Fidelity Asia Fund

Monthly report

As at 31/01/2023

Fund description

A concentrated high conviction portfolio, typically investing in 20-35 holdings across developed and emerging Asia (ex-Japan) and draws on the research capabilities of Fidelity's analysts based on the ground in Asia.

Fund facts

Portfolio manager: Anthony Srom
Benchmark: MSCI All Country Asia ex-Japan Index NR
Inception date: 29/09/2005
Fund size: AU$1,208.37M
Number of stocks: Typically 20-35
Management cost: 1.17% p.a.
Buy/sell spread: 0.30%/0.30%

Portfolio guidelines

Stocks: +10% overweight
Sector: +/-20% from benchmark
Country: +/-20% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings (%)

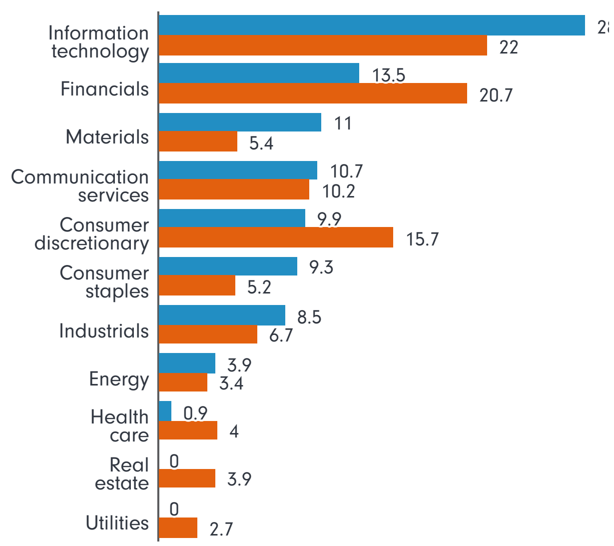
	Fund	B'mark
Focus Media Information Technology Co Ltd	10.7	0.0
Taiwan Semiconductor MFG Co Ltd	9.8	7.1
Kweichow Moutai Co Ltd	9.3	0.3
HDFC Bank Ltd	8.4	0.0
Asml Holding Nv	6.7	0.0
Techtronic Industries Co Ltd	5.7	0.3
Sk Hynix Inc	5.6	0.6
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	5.5	0.0
Skshu Paint Co Ltd	5.5	0.0
AIA Group Ltd	5.1	2.2

Performance %

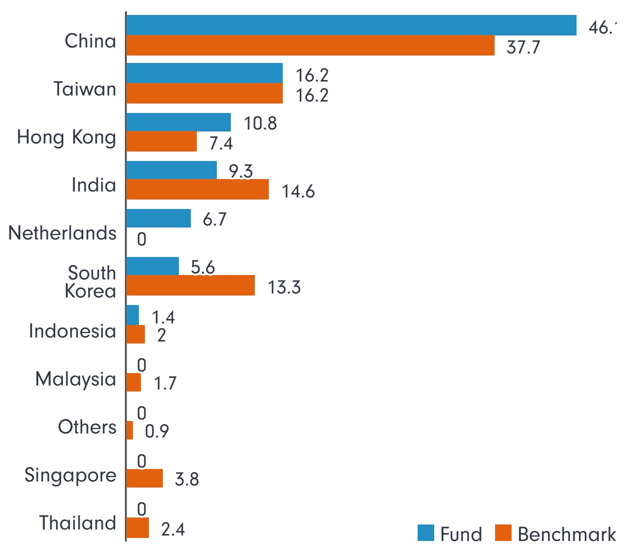
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	6.31	23.83	6.81	-7.35	6.15	8.47	12.26	13.35	8.40	10.09
MSCI All Country Asia ex-Japan Index NR	4.14	16.45	4.08	-10.30	0.98	2.28	7.89	8.38	5.65	6.95
Excess return	**2.17**	**7.38**	**2.73**	**2.95**	**5.17**	**6.19**	**4.37**	**4.97**	**2.75**	**3.14**

Total net returns represent past performance only. **Past performance is not a reliable indicator of future performance**. Total returns (net) have been calculated using exit prices and take into account the applicable buy/sell spread and are net of Fidelity's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for taxation or for any fees charged by operators of master trusts or wrap accounts through which the products are offered. Returns of more than one year are annualised. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. **The benchmark is the MSCI AC Asia ex-Japan Index, effective 1 January 2010. Benchmark data prior to 1 January 2010 is a blend of the MSCI AC Asia ex-Japan Index and the MSCI AC Far East ex-Japan Index. The major difference between the two indices is the inclusion of India in the MSCI AC Asia ex-Japan Index.

Industry breakdown %



Geographic breakdown %



Fidelity funds are available on platforms and mastertrusts via financial advisers. Investors who wish to place at least $25,000 in a single fund can invest with us directly. For further information, please visit www.fidelity.com.au or call Client Services on 1800 044 922.

This Fund is unhedged and is subject to the risk of fluctuations in international stock markets and currencies. Management costs and the buy/sell spread are current as at the date shown above but may be subject to change in the future. Management costs include GST but exclude abnormal expenses and transactional and operational costs. Investors accessing the Fund through a master trust or wrap account will also bear any fees charged by the operator of such master trust or wrap account. Any apparent discrepancies in the numbers are due to rounding.

Monthly report

Market performance

Asia ex-Japan equities recorded a strong start to the year, as the bullish sentiment towards Chinese equities following its international border re-opening and an end to its Zero Covid Policy last month continued to dominate markets. Chinese equities were led by a continuous inflow of foreign investors, who favoured Chinese equities for their attractive valuations and an upbeat outlook for a recovery in consumption. Sentiment further strengthened following favourable policy shifts for internet and gaming companies, as well as the real estate sector. Hong Kong equities rose in line with Chinese markets. Taiwanese and South Korean equities advanced sharply, outperforming the broader regional market and registering double-digit growth. The rally in these markets was driven by information technology (IT) stocks amid receding fears of slowdown. Conversely, Indian equities lagged as foreign institutional investors rotated out of Indian markets. Investors remained cautious as shares of India's conglomerate Adani Group experienced massive losses following negative press after US short-seller Hindenburg Research published a damaging report on the company. The ASEAN region also underperformed the broader region as investors moved out in search of mispriced opportunities elsewhere in the region. At a sector level, communication services, IT and consumer discretionary outperformed the broader market, while relatively defensive sector utilities lagged.

Fund performance

The Fund outperformed the index over the month. Speculation that the US Federal Reserve (Fed) is nearing the end of its aggressive interest rate hike cycle along with broad optimism in the region due to China's reopening spurred a comeback for technology-led positions after these stocks slid over most of 2022. Positions in the IT sector, notably semiconductor names, advanced strongly as concerns over a slowdown receded. Shares in ASML Holding, a key supplier to computer chip makers, chipmaker SK Hynix and semiconductor manufacturers MediaTek and Taiwan Semiconductor Manufacturing Company advanced amid a market wide rally. In addition, ASML reported solid sequential growth in terms of both earnings and sales and issued a robust revenue outlook for 2023. Overall, the long-term sector tailwinds for these holdings remains strong, amid a shift towards semiconductor-intensive areas such as high-powered computing, electric vehicles and artificial intelligence. The exposure to power tools company Techtronic Industries contributed to relative returns. The company has a strong correlation with the US housing market, which is driven by interest rates. Indications that the interest rate cycle in the US may be peaking buoyed its share price. Techtronic is also a high-quality company that is moving up the value chain and gaining market share with its battery-operated cordless power tool products. Its Milwaukee brand also continues to see growth. Meanwhile, investors are optimistic on policy support measures taken by Chinese authorities to aid the property market. Companies affiliated to the real estate sector, including building materials group Beijing Oriental Yuhong and paint manufacturer SKSHU Paint rose. Both companies reported strong operating cash flows and are expected to gain from industry consolidation as their competitors have failed in the property downcycle, which points to improving margins. Conversely, the position in India's private lender HDFC Bank slid amid a market wide sell off in Indian equities. However, HDFC Bank offers a long runway for growth. It has a robust deposit franchise, solid asset quality and is a good business that stacks up very well versus other regional banks. Investors took profits in insurer AIA Group following a strong rally in its share price recently. Nonetheless, with a differentiated business strategy and proven track record in its management and execution, AIA is well positioned to embrace the development of the Chinese and other Asian insurance markets in the long run. The position in BOC Aviation detracted from returns as investors took profits post its strong outperformance in recent months amid rising concerns about uncertain new aircraft supply, rising financing costs and recession risk in the West. Nonetheless, the company is expected to benefit from the resumption of air travel in China and the Asia-Pacific market; the aviation industry could continue to recover towards 2019 levels. Elsewhere, the lack of exposure to e-commerce giant Alibaba Group weighed on relative performance as its shares rose on the back of easing regulatory headwinds in the Chinese internet space.

Outlook

We maintain a cautious outlook. The hurdle rate for returns in Asia has increased primarily due to geopolitical reasons. Additionally, we still believe that markets have not fully priced in the earnings downgrades ahead. This is due to a multitude of factors, including softening demand, cost input pressure and the higher rates of refinancing debt. China's decision to reopen its borders in January 2023 and allow for restriction-free people movement has changed market sentiment. Some other potential positives include the easing of financial conditions globally. We suspect the Fed has become too aggressive on its monetary policy, and while the market is likely to view any 'pivot' as a near-term positive, we have our reservations. Looking ahead, the Fund will be much more cautious with respect to the hurdle rate of return when examining possible investments in China. It seems clear that economics is being trumped by ideology and security with respect to that market. While every investment is a potential risk, from a longer-term view (say 3–5 years), we continue to believe that Covid will prove to be 'cyclical' in nature, while the US housing and construction has favourable tailwinds, including demographics and infrastructure spending. Lastly, Chinese building material companies are an opportunity. It would appear that the sector is passing through the trough of highly negative demand, cost input inflation and a liquidity squeeze. Strong businesses are likely to exit this volatile period in an even stronger position. Overall, we continue to monitor the situation for interesting investment opportunities in Asia, but nothing of a material nature is on the immediate horizon. Investors are likely to remain diligent on balance sheet strength, industry structure, pricing power and sensible management teams when selecting stocks.

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PRI Principles for Responsible Investment

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