poor economic news could lead to weaker appetite for emerging market equities

Portfolio

At the heart of Fidelity Emerging Markets Limited's (FEML) strategy is a high-conviction, all-cap approach that spans the full breadth of emerging and frontier markets. Managers Nick Price and Chris Tennant employ a truly active investment style, seeking opportunities on- and off-benchmark, across geographies, sectors, and market caps.

Whilst the long book remains central to the proposition, the managers also have the flexibility to use derivatives to express high-conviction views—whether going long or short on a particular position. We think this ability to short underperforming companies adds a further dimension to both risk management and alpha generation. In the **Gearing section**, we discuss the limits to short positions.

Stock selection in the long book is bottom-up focussed and rooted in an emphasis on quality. The managers seek dominant franchises poised to benefit from long-term structural growth trends, favouring those with superior and sustainable returns on assets, strong free cashflow generation, and robust, often self-funding or underleveraged, balance sheets. Strong governance and alignment with minority shareholders are also key considerations, alongside a focus on supportive valuations. To qualify as high quality, a company must also demonstrate consistent earnings power, dominant industry positioning, and the ability to reinvest profitably over time. The managers prioritise companies with durable competitive advantages that can support above-average, sustainable growth.

This disciplined, quality-driven approach has resulted in a portfolio that compares favourably with the benchmark. FEML's holdings exhibit stronger margins, healthier cashflows, higher returns on equity and lower leverage than the MSCI EM Index—whilst also trading at a discount on a price-to-earnings basis. In our view, this reflects the managers' ability to blend quality with value, a particularly attractive focus in today's higher-rate, inflation-sensitive environment.

Portfolio Characteristics

2025 LONG BOOK CHARACTERISTICS (ESTIMATES)	PORTFOLIO	BENCHMARK
Growth		
Sales Growth (%)	13.8	9.1
Net Income Growth (%)	17.4	11.0
Valuation		
P/E (x)	11.5	13.2
EV/EBITDA (x)	8.8	9.5
Margins & Returns		
EBITDA Margin (%)	26.0	18.1
ROE (%)	21.7	14.9
Leverage		
Net Debt/EBITDA (x)	0.07	0.33

Source: Fidelity as of 29/03/2025. Aggregate data for the portfolio is based on Fidelity analyst estimates, and the benchmark is based on IBES estimates. Data refers to the long book only.

Over the past 12 months, the managers have actively focussed on the portfolio's quality profile amid market volatility. They've taken advantage of deratings in pockets of the market to selectively increase exposure, adding companies with strong competitive moats and better long-term fundamentals at attractive valuations.

Examples of positions they hold include Full Truck Alliance, a dominant digital freight broker akin to Uber for trucks, which commands a leading position in China's fragmented logistics market; and CATL, the country's leading battery manufacturer, valued for its unmatched technological capabilities. They also hold several short positions in other Asian battery makers with weaker balance sheets that are losing market share to CATL, noting that its product quality is a key differentiator, affording it strong pricing and negotiating power.

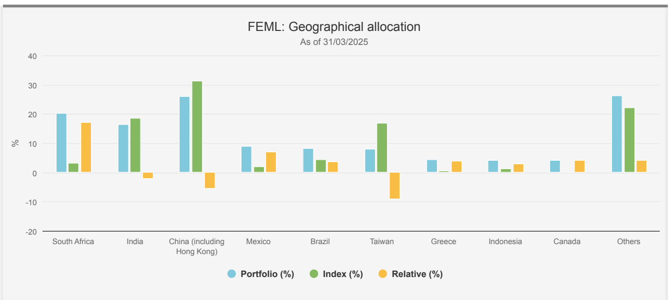
Elsewhere, they've added to Naspers, used as a proxy for Tencent. Also held is Haier Smart Home, which is benefitting from rising volumes tied to China's trade-in stimulus programme. A position is also held in Anta Sports, a high-quality domestic brand supported by a well-diversified product portfolio, along with Trip.com, China's largest online travel agency, which boasts strong market share, attractive fundamentals, limited domestic competition, and international growth potential.

FEML's China positioning remains highly active, with the managers seeing the greatest upside in high-quality, consumer-facing names best placed to benefit from stimulus—whether via rate cuts, trade-in subsidies, or a potential release of pent-up household savings as sentiment improves. Conversely, they maintain an underweight to banks and manufacturing, where stimulus may compress profitability or fail to address deeper structural issues like overcapacity. Over the period, the managers reduced their position in Hong Kong-based insurer AIA Group given the headwind of falling yields, and China Mengniu Dairy, given a muted backdrop for demand and declining raw milk prices.

They have also maintained the pair trade in China's property sector—a long position in state-owned China Resources Land, known for consistent sales growth, resilient margins, and market share gains, paired with several shorts in weaker, indebted privately owned developers at risk of bankruptcy. In our view, this offers a differentiated source of alpha, especially as highly leveraged companies face rising debt-servicing costs in a post-zero interest rate world.

Whilst President Trump's proposed tariffs have added headline risk, the managers note that direct US revenue exposure remains relatively low for most Chinese corporates. If anything, such developments could spur more targeted domestic stimulus—particularly in consumption—where the trust is already well-positioned.

Fig.1: Geographical Allocation



Source: Fidelity (The portfolio appears underweight China, but this must be viewed in the context of its Hong Kong holdings, which we've combined above, and its investment in Naspers, a c. 8.6% position).

One of FEML's key strengths, in our view, is its on-the-ground presence. This not only helps the team maintain strong local networks but also provides valuable first-hand insights into specific markets and sectors. A recent research trip to Taiwan exemplifies this, with the managers conducting due diligence across the tech hardware supply chain to better understand opportunities beyond TSMC.

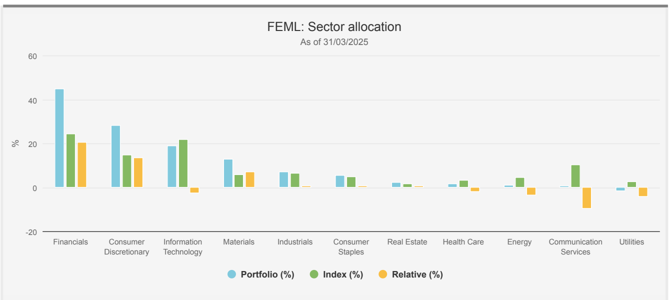
Whilst TSMC remains a core portfolio holding, its growing dominance limits the team's ability to take an active overweight. To ensure meaningful exposure to the sector's wider opportunity set, they've diversified into other high-quality Taiwanese tech names. Given its performance run, the managers trimmed their position in TSMC to manage its size in the portfolio. Proceeds were reinvested into market leader Elite Material, a specialist in copper-clad laminates, benefitting from increased server demand; and ASE Technology, Taiwan's leading semiconductor packaging and testing firm.

India remains a key structural growth story for the managers, but recent changes reflect a fine-tuning of exposure, particularly within financials. They continue to back Five Star Business Finance, a micro-SME lender with a strong competitive position, and have also added HDFC Asset Management citing its dominant market position and strong distribution network. Meanwhile, the position in Axis Bank was exited. The managers also took some profit in MakeMyTrip, India's largest online travel agency, given its strong performance run over the past year. These adjustments reflect a broader reallocation of capital, recycling proceeds from India into new opportunities elsewhere, particularly in China.

The managers also see value in select banks across Central and Eastern Europe. Whilst they exited their position in the National Bank of Greece, the managers have added to Greece's Piraeus Financial, attracted by its compelling dividend yield and decision to resume cash returns to shareholders, and initiated a new holding in PKO Bank, Poland's leading lender, supported by a strong capital position and healthy loan growth potential.

Beyond European financials, the managers have made some changes to their Brazilian financial exposure, adding Inter & Co, the holding company for digital bank Banco Inter, which should be able to deploy excess capital to support loan growth and increase dividend payouts, whilst trimming their position in Nu holdings given its strong performance run.

Fig.2: Sector Allocations



Source: Fidelity

Beyond financials, there have been notable developments in the portfolio's materials exposure over the past 12 months. The managers' medium- to long-term conviction in copper remains high, underpinned by its critical role in the energy transition and ongoing supply constraints. However, given the current market backdrop and confluence of supportive drivers, they've sought to scale up gold exposure.

Heightened geopolitical tensions and continued central bank demand—particularly emerging market banks seeking to diversify FX reserves away from the US dollar—are reinforcing the investment case for gold. Additionally, they argue that gold miners look especially attractive in today's environment. Unlike previous cycles, input costs have not risen in tandem with gold prices, creating stronger operating leverage. Whilst bullion has rallied, mining equities have lagged—something the managers believe is starting to correct (see **Performance section**), as margins improve, buybacks accelerate, and institutional interest increases.

Reflecting this view, holdings in AngloGold Ashanti and Endeavour Mining were increased, on the back of attractive valuations and long-term growth prospects. The managers also added to Buenaventura—a copper and gold miner—citing strong operational delivery and upgraded guidance, despite local equity outflows in Peru. A new position was initiated in Fresnillo, drawn by its resilient free cashflow and a solid balance sheet.

On the short side, the team continues to identify companies with fundamental vulnerabilities, whether through weak balance sheets, poor management, or structurally challenged business models. As mentioned earlier, several shorts have been maintained in sectors like Chinese property and battery manufacturing. But more have been added over the past 12 months.

New short positions have been introduced in the container shipping sector, where oversupply and weaker global trade are expected to pressure earnings. Whilst India remains a long-term opportunity for the trust, the managers are also finding some near-term inefficiencies to exploit. Several shorts have been established in the consumer staples sector, where slowing urban consumption, intensifying competition, and deteriorating pricing power are pressuring margins.

In our view, the trust's ability to selectively short structurally weak companies adds an important and differentiated alpha source, complementing its flexible, go-anywhere approach on the long book.

Gearing

FEML has the flexibility to use gearing in two ways:

1. by borrowing up to 10% of NAV and/or
2. through the use of derivatives, including both long and short extensions

At present, the trust has no formal gearing facility arranged. Instead, effective gearing is taken through derivatives, allowing the managers to express their views on a company or market—either by increasing exposure to stocks they believe have strong upside potential, or by taking short positions in those they consider overvalued or vulnerable to downside, aiming to generate a positive return from falling asset prices.

The trust's gross asset exposure will not exceed 165%, and net market exposure is capped at 120%. In normal market circumstances, it's expected that the managers will maintain net exposure within the 100–110% range. As of the latest factsheet, FEML's net market exposure stood at 106.1%. In normal market conditions the trust's short positions will not exceed 30% of total net assets and individual shorts are limited to 100 basis points.

We believe one of FEML's key strengths lies in this extended toolkit. The managers' ability to use derivates to implement both long and short positions provides multiple potential sources of return and increases the chance for outperformance when views play out. However, it also introduces some risk when markets work against positions. For example, during the recent rally in China following stimulus announcements, FEML's short positions detracted from performance.

Performance

FEML's managers have made full use of their go-anywhere, flexible mandate over the past 12 months (to 30/04/2025), and have delivered a NAV total return of 2.1%, compared to a 2.2% return from the MSCI Emerging Markets Index. However, it hasn't been a completely smooth journey. The tariff announcements on 02/04/2025 triggered a fresh bout of volatility across emerging markets, as investors grappled with uncertainty over the potential impact on individual countries and sectors, prompting a sharp market sell-off.

Taking a look at the 12-month period as a whole, whilst the long portfolio, in aggregate, detracted—largely driven by positioning in China—stock selection across other regions and sectors was more positive, something we discuss shortly. But first, notably, there were a number of positive short-book contributors, underscoring its importance as a distinct and complementary source of return potential for the trust. Two shorts ranked among the top-ten contributors—unusual, given the trust caps individual shorts at 100bps—but reinforcing the value of this additional return lever.

Although active shorts cannot be disclosed, we can highlight the themes. One short, an Asian utility company, saw its share price collapse amid fraud allegations, questionable related-party transactions, and an ill-fated pivot into unrelated business areas. The other, an Asian battery maker, suffered from a massive oversupply glut—another example of the idiosyncratic risks the team seeks to exploit through the short book. Although, there was also a short position, a financial company, featured among the top-ten detractors, highlighting the risk of this strategy too.

Within the long book, several financial stocks were among the top contributors. For instance, Greek bank Piraeus Financial performed well after announcing the acquisition of an insurer, expected to lead to earnings upgrades. Georgia's TBC bank, listed in the UK, also performed well following strong Q4 results and a favourable outcome in the 2024 Georgian election. The bank continues to expand well into Uzbekistan and is led by a CEO with a strong track record in banking.

On the India front, MakeMyTrip was the top contributor to performance, following news the company was carrying out an acquisition in the corporate travel space, though it has been trimmed on strength (see **Portfolio section**).

The portfolio's holdings in materials also did very well, buoyed by a rally in gold prices, which hit record highs in 2025 amid rising safe-haven asset demand. Mining equities have lagged gold's rally in recent years, creating a valuation gap. This time around, however, input costs haven't climbed in tandem with gold prices, allowing for stronger operating leverage and margin expansion.

With institutional investors seeking diversification and miners still undervalued relative to gold, a rerating could be on the cards. FEML has already benefitted from this dynamic, with positions in UK-listed gold and PGM miner Pan African Resources and Canada's Lundin Gold, which has operations in Ecuador earning their spots in the top contributors to performance.

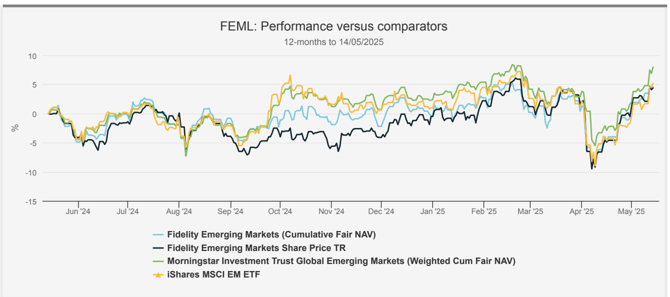
Overall, emerging markets have endured their share volatility over the past 12 months, from ongoing geopolitical tension and China stimulus reactions to President Trump's reciprocal tariff announcements and subsequent pauses. This has weighed on both investor sentiment and the trust's returns.

From a stock-specific angle, several detractors also emerged—both from unperforming portfolio holdings and high-flying stocks excluded from the portfolio due to strict quality criteria. China was the main disappointment.

Chinese equities rallied sharply late in the period, supported by government stimulus and excitement around domestic AI innovation—particularly the DeepSeek model—alongside renewed enthusiasm for internet and EV-related names. Against this backdrop, the portfolio's lack of exposure to Xiaomi and underweight to Tencent detracted (though some of Tencent's impact was offset by a position in Naspers which over the 12 months to 30/04/2025, is FEML's strongest performing holding).

Elsewhere, Kaspi—Kazakhstan's e-commerce and payments platform, and FEML's largest relative position—dragged, hurt by local currency weakness and higher rate concerns. Armac Locacao Logistica, a Brazil-based multi-category equipment leasing platform, has suffered under higher rates. Hong Kong luggage business Samsonite Group also detracted in part due to experiencing sales declines in the first quarter of 2025, and recent guidance cuts by US airlines point to softer travel demand.

Fig.3: One-Year Performance



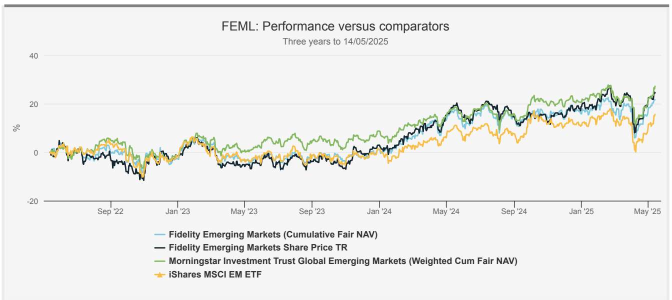
Source: Morningstar

Past performance is not a reliable indicator of future results.

Since the end of April to 14/05/2025, markets have rebounded, though FEML is lagging slightly.

Despite some tariff-induced volatility hindering returns in early April this year, FEML's performance over the past six to 12 months has been much stronger, positively impacting its relative performance over three years, as shown below. It is also worth noting that the initial negative impact of Russia's invasion of Ukraine in 2022, which severely hurt performance at the time, is now beginning to fall out of the comparative numbers. Russian recruitment services company Headhunter has also contributed over the past 12 months after exposure was reduced after the identification of liquidity opportunities.

Fig.4: Three-Year Performance



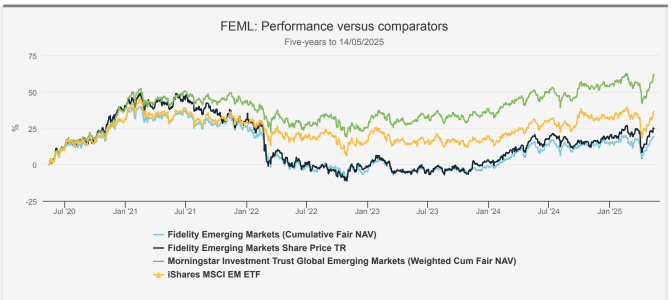
Source: Morningstar

Past performance is not a reliable indicator of future results.

For compliance purposes, we've also included FEML's five-year performance below to provide the full picture under Fidelity's appointment, whilst also reflecting elements of the previous management strategy. FEML now has over a three-year track record under Fidelity, following the team's appointment with effect from 04/10/2021. Performance has picked up in recent periods, as discussed above, and started to positively impact the comparative numbers. However, NAV total returns still lag the index since their appointment, largely due to underperformance in 2022. At that time, FEML was overweight Russia and underweight the Middle East—both key headwinds, given the sharp market reaction to the invasion of Ukraine.

However, it is encouraging that the same investment strategy has been applied to the open-ended Fidelity FAST Emerging Markets fund, which mirrors FEML's portfolio, over a greater time span (see **previous note**). It's been managed by Nick since its October 2011 launch, and over this period, has delivered steady outperformance relative to its index.

Fig.5: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Dividend

FEML's stated dividend policy is to distribute substantially all net income received—after expenses—as a single annual dividend. As such, the dividend can fluctuate year to year, depending on the earnings of the portfolio's underlying companies. Whilst a number of holdings in the portfolio generate some form of income, managers Nick and Chris do not manage the portfolio with a target income level in mind. Instead, their focus remains firmly on maximising long-term capital growth, using their well-established investment process, leveraging the extensive toolkit available to them, and drawing on Fidelity's resources. Any dividend paid is therefore incidental—more a by-product of the process than a primary objective.

In its most recent half-year results (to December 2024), FEML's board declared a final dividend of 20 cents per share, a 5.3% increase on the 19 cents (15.27p) paid in FY2023. Over the same period, revenue earnings per share rose to 17 cents, up from 6 cents over the same period in the prior year (six months to 31/12/2023).

FEML maintains healthy revenue reserves—equivalent to roughly 2.9x its last annual dividend and the board also has the flexibility to distribute its capital reserves by way of a dividend if desired. It's important to note that although dividends are calculated in dollars—the company's functional currency which its accounts are presented—they are paid to shareholders in sterling.

At the time of writing, FEML's dividend yield stands at approximately 2.1%, compared to the MSCI Emerging Markets Index yield of 2.6%.

Management

FEML is steered by Nick Price, who boasts over two decades of investment experience. He led the development of Fidelity's Emerging EMEA group, launching the team's first portfolio in 2005. The investment process developed within that team has remained central to Fidelity's emerging market equity strategies ever since. Nick has also applied the same approach to the long/short Fidelity FAST Emerging Markets fund since 2011.

Nick is supported by co-manager Chirs Tennant, who has been with Fidelity for over a decade. Chris began his career as a metals and mining analyst before transitioning to a shorting analyst role. He became assistant portfolio manager on the Fidelity FAST Emerging Markets fund in 2019 and was promoted to co-manager in 2021, overseeing both the fund and FEML.

In our view, one of FEML's key strengths is not just the experience of its managers but also the depth of Fidelity's research capabilities. Nick and Chris have access to a team of around 50 analysts dedicated to emerging markets, with teams based in London as well as embedded analysts on the ground, across key regions. This local presence provides regular access to company management and deep insights into domestic markets, enhancing their ability to assess opportunities and risks.

Discount

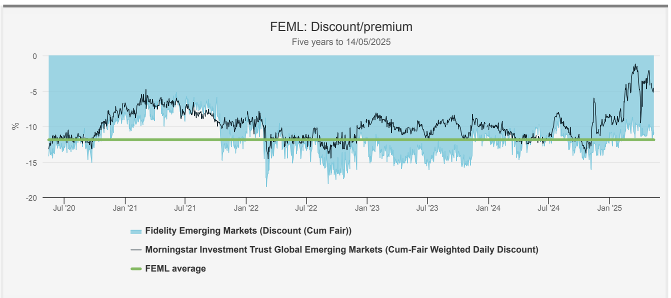
Towards the end of 2024, FEML's discount widened to 15.8%, reflecting, we think, growing investor unease over President Trump's mercurial approach to tariffs and its potential impact on emerging markets. The widening of discounts was seen across the Global Emerging Market sector and wasn't unique to FEML. However, by early 2025, FEML's discount narrowed to around 8.7%. This was likely driven by its relative index outperformance over the past 12 months, despite volatility stemming from the reciprocal tariff announcement in early April 2025, and the appeal of its differentiated strategy. FEML's ability to take both long and short positions offers investors a distinct route into emerging markets (see **Portfolio section**), setting it apart from peers.

However, President Trump's sweeping tariff announcement—dubbed Liberation Day—saw discounts once again widen across the sector amid uncertainty around the varying impact on each emerging market. Whilst FEML's discount widened, it stands at 10.9%, at the time of writing, narrower than its five-year average of 11.9%.

Again, we think this comes down to FEML's highly differentiated exposure to both emerging and frontier markets, with its flexible long/short approach unmatched within the AIC sector. This is particularly valuable in the current environment, as shorting vulnerable companies can generate genuinely differentiated sources of alpha, making the trust less dependent on market direction for returns.

Whilst the trust remains exposed to heightened macro uncertainty—with tariffs likely continuing to influence discounts moving forward—the portfolio remains well-diversified across emerging market economies, where tariff risks vary widely. In our view, the experience of FEML's seasoned managers, combined with its unique structure, makes it a compelling long-term holding for investors seeking access to the high growth potential of these markets.

Fig.6: Discount



Source: Morningstar

We also think that it's encouraging that FEML's board remains proactive. It continues to monitor FEML's discount to NAV closely, acknowledging that its shares have traded at a discount for some time. Whilst it believes that building awareness of Fidelity's differentiated approach—and maintaining low costs, the second lowest in the AIC Global Emerging Markets sector (see **Charges section**) - will support the rating over time, it also recognises the importance to investors of taking more direct action.

To that end, the board has continued its share buyback programme launched in November 2023. In the latest half-year period (July to December 2024), it repurchased 5,311,585 shares—around 7.1% of shares in issue as of 30/06/2024. Since then, an additional 3,345,333 shares (c. 5.1% in issue) have been repurchased to help tackle the discount.

Additionally, the board has a performance-related conditional tender offer in place, under which up to 25% of shares then in issue may be repurchased if FEML's NAV total return fails to exceed its benchmark over the five years to 30/09/2026. This is separate from the completed tender offer in March 2024, where 13,531,881 participating redeemable preference shares were repurchased at a price of £7.4030 per share (NAV less 2%) and, once settled, distributed to shareholders who validly tendered their shares.

Charges

FEML's latest ongoing charges figure (OCF) stands at 0.81%, the second lowest in the AIC Global Emerging Markets sector and below the sector's weighted average of 1.04%. This includes an annual management fee of 0.60%, allocated 20% to revenue and 80% to capital. We think the 0.81% OCF is attractive, especially given FEML's differentiated investment approach (see **Portfolio section**) and strong long-term **Performance** profile, making it a compelling option for investors seeking emerging market exposure. There is no performance fee payable.

Following regulatory changes to cost disclosure rules, FEML has not declared a KID RIY in its most recent publication of the document (dated 31/12/2024). There are imminent regulatory changes around KID RIYs, and whilst their phase-out appears likely, the outcome remains uncertain.

ESG

ESG considerations are embedded within Fidelity's fundamental research process, with integration carried out at the analyst level within each investment team. This is primarily driven by Fidelity's proprietary sustainability rating, which evaluates not only a company's current ESG practices but also its trajectory. These ratings take into account sector, country, and company-specific factors.

Alongside this, Fidelity draws on its proprietary climate rating to assess which companies are best positioned for net zero transition or show meaningful progress towards it. However, it's important to note that FEML does not explicitly pursue a sustainability or ESG objective. Company engagement is also a key pillar of Fidelity's approach. The firm has a dedicated Sustainable Investing Team that works closely with investment teams across the business, overseeing stewardship, engagement, ESG integration, and proxy voting.

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