

Q&A: Creation of side pocket share classes of Fidelity Funds - Emerging Europe, Middle East and Africa Fund

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1. *What is happening?*

Fidelity has decided to create new share classes within Fidelity Funds - Emerging Europe, Middle East and Africa Fund (the "Fund") to hold its Russian assets. The effective date is 5 June 2023 (the "Effective Date"). The side pocket share classes will only exist for the purpose of holding the Russian assets and will be liquidated upon the disposal of the Russian assets.

2. *Why are we creating the side pocket share classes?*

The Russian invasion of Ukraine on 24 February 2022 resulted in a series of sanctions issued by the EU, UK, US and Russia and actions of market counterparties on assets connected to Russia that have rendered these securities non-tradable. These sanctions, combined with the partial closure of the Russian Stock Exchange and the resultant inability of market participants to trade and achieve settlement in Russian equities has prevented the Fund from being able to dispose of those assets (the "Russian Assets"). The Russian Assets continue to be illiquid. They formed 25.3% of the portfolio value as at 25 February 2022.

On 28 February 2022, Fidelity applied a fair valuation to the Russian Assets and on 1 March 2022 their value was set at zero. Then the board of Fidelity Funds has decided to create new share classes within the Fund to hold the Russian Assets, which is considered in the best interest of the shareholders while maintaining fair treatment for all shareholders of the Fund. The effective date is 5 June 2023. The side pocket share classes will only exist for the purpose of holding the Russian Assets and will be liquidated upon the disposal of the Russian Assets. Should value, and normal trading, become available to enable disposal of the Russian Assets, the Russian Assets will be disposed of and proceeds distributed among the shareholders of the side pocket share classes.

Shareholders of these side pocket share classes will benefit in due course from any recovery in the value of the Russian Assets. Should new investors subscribe to the Fund before the recovery, this gain would otherwise be diluted. The side pocket share classes are being created to reserve the benefits of recovery for existing shareholders.

3. *What will happen on the Effective Date?*

The Russian assets of the Fund will be transferred to the newly created side pocket share classes. New shares in the side pocket share classes will be issued for each existing holding in the Fund. We will ensure that shareholders receive the same number of units in the new side pocket share class as they held in the Fund (ie we will use a 1:1 conversion factor). Shareholders will continue to see holdings in EMEA online or on their statements, with a minimal notional value (for example EUR 0.0001).

4. *What share classes of the Fund are available and what are their ISIN codes?*

| Existing Share Class | ISIN | New Share Class | ISIN |
|---|--------------|--|--------------|
| Fidelity Funds - Emerging Europe, Middle East and Africa Fund A-ACC-EUR | LU0303816705 | Fidelity Funds - Emerging Europe, Middle East and Africa Fund SP A-ACC-EUR | LU2536453348 |
| Fidelity Funds - Emerging Europe, Middle East and Africa Fund A-ACC-USD | LU0303823156 | Fidelity Funds - Emerging Europe, Middle East and Africa Fund SP A-ACC-USD | LU2536453777 |
| Fidelity Funds - Emerging Europe, Middle East and Africa Fund A-EUR | LU0303816028 | Fidelity Funds - Emerging Europe, Middle East and Africa Fund SP A-EUR | LU2536453934 |
| Fidelity Funds - Emerging Europe, Middle East and Africa Fund A-USD | LU0303821028 | Fidelity Funds - Emerging Europe, Middle East and Africa Fund SP A-USD | LU2536454239 |
| Fidelity Funds - Emerging Europe, Middle East and Africa Fund Y-ACC-USD | LU0370788910 | Fidelity Funds - Emerging Europe, Middle East and Africa Fund SP Y-ACC-USD | LU2536454742 |

5. *Will the investment objective and risk factors of the Fund change?*

No, no change is envisaged to the overall investment strategy of the Fund. Also, there is no change to the risk factors due to there being no change to the investment objective.

6. *Will there be any changes to the benchmark of the Fund?*

The benchmark of the Fund remains appropriate as the index provider deleted Russia from the constituents of the index effective 10 March 2022. However, the Fund is actively managed and uses the benchmark only for risk monitoring and performance comparison purposes.

7. *What is happening to dividends being paid by Russian companies?*

The situation around dividends remains complex due to sanctions and Russian counter measures. We are monitoring this process with our custodian banks closely. Russian counter measures require prescribed processes to follow and certain additional restrictions for investors considered to be based in so-called unfriendly countries. The status of the issuer and/or where securities are held depends on sanctions related restrictions.

In addition, dividend income is generally received into local bank accounts held by our custodians in Russia. These accounts are restricted and cannot be repatriated or used for investment at this moment.

8. *What will happen when the market reopens?*

When the market reopens, we will address our existing exposure and where it is possible and appropriate, we will look at options to reduce it in a thoughtful way which protects the interests of our clients and mitigates unintended consequences. We will monitor events closely and continue to review our decision in the event of a significant change in the prevailing circumstances. Given the seriousness of events in Ukraine, Fidelity has decided that it will not be investing in Russia and Belarus for the foreseeable future. As such, we have implemented a firm-wide prohibition on any new or additional purchases of Russian and Belarusian securities.

9. Do Fidelity maintain any communications with Russian companies?

We maintain a dialogue with companies where we are investors in compliance with the respective sanctions. Generally, these conversations are rarer (around twice per year) and more superficial than in the past as the Russian companies up until November 2022 were not allowed to publish their financial performance.

10. How is the performance or changes in fair value of the side pocket share classes monitored and reported?

As dealing in the side pocket share classes is suspended, there will be no performance reporting. However, changes to the fair value approach applied to assets in the portfolio will be published on the Fidelity website periodically and meaningful developments will be notified to shareholders where appropriate.

11. Can shareholders sell their shares in the side pocket share classes to another investor?

No, dealing in the shares of the side pocket share classes is suspended.

12. Can shareholders' side pocket shares be gifted to another entity or person (via stock transfer)?

Yes, although the shares are suspended, if required, they can be transferred between accounts, free of charge, subject to standard FIL stock transfer requirements.

13. How to confirm what the side pocket share classes currently hold and their local values? Will the disclosure rules change if the market reopens?

Fidelity's disclosure policy which is designed to strike the optimal balance between maximising transparency to our clients versus protecting sensitive investment information. Each fund is subject to a series of disclosure rules, which outline the terms under which we will disclose information such as full holdings data for pooled fund vehicles. Since the outbreak of the war, foreign investors have been prohibited from transacting in the Russian market by sanctions regimes. Given the lack of price discovery, Russian assets have been fair valued to zero. During this time, we have provided clients with enhanced disclosure of the Russian assets, however, should the market reopen to foreigners we will revisit that policy, to ensure its appropriateness. Given that there are many unknowns, we cannot forward guide on this topic, and instead reserve the right to revisit that decision with all the facts in hand, and in the best interests of shareholders.

14. Why we retain this Fund and what are the attractions of the region to some investors?

The Fund is utilised by a broad range of investors across a series of geographies, where there is distinct need for an investment solution which allows asset allocators to adjust exposures to emerging markets on a regional basis. The region provides exposure to 11 markets, across a resource rich region, which appeals to the more tactical investor seeking natural inflation hedges. Whilst cyclical inflation will anniversary, secular inflation due to the move to renewables, deglobalisation, underinvestment should mean that commodity prices will remain high bringing benefits of the region. Higher commodity prices benefit of commodity producing countries (Middle East, Kazakhstan, South Africa) strengthening their fiscal position and lending support to the currency. Where commodity prices are stronger this typically transmits better through the economy than many direct plays. Higher commodity prices can bring economic stability, investment etc, driving activity on the ground across a broad range of sectors, a rich environment for stock picking.

15. Why was exposure to the Russian market so significant?

Russia was a core market in the emerging EMEA region. The overweight Russia was predicated on a fundamental approach, with the view that the macro backdrop in Russia was amongst the strongest in the world, and that the position would benefit against a backdrop of rising inflation. A full-scale war was not something we anticipated; indeed, we examined the market through periods of prior geopolitical escalation and were of the view that the market was discounting rising tensions. Amongst the Russian holdings we saw high levels of profitability (sustained and underpinned by strength of market position and low-cost production) and strong free cash flow which supported the most attractive dividends in the world. Russia was held in deference to other large markets such as Saudi Arabia, given factors such as significant valuation differentials, inferior transparency, lower shareholder return potential and governance concerns.

16. Is this a material change?

The creation of a new share class per se is not a material change from HK SFC perspective. However, the reason for creating the side pocket share classes is rather unique and is considered a restructuring of the Fund so requires the SFC approval.

17. What are the options for shareholders if they do not agree with the changes?

Shareholders will have the following options:

- They can switch into another fund available to them; or
- redeem their shares.

Redemptions and switches out of the Fund will be available as usual prior to the Effective Date. There is no free switch or redemption period. However, if shareholders have redeemed or switched out of the Fund prior to the Effective Date, they will not be entitled to any allocation of new share in the New Share Classes on the Effective Date and would not be entitled to receive any value in respect of the Russian Assets should their value return in the future.