



Standing out from the crowd

A special situation makes FEM's 10% discount look attractive...

Update
30 July 2025

There are numerous advantages in life to being different and when it comes to investment companies, differentiation is, in our view, even more important.

Investment companies have levers they can pull to provide shareholders with uncorrelated sources of returns versus market-cap weighted indices, which form the backbone of many investors' portfolios through exchange traded funds (ETFs).

We believe that active management should pay a reward in less well-covered asset classes, such as emerging markets. **Fidelity Emerging Markets (FEM)** stands out as a company with a particularly unusual investment mandate capable of generating uncorrelated returns.

Managers Nick Price and Chris Tennant employ a high-conviction, go-anywhere strategy, with big exposure to small and mid-cap companies reaping rewards.

Nick and Chris also make extensive use of derivatives, including through short positions, to target companies with fundamental vulnerabilities – such as weak balance sheets, poor management, or structurally challenged business models – as additional alpha sources that complement its long book. The short book has also consistently been a strong contributor to returns over time and helps to set FEM apart from more traditional emerging market funds.

A deep research team, with around 50 on-the-ground analysts following a longstanding investment process that has been in place at Fidelity for many years and outperformed over the long run adds to the attractions, in our opinion.

FEM's performance is certainly looking impressive over the shorter-term, too. FEM's share price growth has annualised at 9.8% over the past three years, with FEM's annualised net asset value (NAV) at 8.9%, versus the MSCI Emerging Markets Index's 5.4% annualised return over that period.

In addition, over one year, FEM's share price and NAV returns have been 14% and 11.8% respectively, well outpacing its benchmark's 6.3%.

Why emerging markets look attractive today

Emerging markets have several tailwinds that could provide the backdrop for a period of strong returns, both relative and

Analysts:

David Brenchley

david.b@keplerpartners.com



Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

absolute, in our view. Many of the forces that had suppressed emerging market valuations over the past decade are beginning to reverse.

Historically, for instance, emerging markets have been highly negatively correlated with the dollar, doing badly when the dollar rises. A weak dollar, then, could provide a more constructive backdrop for interest rate cuts.

In addition, while the ever-growing debt piles of developed economies necessitate some return to austerity and corporate cost-cutting, emerging nations do not have this problem, with few debt-to-GDP ratios the 100%-plus of Japan, the US and the UK.

China has enough firepower to implement measures to stimulate currently depressed consumer spending. If they can achieve this, it can have a powerful effect on consumer-facing companies, given the deep pool of savings within China's growing middle-class population.

Despite some near-term risks, chiefly stemming from a fast-moving tariff environment, we believe that the outlook for emerging markets is positive. With valuations relative to their own history at a low ebb, there's plenty of opportunity.



A Chinese renaissance

The managers have continued to broaden the funnel to drive new ideas in all sectors. One example of a new holding is Full Truck Alliance, essentially a digital platform to connect shippers with truckers.

Within China, sentiment is slowly turning. The government has successfully managed to deflate the bubble seen within the country's property market and we're starting to see some green shoots there, with sales and prices recovering in tier one and two cities.

Alongside this, stimulus measures show policy is now very much pro-growth. Lower mortgage rates and state-backed purchases of excess inventory is laying the foundations of a consumer-led recovery, into which FEML is well-gearred.

In addition, China remains at the forefront of technological innovation, particularly within the electric vehicle supply chain. While FEML's quality bias steers it away from the EV makers themselves, companies like CATL, the world's largest EV battery maker, are consolidating global leadership at competitive price points in an industry with good growth prospects.

Asia's valuation dispersion

India and Taiwan have attractive structural drivers moving forward, yet valuations have fully reflected this, for the most part.

That said, geopolitical uncertainty has created some good entry points for FEML in Taiwanese stocks. These include e-Ink, which has a dominant market share in electronic shelf labelling. The company is benefiting from global rollouts and cost-saving trends in retail pricing.

While valuations in India remain stretched, FEML is finding opportunities in Indonesia, a country that enjoys similar demographic tailwinds and growth potential without the valuation premium. An example is Indofood, a major global noodle producer, which offers superior growth at a fraction of the multiple of Indian counterparts.

LATAM's potential

One region of interest to FEML is Latin America, where managers are seeing the potential for significant returns at low valuations.

Mexico could emerge as a winner from the changing global trade landscape, particularly so-called nearshoring, where US companies look for manufacturing bases closer to home.

One company with major operations in the US and Europe is the tortilla maker Gruma, which trades at low valuations despite solid returns and the potential for further global expansion.

Brazil is one of the cheapest markets in the world and, while it has fiscal challenges, has employment at a record high and robust GDP growth. An election next year could usher in a more market-friendly government. Similar changes have seen upside of c. 100% historically, suggesting potentially substantial upside for equities.

All that glisters

Commodities tend to be an important driver of returns in emerging markets, with many countries having abundant natural resources. Prices tend to be both cyclical and volatile, though, so FEML remains highly selective here, with underweights to bulk commodities such as iron ore and coal.

Gold, though, is benefiting from central banks around the world diversifying away from US treasuries. The gold spot price has had a strong run because of this, yet the companies that mine gold trade at deeply discounted valuations. These companies have strong fundamentals and are ripe for consolidation.

Copper should continue to benefit from heightened demand and limited supply. Copper is a key part of the electrification story, which is still gaining traction, as well as being heavily used in data infrastructure, which is also surging.

New copper mines take a long time to get up and running, suggesting that the supply/demand outlook should remain positive and FEML is backing companies with high-quality reserves and operational leverage to rising prices.

A special situation

Tariffs will undoubtedly have an impact on emerging markets, and, given the geopolitical and macro-economic outlook, some short-term volatility appears inevitable.

However, emerging markets are less reliant on the US as a source of exports than historically, and with valuations remaining historically low, both relative to their own history and compared to developed markets like the US, and long-term structural growth drivers remaining intact, we believe this could prove an opportune moment to add exposure. For active stock pickers, this presents fertile ground, and FEML stands out as a differentiated way to access it.



Additionally, FEML has a performance-related tender offer in place. Under the terms of the tender offer, up to 25% of shares in issue may be repurchased by the company if FEML's NAV total return fails to exceed its benchmark over the five years to 30/09/2026.

Fidelity suffered a tricky start to life as managers of FEML, thanks to Russia's invasion of Ukraine, meaning that the company is c. 6.7% behind its benchmark. Therefore, investors buying FEML today on a c. 10% discount, should either see their investment beat an emerging market index fund by 6.7% or more, or they can take back 25% of their initial investment at close to net asset value in just over a year's time.

If the tailwinds we mentioned end up buoying the performance of emerging markets more generally, that 6.7% outperformance could turn into a significant gain, and FEML's ability to take short positions provides somewhat of a hedge against the potential for poor performance from emerging economies.

[View the latest research note here](#)

[Click here to add FEML to your watchlist](#)

[Click here to read related research](#)



Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

