Fidelity Emerging Markets (FEML)

FEML offers a differentiated strategy to invest in emerging markets.

Update
17 July 2026

Overview

Emerging market equities have generated strong returns between the start of the year and the end of June, outperforming their developed market peers amid a period marked by geopolitical upheavals. However, **Fidelity Emerging Markets (FEML)** has done even better, outperforming the MSCI EM Index by nearly 18 percentage points. Contributors to **Performance** have included long positions in tech hardware names, such as Taiwan's Elite Material and SK Square, the holding company for Korean memory producer SK Hynix.

Nick and Chris are constructive on technology and have increased exposure to the sector, adding to Taiwanese names such as Lotes, a manufacturer of CPU sockets used in AI servers. The **Portfolio** also remains overweight the materials sector, with the managers remaining constructive on the outlook for metals such as copper, which is underpinned by structurally higher demand and tight supply over the medium to long-term. Gold stocks feature amongst the portfolio's holdings, albeit pared back from 2025 highs as managers Nick Price and Chris Tennant have taken profits since the start of the year.

Brazil is one of the portfolio's largest country overweights, with Nick and Chris expecting Brazilian equities to benefit should we see a reduction in interest rates. In addition, they believe the presidential election in October could be a potential catalyst for improvement in market sentiment. As such, they have added to some of their positions in Brazilian stocks, such as in Itaúsa, a holding company for the banking group Itaú Unibanco. In contrast, the portfolio remains underweight India. Nick and Chris highlight high valuations in the market, which they believe do not fully reflect risks such as rising competition in the financial sector and the threat of AI to some IT services businesses.

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Analyst's View

In our view, FEML offers a highly distinctive approach to emerging markets compared with many of its sector peers. Its ability to use derivative instruments gives Nick and Chris a different avenue through which to generate alpha, whilst a willingness to explore smaller companies and frontier markets, areas that tend to receive less coverage, broadens the opportunity set further.

We think that emerging market equities are attractive at this juncture, currently commanding lower valuation multiples than their developed market peers, whilst offering long-term growth opportunities that FEML aims to capture. That includes the development of AI, with many companies embedded in the AI supply chain based in Asia, and demand for metals, where FEML is notably exposed through mining companies in Latin America. Nick and Chris are particularly constructive on copper, supported by trends such as energy transition and the buildout of AI infrastructure.

FEML's **Discount** has narrowed over the past 12 months, reflecting a strong period for emerging market equities and an even stronger performance from the trust, but it still stands at 7.5% (as of end of June), offering further potential for rerating. The unstable geopolitical situation in the Middle East and surging oil prices could weigh on sentiment towards emerging market equities, but Nick and Chris highlight that their long-term drivers remain in place, whilst they continue to trade at more attractive valuations than their developed market peers. As such, we believe FEML's current discount could offer an attractive entry point.

BULL
Distinctive approach with a large toolkit to generate alpha
Emerging market equities are attractively valued and offer exposure to long-term growth trends
Current discount could offer an attractive entry point

BEAR
Prolonged conflict in the Middle East and higher energy prices could weigh on emerging markets
Highly active approach could lead to underperformance when positions don't work
Exposure to smaller companies and frontier markets add potential risk

Portfolio

Fidelity Emerging Markets (FEML) offers a high-conviction approach to emerging markets. Managers Nick Price and Chris Tennant invest in high-quality companies, selected on a bottom-up basis, that they believe possess dominant franchises, underleveraged balance sheets, and can generate strong free cash flow. They also want their portfolio companies to be well positioned to benefit from long-term structural growth trends, to demonstrate strong governance and alignment with minority shareholders, whilst trading on attractive valuations.

Where FEML distinguishes itself from many of its peers, in our view, is through its use of derivatives, enabling the managers to increase exposure to companies in which they have strong views, as well as to take short positions in companies where they believe fundamentals are deteriorating. For example, the managers hold a short position in an Asian e-commerce company as they believe it's facing rising competition, which could impact the business moving forward. Short positions are implemented on an opportunistic basis and are capped at 30% of total net assets, with individual short positions limited to 100 basis points.

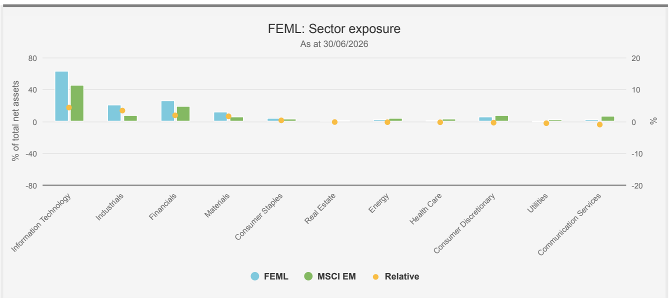
FEML also benefits from a broader opportunity set than many of its sector peers, given it takes a multi-cap approach, investing in the small-cap space, where stocks tend to be less well covered, which can help to uncover hidden gems and support alpha generation. Further, Nick and Chris can also invest in off-benchmark stocks, including companies in frontier markets or stocks listed in developed markets but with significant exposure to emerging markets. For example, FEML currently holds TBC Bank, a bank primarily operating in Georgia and Uzbekistan but listed in the UK.

Since the beginning of the year, Nick and Chris have adjusted the portfolio positioning, recycling capital into areas of high conviction and responding to market developments, notably following the outbreak of the war in Iran.

For instance, they have trimmed select positions within the materials sector, taking profits from strong performers such as gold miner Pan African Resources, and recycling proceeds into names where they assess the risk-reward profile to be more attractive. That includes Aris Mining, a gold miner operating in South America and copper producer First Quantum Minerals. Nick and Chris also reduced exposure to gold and copper miners that could be affected by diesel shortages following the outbreak of the conflict in the Middle East, including Endeavour Mining, a UK-listed company operating in West Africa, and added select short positions to several precious and industrial metal miners suffering from weak operational momentum and/or owning low-quality mining assets.

Despite these changes, the portfolio remains overweight in the materials sector, as the bar chart below shows. Nick and Chris believe that the fundamental outlook remains strong for several gold miners, with significant value to be found among smaller miners, many of which should generate robust free cash-flow yields even at conservative gold prices. In addition, they remain constructive on copper, where they expect demand to be supported by the electrification theme. Nick and Chris also increased their exposure to energy in reaction to geopolitical events in the Middle East, in order to manage the bet size and capture some of the upside from higher oil prices, although exposure to the sector has since been reduced. This exposure was achieved through call options on several Latin American oil and gas producers, highlighting the benefits of the flexibility of FEML's extended toolkit, as well as through new long positions.

Fig.1: Sector Exposure



Source: Fidelity

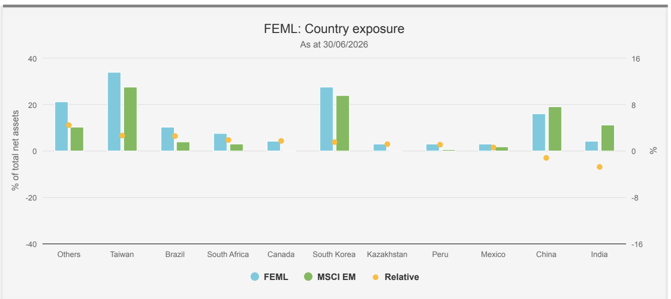
FEML has high-conviction positions in chip foundry Taiwan Semiconductor Manufacturing (TSMC) and copper-clad laminate producer Elite Materials, but Nick and Chris have also increased exposure to the technology sector more broadly, moving from an underweight to an overweight position since the start of the year. They have added to names further down the tech supply chain in Taiwan, including Wiwynn, an original design manufacturer specialising in the design, manufacturing, and delivery of cloud infrastructure products such as servers, storage systems, and networking equipment.

However, they have also been active in adjusting exposure and taking profits, exiting their position in Gold Circuit Electronics, a manufacturer of printed circuit boards, after a period of strong performance. Nick and Chris also remain constructive on Korean memory names SK Hynix and Samsung Electronics (and their holding companies SK Square and Samsung C&T, respectively, which sit within the industrials sector), given the tight supply-demand outlook for memory, which is supporting rapid earnings growth. They have looked to use bouts of market volatility constructively to add exposure to memory over the period.

Financials is another large sector overweight for FEML. In the past six months, Nick and Chris have added exposure to Brazil's Itaúsa, a holding company for banking group Itaú Unibanco, which trades at a significant discount to NAV and offers an attractive dividend yield. Nick and Chris have also initiated a position in the Hong Kong exchange, HKEX, given earnings support from a strong IPO pipeline and increasing flows. However, the managers have trimmed exposure to the Indian banking sector, where competitive intensity is rising.

Overall, Brazil is one of the portfolio's largest country overweights, as the bar chart below shows. Nick and Chris highlight the depth of the Brazilian stock market and the quality of its management teams. Whilst the Latin American country has been out of favour with investors in recent years due to a weak fiscal backdrop, the managers see the presidential elections in October as a potential catalyst for improvement, notably if a business-friendly government is elected, whilst downside risk appears limited given valuation support in the case of a continuation of the status quo. Whilst Nick and Chris have a bottom-up approach, the potential impact of the election on individual stocks is a key consideration when it comes to bottom-up stock picking.

Fig.2: Geographic Exposure



Source: Fidelity

In contrast, FEML is underweight India. They highlight that valuations remain elevated and do not adequately incorporate risks, including rising competition in the financial sector and the threat that AI poses to some IT services businesses. Since the start of the year, they have reduced exposure to several Indian financial names, such as HDFC Bank, citing cyclical pressures on bank profitability.

As China is aiming to become more self-resilient, Nick and Chris have selectively introduced new positions in Chinese companies into the portfolio over the past six months. This includes Advanced Micro-Fabrication Equipment, a manufacturer of etching equipment that they believe will benefit from China's effort to build out its domestic semiconductor ecosystem. Another new position in China for FEML is Sany Heavy International, a manufacturer of mining equipment and port machinery that Nick and Chris expect to be supported by the global commodity upcycle and to gain market share. Finally, Nick and Chris have taken advantage of share price weakness in CATL, China's leading EV battery maker, topping up their existing holding. Conversely, Nick and Chris exited travel agent Trip.com, seeing the company as potentially threatened by agentic AI.

In addition, they have trimmed their position in Naspers, a South African holding company with a large stake in technology conglomerate Tencent, and reallocated the proceeds into Tencent itself, viewing it as under-monetised relative to peers, but preferring to gain more exposure via Tencent given uncertainty around Naspers' share buyback programme. Yet, Naspers remains a high-conviction position for Nick and Chris, as the table below shows.

Top Overweight Positions

HOLDING	SECTOR	COUNTRY	RELATIVE (%)	WEIGHT (%)
SK Square	Information technology	South Korea	4.2	5
Advanced Micro-Fabrication Equipment	Information technology	China	2.9	2.9
Naspers	Consumer discretionary	South Africa	2.7	3
Contemporary Amperex Technology	Industrials	China	2.6	2.8
Elite Material	Information technology	Taiwan	2.5	2.9
TBC Bank	Financials	United Kingdom	2.5	2.5
Sieyuan Electric	Industrials	China	2.5	2.5
OTP Bank	Financials	Hungary	2.3	2.6
Wiwynn	Information technology	Taiwan	2.2	2.3
Lotes	Information technology	Taiwan	2.2	2.2
Total				28.7

Source: Fidelity, as at 30/06/2026

Gearing

FEML has the flexibility to use gearing by borrowing up to 10% of NAV and/or entering into derivative positions, including both long and short extensions. The trust employs effective gearing through derivatives, giving the managers the flexibility to increase exposure to specific companies they believe have strong upside potential, as well as to take short positions in those they view as overvalued or facing downside risk, with the aim of generating positive returns from falling prices.

We believe this toolkit is one of FEML's key strengths, offering the managers the potential to generate returns in different ways. However, it also introduces additional risk, notably if the underlying stock of a short position appreciates in value. For example, FEML's short position in an Asian memory chip designer detracted from performance year-to-date as a result of strong demand for the hardware.

The trust's gross asset exposure will not exceed 165%, whilst its net market exposure is capped at 120%. In normal market circumstances, the managers aim to maintain net exposure within the 100–110% range. As of the latest factsheet (May 2026), FEML's net equity exposure stood at 112.2%. In normal market conditions, short positions are expected to remain at around 30% of total net assets, with individual short positions limited to 100 basis points.

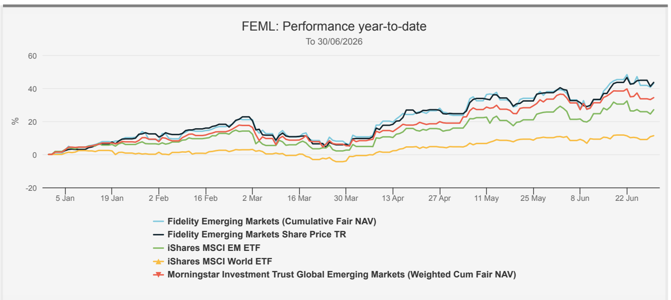
Performance

Emerging market equities have delivered strong returns since the beginning of the year, outperforming their developed market peers amid a period marked by high geopolitical volatility. For instance, the MSCI EM Index generated a 25.5% total return (TR) (to the end of June), compared with 11.2% for the MSCI World. However, FEML has done even better, delivering NAV and share price TRs of 43.0% and 43.5%, respectively.

Main contributors to returns over the year-to-date period have included long positions in hardware names, such as Taiwanese companies Elite Material, a maker of copper-clad laminate, and Grand Process Technology, a manufacturer of semiconductor wet-processing equipment. Both companies have delivered strong earnings over the period. FEML has also benefited from its position in SK Square, a holding company of memory chip producer SK Hynix, amid a period of strong demand for these components, and as strong retail participation and the AI boom have driven a rally in the Korean market. However, these gains were partly offset by an underweight position in SK Hynix itself, which rallied strongly over the period, as well as by a short position in an Asian memory chip designer.

Underweight positions in Chinese consumer-related names, such as Tencent and Alibaba, also contributed to performance. That said, gains from the position in Tencent were offset by FEML's holding in Naspers, a holding company listed in South Africa with a large stake in the Chinese online giant.

Fig.3: YTD Performance

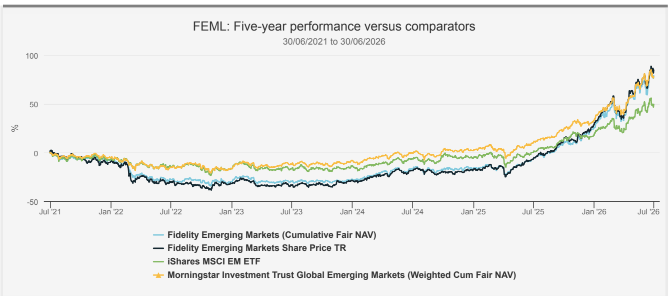


Source: Morningstar

Past performance is not a reliable indicator of future results.

FEML significantly lagged its benchmark in 2022, which, as covered in depth in previous notes, stemmed from the trust's overweight position in Russia at the time of the invasion of Ukraine, with the majority of the portfolio's energy exposure concentrated in Russia rather than in the Middle East, a region that outperformed materially that year. The positioning proved costly. Since then, however, performance has recovered meaningfully. Over the past five years (to the end of June), FEML has outpaced its benchmark, generating NAV and share price TRs of 79.1% and 84.9% against 47.3% for the MSCI EM Index, with particularly strong calendar-year returns in 2024 and also 2025, where the trust delivered more than twice the index return. In our view, this speaks to the capacity of the managers' high-conviction, stock-driven approach to deliver meaningful outperformance over time. We've shown the five-year period below, but also note it still reflects a few months of the tenure of the previous investment manager, with Fidelity having taken over in October 2021.

Fig.4: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Looking ahead, Nick and Chris believe the long-term drivers of emerging market equities remain in place. Whilst the Middle East conflict introduces near-term uncertainty, they note the Gulf countries, which sit in the most affected region, account for only a small portion of the MSCI EM Index (less than 5% as at the end of June 2026), an area FEML is also underweight, and do not expect a material impact unless hostilities persist for a prolonged period. Beyond the immediate geopolitical noise, they point out that emerging market equities continue to trade at attractive valuations compared to their developed market peers, despite offering a superior long-term growth outlook. As such, they believe this valuation gap could narrow as the market increasingly recognises the structural trends from which emerging market equities are poised to benefit.

Dividend

FEML aims to maximise long-term capital growth and does not have a fixed dividend policy. There are some portfolio holdings that generate an income, but this is purely a byproduct of the investment process. We'd note, therefore, that the level of income is likely to vary from year to year, depending on the income generated by the underlying holdings.

In FY 2025, FEML paid a dividend of $0.26 (c. £0.19) per share. Given a share price of £15.30 as at 30/06/2026, this results in a 12-month yield of c. 1.2%. It is worth noting that FEML's dividend is calculated in US dollars but paid in pound sterling. The trust also maintains a healthy revenue reserve, well in excess of the dividend paid out by FEML in its last financial year.

Management

Nick Price led the development of Fidelity's Emerging EMEA group, launching the team's first portfolio in 2005. The investment process developed within that team remains central to Fidelity's emerging market equity strategies and has also been applied to the long/short Fidelity FAST Emerging Markets fund since 2011. Nick was appointed portfolio manager of FEML in October 2021, bringing over two decades of experience.

He is supported by co-manager Chris Tennant, also appointed in October 2021. Chris began his career as a metals and mining analyst before transitioning into a shorting analyst role and later joining the Fidelity FAST Emerging Markets fund as an assistant portfolio manager in 2019. He became co-manager in 2021, overseeing both the fund and FEML.

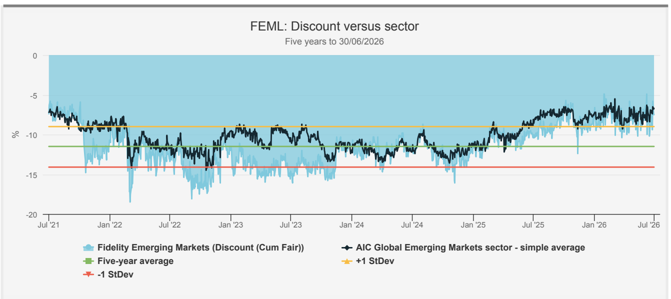
In our view, FEML's strength lies not only in its managers' experience but also in the depth of Fidelity's research capabilities. Nick and Chris have access to a team of around 40 dedicated emerging market analysts, including on-the-ground teams across key regions. This local presence allows regular engagement with company management and deeper insights into domestic markets, enhancing their ability to identify opportunities and manage risks.

Discount

FEML traded at a 7.5% discount at the end of June, which compares with a simple average of 6.7% for the AIC Global Emerging Markets sector.[1]

We note that FEML's discount has narrowed over the past 12 months, which we think reflects both the trust's strong performance and the return to favour of emerging market equities over the period. Whilst the unstable geopolitical situation in the Middle East and higher oil prices could weigh on sentiment towards emerging markets, Nick and Chris highlight that the long-term drivers for emerging market equities remain in place and that they continue to trade on attractive valuations. As such, we view the current discount as an attractive entry point into a highly differentiated strategy.

Fig.5: Discount



Source: Morningstar

[1] *Note that we have excluded JPMorgan Emerging Europe, Middle East & Africa (JEMA) from our calculations of the sector simple average, as it trades on a significantly high premium of 286.7% due to uncertainty over the value of its Russian asset.*

Following shareholders' approval, the trust repurchased the entire holding of Strathclyde Pension Fund, which was one of FEML's largest shareholders (see our previous note). As such, all of Strathclyde's 16,441,177 Participating Preference shares were repurchased on 12/11/2025 at a 14% discount, representing c. 25.7% of the shares in issue on the day prior to the transaction. Since then, to the end of June, a further 16.8% of shares have been repurchased.

The board's policy on buybacks aims at maintaining the discount in single digits in normal market conditions. Given the recent buyback activity, the board anticipated that its authority to repurchase shares would be fully utilised before the next annual general meeting. As a result, it sought and received approval to renew its authority to repurchase shares at an extraordinary general meeting in May 2026. However, the board believes that share repurchases alone are not enough to narrow discounts, and the trust has undertaken initiatives to ensure that potential and existing investors fully understand the strategy and the toolkit available to the managers, which could increase demand for its shares. These initiatives have included increased press coverage alongside digital marketing activity.

In addition, FEML has committed to undertake a tender offer for up to 25% of its then shares in issue (excluding any shares held in treasury) if its NAV TR does not exceed its benchmark over the five years ending 30/09/2026. As at 30/06/2026, three months before the end of the full five-year period, FEML's NAV TR was more than 30 percentage points ahead of its benchmark.

Charges

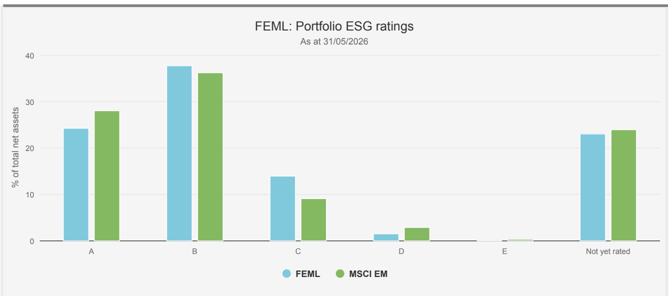
FEML's latest annual report (dated 30/06/2025) states an ongoing charges ratio (OCR), equivalent to the ongoing charges figure (OCF), of 0.83%. This compares favourably with the simple average of c. 1.3% for the AIC Global Emerging Markets sector (excluding JEMA). We note that these charges are reflected in the NAV rather than deducted directly from the share price. The trust's OCR includes a management fee of 0.60% per annum of its net asset value, allocated 20% to revenue and 80% to capital. There is no performance fee.

ESG

ESG considerations are fully integrated into Fidelity's fundamental research process at the analyst level. This integration is guided by the firm's proprietary sustainability rating, which evaluates both a company's current ESG practices and its trajectory, considering sector, country, and company-specific factors. Fidelity also uses its proprietary climate rating to assess which companies are best positioned for a net-zero transition or are making meaningful progress toward it.

FEML does not pursue an explicit ESG or sustainability objective. Currently, the long book of the portfolio shows a slightly lower proportion of companies with strong

Fig.6: Proprietary ESG Ratings



Source: Morningstar

forward-looking ESG ratings (as classified by Fidelity's proprietary ESG ratings as at 31/05/2026). The bar chart below shows Fidelity's proprietary ESG ratings of the FEML portfolio as at the end of May 2026, with A representing the highest possible rating and E the lowest.

Active engagement with company management remains a key pillar of the approach. Fidelity's Sustainable Investing Team supports this process across the business, overseeing stewardship, engagement, ESG integration and proxy voting.

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