# Fidelity® Emerging Markets Fund

## Key Takeaways

- For the semiannual reporting period ending April 30, 2018, the fund's Retail Class shares gained 3.64%, trailing the 4.93% return of the benchmark MSCI Emerging Markets Index.
- Amid choppy market action from February onward and a lack of clear sector and industry leadership, Portfolio Manager Sammy Simnegar's focus on high-quality businesses with positive stock-price momentum produced mixed results this period.
- Stock selection in and negligible exposure to energy – the second-best-performing benchmark sector this period – weighed on the fund's return versus the index, as did choices in materials and industrials. Geographically, positioning in Argentina, Turkey, Malaysia and South Korea detracted modestly.
- Conversely, picks in information technology and financials bolstered the fund's relative result. Regionally, China, Indonesia and Taiwan were bright spots, as was out-of-index exposure to France and Germany.
- As of April 30, Sammy remains focused on companies he thinks can deliver solid earnings growth over the next year or two. At the same time, he is watching for further macroeconomic clues that might help resolve the market's current indecisive behavior.

## MARKET RECAP

The MSCI ACWI (All Country World Index) ex USA Index gained 3.58% for the six months ending April 30, 2018. Manufacturing and export activity – plus a generally weak U.S. dollar – underpinned markets early on, but stocks reversed sharply in February amid fear that rising inflation and potential economic overheating would prompt the U.S. Federal Reserve to pick up the pace of interest rate hikes. Markets lost further ground in March on global-trade concerns after the U.S. announced tariffs on Chinese imports. Among sectors, on-the-rise oil prices helped make energy (+11%) the top gainer. Real estate (+6%), consumer discretionary (+5%) and financials (+4%) also stood out. Laggards included the defensive utilities (+2%), consumer staples (+2%) and telecom services (0%) sectors. Industrials (+1%) saw weakness among commercial & professional services stocks, while information technology (+1%) faced numerous negative news items. Regionally, yen strength helped bring Japan (+5%) into line with the rest of the Asia-Pacific group (+5%). Continental Europe (+2%) lagged the export-led recovery in the U.K. (+6%) as investors reacted to local elections and global trade tension. Canada (-1%) was nipped by commodity-price volatility and NAFTA worries. Emerging markets (+5%) were supported by broadly stable macroeconomic trends among several group constituents.

Fidelity INVESTMENTS

**Sammy Simnegar**
Portfolio Manager

## Fund Facts

| | |
|---|---|
| **Trading Symbol:** | FEMKX |
| **Start Date:** | November 01, 1990 |
| **Size (in millions):** | $5,261.05 |

## Investment Approach

- Fidelity® Emerging Markets Fund is a diversified emerging-markets equity strategy that seeks capital appreciation.
- Our investment approach focuses on "best of breed" growth stocks that are underappreciated by the market. We favor dominant franchises and industry leaders that exhibit strong balance sheets, secular-growth tailwinds, rising earnings-per-share growth, attractive industry structures with high return on invested capital, and shareholder-oriented management.
- We seek to mitigate some of the risk inherent to emerging-markets stocks by limiting active position sizes and by emphasizing high-quality, stable-growing companies that generate strong free cash flow and don't need to access the debt markets to fund their growth.
- We strive to uncover these companies through in-depth fundamental analysis, working in concert with Fidelity's global research organization, which includes a team of dedicated "on-the-ground" emerging-markets specialists.

# Q&A

## An interview with Portfolio Manager Sammy Simnegar

### Q: Sammy, how did the fund perform for the six months ending April 30, 2018?

The fund's Retail Class shares gained 3.64% this period, trailing the 4.93% return of the benchmark MSCI Emerging Markets Index. The fund also lagged its peer group average, which marked a gain that landed between the fund and its benchmark.

For the corresponding 12-month period, the fund posted a double-digit gain that topped both the benchmark and the peer average.

### Q: What did you find noteworthy about the market environment the past six months?

After strong gains in 2017 and into January 2018, global stock markets were choppy from February onward amid concerns about rising inflation and interest rates, and about a potential trade war between the U.S. and China.

Sector and industry leadership was in flux. For example, the late emergence of energy as one of the market's best-performing sectors hurt the fund, as we had a sizable underweighting there. President Trump's threat to pull out of the Iran nuclear deal fueled fears that oil output from that nation might decline if sanctions were reimposed, which helped boost the price of Brent crude to more than $74 per barrel by period end. In the process, benchmark names such as Brazil-based energy giant Petroleo Brasileiro (Petrobras) and China Petroleum and Chemical – two stocks we didn't own that thus detracted from relative performance – enjoyed strong gains.

I generally prefer to underweight energy stocks unless I foresee a favorable climate for oil and gas prices. Otherwise, I view the sector's high capital expenditures and intense competition as drawbacks.

Rising energy prices also lifted costs for some of our holdings in the materials sector – for example, makers of chemicals and packaging. This higher cost pressure hurt those stocks. Thus, stock selection in materials was a meaningful negative for relative performance this period, along with our choices in industrials.

## Q: What else detracted?

Geographically, my emerging-markets positioning detracted overall, especially in Argentina, Turkey, Malaysia and South Korea. Our holdings in the first two were hurt by U.S. dollar strength toward period end, as both nations run current-account deficits and rely on external funding, the cost of which rose along with the value of the dollar.

At the stock level, out-of-index gold and diamond retailer PC Jeweller, based in India, was the fund's largest relative detractor. The stock plunged in late January and early February, with our position returning -52% for the period overall. Investors panicked on reports that Indian IT firm Vakrangee, which has been under investigation for possible stock manipulation and which the fund owned for part of the period, had purchased shares in the company in late January. I sold most of our holdings in PC Jeweller by period end, and I'll discuss Vakrangee in more detail later.

Qualicorp, which provides health insurance and benefits packages to corporations and affinity groups in Brazil, also detracted. Our position here returned -37%, as the company lost subscribers during the period. Qualicorp was no longer in the fund as of April 30.

Avoiding Brazilian metals miner Vale also worked against us. This stock posted a strong advance despite the fact that the price of iron ore – one of the company's principal products – declined during the period.

An out-of-benchmark stake in British American Tobacco further proved ill-timed. I like the tobacco business, and BAT has a solid balance sheet, ample free cash flow and a healthy dividend yield. However, the tobacco industry was subject to considerable disruption this period, as upstart companies gained market share with vaping and other unconventional smoking products. Also, tobacco stocks were on the defensive because of the U.S. Food and Drug Administration's March announcement of plans to reduce the maximum level of nicotine allowable in cigarettes to an amount considered non-addictive.

## Q: What about contributors?

Picks in the information technology and financials sectors bolstered the fund's relative result. Regionally, China, Indonesia and Taiwan were bright spots, as was out-of-index exposure to France and Germany.

Among individual holdings, avoiding benchmark name Hon Hai Precision – the fund's top relative contributor – proved timely. This Taiwan-based company earns a large portion of its income from assembling Apple's iPhone® devices, and sales of the newest iPhone® models have lagged expectations. The company operates with a low profit margin and return on invested capital, and I prefer other Apple suppliers that I believe have better business models.

Sidestepping troubled South Africa-based retailer Steinhoff International Holdings also paid off, as the stock plunged in early December on fraud allegations.

Relative performance also benefited from our positioning in India-based Vakrangee. Its stock entered the benchmark in the fourth quarter of 2017; our position delivered a 64% gain. The company is focused on creating India's largest network of "last-mile" retail points-of-sale. The effort is aimed at enabling citizens even in rural areas to benefit from India's push toward digital financial transactions and to provide wider access to basic goods and services, including government programs. That said, I exited this position early in the year as rumors began to emerge about poor corporate governance. This was a timely move, as I avoided this stock's subsequent plunge.

## Q: What's your outlook as of April 30, Sammy?

At period end, I sense a lot of challenging crosscurrents. On the positive side, economic growth seems to be improving or stabilizing across a number of countries. In the U.S., I think the full impact of the Trump tax cuts has yet to be felt.

Even so, I believe the stock market is still processing what the ultimate impact of higher interest rates will be. For example, global investors could dial back their risk appetite if the U.S. yield curve continues to flatten – it may perhaps even invert, a situation in which short-term rates rise above longer-term ones. This condition has preceded a number of U.S. recessions, including the last two.

Investors also must deal with the possibility of a trade war, as well as higher oil prices – at least for now.

Against this uncertain backdrop, I'm staying focused on companies that I believe have a high degree of earnings visibility for the next year or two. At the same time, I'm watching for further macroeconomic clues that might help resolve the market's current indecisive behavior. ■

## Sammy Simnegar on Chinese baijiu companies:

"At period end, the fund had positions in two China-based makers of baijiu, a strong distilled spirit made from fermented grains, most often sorghum. Baijiu is a beverage with a long tradition in China, but for the most part it was a luxury the average consumer simply could not afford. In fact, as recently as 2012, roughly 80% of demand came from government and corporate entities, with consumers accounting for the remainder.

"By 2017, however, those percentages had almost reversed, with consumers accounting for about 68% of consumption and the rest due to government and corporate sales. This trend is a manifestation of the growth of the middle class in China, one of the 'megatrends' in emerging markets that I follow. As average citizens acquire greater wealth and income, they've also gained a taste for luxuries such as baijiu.

"The two stocks in this niche that we held at period end were Kweichow Moutai and Jiangsu Yanghe Brewery. The former is the largest and oldest producer of baijiu, operating continuously for more than 500 years. Together with its nearest competitor, Kweichow serves roughly 90% of the premium baijiu market. Conversely, Jiangsu Yanghe is a provider with a foothold mainly in lower-end products.

"These stocks were trading at roughly the same P/E (price-to-earnings) multiples as shares of liquor-industry leaders in developed markets, and the companies had stronger balance sheets and better growth prospects, in my view. It's hard to find great consumer brands with attractive valuations and healthy growth, which is why I found these stocks compelling."

### LARGEST CONTRIBUTORS VS. BENCHMARK

| Holding | Market Segment | Average Relative Weight | Relative Contribution (basis points)* |
|---|---|---|---|
| Hon Hai Precision Industry Co. Ltd. (Foxconn) | Information Technology | -0.90% | 32 |
| Steinhoff International Holdings NV (South Africa) | Consumer Discretionary | -0.07% | 25 |
| Vakrangee Ltd. | Information Technology | 0.24% | 24 |
| CSPC Pharmaceutical Group Ltd. | Health Care | 0.54% | 21 |
| FirstRand Ltd. | Financials | 0.53% | 20 |

** 1 basis point = 0.01%.*

### LARGEST DETRACTORS VS. BENCHMARK

| Holding | Market Segment | Average Relative Weight | Relative Contribution (basis points)* |
|---|---|---|---|
| PC Jeweller Ltd. | Consumer Discretionary | 0.56% | -26 |
| Qualicorp SA | Health Care | 0.36% | -25 |
| Baidu.com, Inc. sponsored ADR | Information Technology | -0.30% | -24 |
| Vale SA | Materials | -0.71% | -23 |
| China Construction Bank Corp. (H Shares) | Financials | -1.51% | -20 |

** 1 basis point = 0.01%.*

## MARKET-SEGMENT DIVERSIFICATION

| Market Segment | Portfolio Weight | Portfolio Weight Six Months Ago |
|---|---|---|
| Information Technology | 28.34% | 30.69% |
| Financials | 21.53% | 17.77% |
| Consumer Discretionary | 15.43% | 16.30% |
| Industrials | 8.55% | 7.32% |
| Consumer Staples | 7.55% | 7.30% |
| Materials | 7.01% | 6.10% |
| Health Care | 3.88% | 2.85% |
| Energy | 1.87% | 2.49% |
| Utilities | 1.66% | 2.58% |
| Telecommunication Services | 1.61% | 2.35% |
| Real Estate | 1.25% | 2.28% |
| Other | 0.00% | 0.00% |

## COUNTRY DIVERSIFICATION

| Country | Portfolio Weight | Portfolio Weight Six Months Ago |
|---|---|---|
| China | 15.66% | 18.60% |
| India | 12.08% | 13.95% |
| United States | 10.47% | 7.73% |
| Hong Kong | 9.45% | 8.54% |
| Brazil | 9.19% | 5.64% |
| Korea (South) | 7.39% | 5.86% |
| South Africa | 5.85% | 6.04% |
| Taiwan | 4.06% | 5.49% |
| Mexico | 3.41% | 4.66% |
| Philippines | 2.51% | 2.64% |
| France | 2.27% | 2.23% |
| Japan | 1.65% | -- |
| Turkey | 1.58% | 2.16% |
| Indonesia | 1.55% | 2.34% |
| Thailand | 1.55% | -- |
| Russia | 1.25% | 1.16% |
| Germany | 1.17% | -- |
| United Arab Emirates | 1.13% | -- |
| Netherlands | 1.04% | 1.53% |
| Other Countries | 6.74% | -- |

## 10 LARGEST HOLDINGS

| Holding | Market Segment | Portfolio Weight | Portfolio Weight Six Months Ago |
|---|---|---|---|
| Tencent Holdings Ltd. | Information Technology | 5.88% | 5.33% |
| Samsung Electronics Co. Ltd. | Information Technology | 5.69% | 5.86% |
| Alibaba Group Holding Ltd. sponsored ADR | Information Technology | 4.43% | 4.50% |
| Taiwan Semiconductor Manufacturing Co. Ltd. | Information Technology | 4.06% | 4.35% |
| Naspers Ltd. Class N | Consumer Discretionary | 2.50% | 2.53% |
| Ping An Insurance (Group) Co. of China Ltd. (H Shares) | Financials | 1.44% | 1.40% |
| Itau Unibanco Holding SA | Financials | 1.40% | 1.27% |
| Housing Development Finance Corp. Ltd. | Financials | 1.33% | 1.25% |
| Reliance Industries Ltd. | Energy | 1.32% | 1.28% |
| Sberbank of Russia | Financials | 1.25% | 1.16% |
| **10 Largest Holdings as a % of Net Assets** | | **29.31%** | **29.52%** |
| **Total Number of Holdings** | | **129** | **135** |

*The 10 largest holdings are as of the end of the reporting period, and may not be representative of the fund's current or future investments. Holdings do not include money market investments.*

## ASSET ALLOCATION

| Asset Class | Portfolio Weight | Portfolio Weight Six Months Ago |
|---|---|---|
| International Equities | 89.39% | 92.20% |
| Emerging Markets | 80.68% | 83.57% |
| Developed Markets | 8.71% | 8.63% |
| Tax-Advantaged Domiciles | 0.00% | 0.00% |
| Domestic Equities | 9.30% | 5.83% |
| Bonds | 0.00% | 0.00% |
| Cash & Net Other Assets | 1.31% | 1.97% |

*Net Other Assets can include fund receivables, fund payables, and offsets to other derivative positions, as well as certain assets that do not fall into any of the portfolio composition categories. Depending on the extent to which the fund invests in derivatives and the number of positions that are held for future settlement, Net Other Assets can be a negative number.*

*"Tax-Advantaged Domiciles" represent countries whose tax policies may be favorable for company incorporation.*

## FISCAL PERFORMANCE SUMMARY: Periods ending April 30, 2018

| | Cumulative | | Annualized | | | |
|---|---|---|---|---|---|---|
| | 6 Month | YTD | 1 Year | 3 Year | 5 Year | 10 Year/ LOF[1] |
| Fidelity Emerging Markets Fund Gross Expense Ratio: 0.97%[2] | 3.64% | -1.31% | 23.11% | 8.97% | 6.57% | 1.15% |
| MSCI Emerging Markets Index (Gross) | 4.93% | 1.04% | 22.14% | 6.39% | 5.11% | 2.51% |
| Morningstar Fund Diversified Emerging Mkts | 4.14% | 0.13% | 18.01% | 5.42% | 3.76% | 2.07% |
| % Rank in Morningstar Category (1% = Best) | -- | -- | 13% | 6% | 8% | 74% |
| # of Funds in Morningstar Category | -- | -- | 820 | 672 | 474 | 195 |

[1] *Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 11/01/1990.*
[2] *This expense ratio is from the prospectus in effect as of the date shown above and generally is based on amounts incurred during that fiscal year.*

***Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. Performance shown is that of the fund's Retail Class shares (if multiclass). You may own another share class of the fund with a different expense structure and, thus, have different returns. To learn more or to obtain the most recent month-end or other share-class performance, visit fidelity.com/performance, institutional.fidelity.com, or 401k.com.*** *Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated.* ***Please see the last page(s) of this Q&A document for most-recent calendar-quarter performance.***

## Definitions and Important Information

*Unless otherwise disclosed to you, in providing this information, Fidelity is not undertaking to provide impartial investment advice, act as an impartial adviser, or to give advice in a fiduciary capacity.*

### FUND RISKS

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

### IMPORTANT FUND INFORMATION

Relative positioning data presented in this commentary is based on the fund's primary benchmark (index) unless a secondary benchmark is provided to assess performance.

Effective 12/18/17, the fund's redemption fee has been removed.

### INDICES

It is not possible to invest directly in an index. All indices represented are unmanaged. All indices include reinvestment of dividends and interest income unless otherwise noted.

**MSCI Emerging Markets Index (Gross)** is a market-capitalization-weighted index that is designed to measure the investable equity market performance for global investors of emerging markets.

**MSCI ACWI (All Country World Index) ex USA Index** is a market-capitalization-weighted index designed to measure the investable equity market performance for global investors of large and mid-cap stocks in developed and emerging markets, excluding the United States.

### MARKET-SEGMENT WEIGHTS

Market-segment weights illustrate examples of sectors or industries in which the fund may invest, and may not be representative of the fund's current or future investments. Should not be construed or used as a recommendation for any sector or industry.

### RANKING INFORMATION



% Rank in Morningstar Category is the fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1%. % Rank in Morningstar Category is based on total returns which include reinvested dividends and capital gains, if any, and exclude sales charges. Multiple share classes of a fund have a common portfolio but impose different expense structures.

### RELATIVE WEIGHTS

Relative weights represents the % of fund assets in a particular market segment, asset class or credit quality relative to the benchmark. A positive number represents an overweight, and a negative number is an underweight. The fund's benchmark is listed immediately under the fund name in the Performance Summary.

## Manager Facts

**Sammy Simnegar** is a portfolio manager at Fidelity Management & Research Company (FMRCo), the investment advisor for Fidelity's family of mutual funds. Fidelity Investments is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and other financial products and services to more than 20 million individuals, institutions and financial intermediaries.

In this role, he is responsible for managing Fidelity and Fidelity Advisor International Capital Appreciation Fund (since 2008), Fidelity and Fidelity Advisor Emerging Markets Fund (since 2012), and Fidelity and Fidelity Advisor Total International Equity Fund (since 2014).

Prior to assuming his current position in January 2008, Mr. Simnegar was an equity analyst at Fidelity Management & Research Company (FMRCo), focusing on Emerging Markets energy, materials, and industrials from 2003 to 2007, U.S. Regional Banks from 2001 to 2003, and real estate, hotels, and emerging telecom from 1998 to 2001. Before joining Fidelity in 1998, Mr. Simnegar worked as an equity analyst at JPMorgan from 1997 to 1998, and as a senior trade analyst at Trans Alliance Group, Inc. from 1994 to 1996. He has been in the investments industry since 1997.

Mr. Simnegar earned his bachelor of arts degree in history from the University of California and his master of business administration degree in international finance from Columbia Business School.

## PERFORMANCE SUMMARY:
## Quarter ending March 31, 2018

| | Annualized | | | |
|---|---|---|---|---|
| | 1 Year | 3 Year | 5 Year | 10 Year/ LOF[1] |
| Fidelity Emerging Markets Fund<br>Gross Expense Ratio: 0.97%[2] | 30.89% | 10.32% | 7.38% | 2.17% |

[1] *Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 11/01/1990.*

[2] *This expense ratio is from the prospectus in effect as of the date shown above and generally is based on amounts incurred during that fiscal year.*

***Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. Performance shown is that of the fund's Retail Class shares (if multiclass). You may own another share class of the fund with a different expense structure and, thus, have different returns. To learn more or to obtain the most recent month-end or other share-class performance, visit fidelity.com/performance, institutional.fidelity.com, or 401k.com.*** *Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated.*




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