No standing still

FEML is taking advantage as the world's innovation hub moves to Asia.

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To paraphrase the ancient Greek philosopher Heraclitus, the only constant in stock markets is change. Indeed, the history of capitalism itself is premised around changing dynamics – innovation doesn't stand still. Not only do the themes powering the engine of global growth wax and wane, so does the list of the world's largest companies.

These days, that change is fast paced. Technology is evolving so speedily that new sectors are being born and existing ones disrupted regularly. We're seeing this in spades today.

Artificial intelligence is often seen as the fourth industrial revolution. That comes with ground-breaking disruption, as new winners are established and others fall from grace. This creates sometimes vicious oscillations in stock markets, as investors constantly rethink which companies and sectors will take up the baton and which will fade into obscurity.

In such a fast-moving world, it's hard for investors to have their fingers constantly on the pulse. Assessing each individual industry or company for AI disruption risk before Mr Market gets there first is a Herculean task.

We think that this is where active fund managers can come into their own. Their job, and the job of the analysts who work below them, is to assess this exact thing and to get ahead of any rotations to the benefit, in the case of investment trusts, of shareholders.

With emerging markets having now moved to the sharp end of AI adoption, **Fidelity Emerging Markets (FEML)** stands out as a strong option for investors wishing to employ the services of experts to navigate these changing times, in our view.

FEML benefits from the deep knowledge of its management and analyst team, employing a truly differentiated investment style that utilises the full spectrum of tools made available by the investment trust vehicle, all of which we'll return to later.

The sun is new each day

It seems that the sands are shifting every day. Semiconductor stocks are currently the ones having their time in the sun. Semiconductors are the small microchips used in much of what needs power to run – think electric cars, smartphones, AI networks, and data centres.

Semiconductor companies straddle the whole chip chain. Some design the chips, others print the chips' designs onto the silicon wafers, and another tranche makes the equipment needed to manufacture and/or design the chips.

Asia, and by extension emerging markets more broadly, has become a key part of this chain, given many of the biggest companies, such as TSMC, SK Hynix, Samsung Electronics and MediaTek are among the largest companies in the indices.

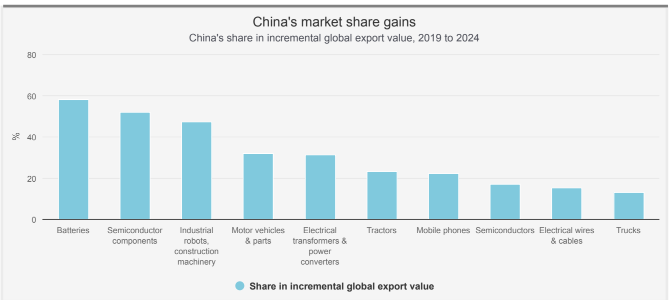
While the likes of Korea have been volatile recently as some investors look to lock in the impressive gains they've already made – a surely inevitable consequence of such strong share price performance – the fundamental picture remains strong.

Capturing growth

Indeed, as of 30 June 2026, US tech giants NVIDIA and Super Micro Computer grew their revenues year-on-year by an impressive c. 65% and 47% respectively, according to Bloomberg. Yet, those figures pale in comparison to YOY revenue growth of some of the companies in Taiwan's tech supply chain, with the likes of Wiwynn or Accton Technology growing their revenues by c. 164% and 125% respectively over the same period. All this while many emerging market innovators trade at cheaper multiples than their developed market counterparts.

It's not only a Korea and Taiwan story, though. China is rapidly gaining share in numerous fast-growing segments, including batteries, semiconductors, and semiconductor components.

Fig.1: China's Innovation Rolls On



Source: WITS, Morgan Stanley Research, January 2026

You can look further down the supply chain for more rich ideas within emerging markets, too. Copper is having a moment in the sun, in part because of the vast amounts of the metal needed up and down the AI network.

Hyperscale AI data centres can need as much as 50,000 tonnes of copper, according to the Copper Development Association. A conventional data centre needs more like 5,000 to 15,000 tonnes.

Tin is another beneficiary, given its use in electronics including AI servers, semiconductors and solar panels.

On the flip side, one area of disruption we're seeing AI cause is within IT services. Advanced AI tools are making it increasingly easy and cheap for businesses to perform routine coding, testing and maintenance tasks that would otherwise have been outsourced, threatening traditional IT services firms' revenues.

India has, for years, benefitted from ever-increasing revenues for its IT services businesses. It is likely to provide a headwind for now. That is yet to be fully priced into share prices, suggesting we could see more pain ahead.

Sifting through the wreckage

Through all of this, FEML remains a bastion of active management, using its enhanced toolkit and the flexibility of the investment trust wrapper to take advantage of these bifurcations.

FEML's real differentiation comes from its use of derivatives, using gearing judiciously, but with real conviction when appropriate. This can be in the form of increasing gross exposure to extend its long positions when the opportunity set is rich, as well as from its ability to take short positions in companies where the managers believe fundamentals are deteriorating.

It is also able to use pair trades to capture upside from industry winners in the long book, as well as downside from industry losers in the short book. 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 is taking advantage of the Asian chip boom, retaining top positions in the big three chip and memory producers, alongside other Taiwanese tech supply chain names such as Elite Material and Wiwynn. While holding an underweight to China in aggregate, the portfolio has an overweight to Advanced Micro-Fabrication Equipment, a Chinese firm that makes chip production equipment. The battery maker Contemporary Amperex Technology (CATL) is another key overweight.

Tin miner Alphamin Resources, meanwhile, stands out in the space given the aforementioned tailwinds behind the tin market. Alphamin's world-class assets produce c. 7% of all the tin mined globally, with its lower costs supporting profitability and leading to strong cash generation.

On the other hand, a big underweight to India, driven in part by concerns around AI disruption to IT services, means the country accounts for just 4% of net assets. Elsewhere within the short book, there is a silver miner with weak management and poor-quality mines, which rallied on the back of a spike in the price of silver earlier in the year, which is seen as unsustainable.

This all talks to a nuanced view of the outlook for emerging markets from a management that is deeply knowledgeable and experienced. Nick Price developed Fidelity's emerging EMEA group in 2005 and brings close to three decades of investment experience, while co-manager Chris Tennant, who adds an extra 15 years' experience, started his career as a metals & mining analyst and shorting specialist, providing an excellent grounding for FEML's strategy.

The recent pullback in emerging markets looks, to us, like an inevitable consequence of investing in a higher volatility asset class. In our view, emerging market equities remain attractive at this juncture.

As the current management team of FEML approaches its five-year anniversary at the helm of the strategy, a pound sterling share price total return in the five years to 11/08/2026 of c. 77% net of fees is well above the benchmark MSCI Emerging Markets Index's c. 48%, proving the added alpha that can be generated with their strategy.

The discount has understandably narrowed in recent years, but remains wide at c. 5.9% at the time of writing, offering further potential for re-rating and, therefore, an attractive entry point considering the long-term drivers that remain in place.

Heraclitus also noted that "whoever cannot seek the unforeseen sees nothing, for the known way is an impasse". Essentially, one needs to continually look for and adapt to changing dynamics, as standing still and following the crowd is the best way of going nowhere in stock markets.

We think this is a good analogy for FEML's strategy – and a reason why we think the trust remains a strong pick for adventurous investors keen to take advantage of today's fast-paced environment.

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