

Fidelity Asia Fund

Quarterly report

As at 31/12/2021

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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\$1,226.00M

Number of stocks: Typically 20-35

Management cost: 1.15% 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 (%)

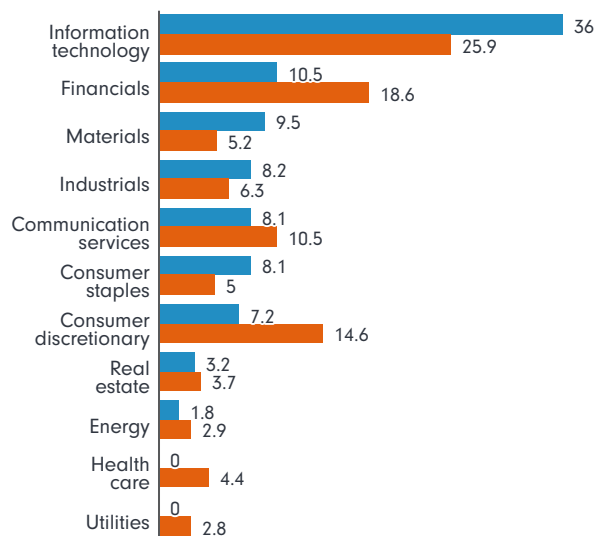
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	10.0	7.9
Kweichow Moutai Co Ltd	8.1	0.4
Beijing Oriental Yuhong Waterproof Technology Co Ltd	7.0	0.0
HDFC Bank Ltd	6.8	0.0
Focus Media Information Technology Co Ltd	6.4	0.0
Sk Hynix Inc	6.3	0.9
Techtronic Industries Co Ltd	6.0	0.4
Mediatek Inc	4.9	0.9
Hon Hai Precision Industry Co Ltd	4.4	0.7
Asml Holding Nv	4.4	0.0

Performance %

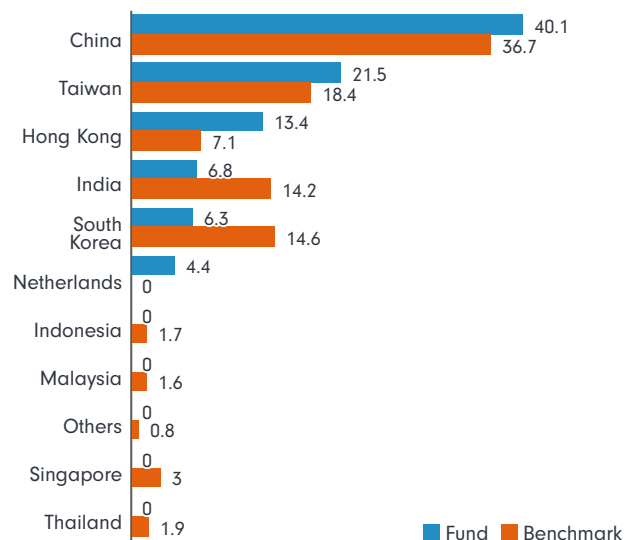
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	2.86	4.10	-1.27	14.64	19.27	17.36	15.63	17.25	10.00	11.48
MSCI All Country Asia ex-Japan Index NR	-1.14	-1.87	-7.53	1.13	10.88	11.21	9.11	11.79	6.69	8.15
Excess return	4.00	5.97	6.26	13.51	8.39	6.15	6.52	5.46	3.31	3.33

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 %



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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.

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Market performance

Regional equities ended the last quarter of 2021 on a subdued note amid concerns over COVID-19 cases resurfacing globally. Investors remained cautious given rising fears of a potentially vaccine-evading, highly mutated COVID-19 variant, Omicron. Sentiment further weakened across the region after US Federal Reserve (Fed) Chairman Jerome Powell hinted that the central bank would tighten its monetary policy. Nevertheless, towards the end of the period, expectations of an economic recovery and initial studies suggesting less severity of the Omicron variant boosted investor sentiment. Against this backdrop, Chinese equities slid sharply. In an attempt to support economic growth, the People's Bank of China (PBOC) cut the benchmark lending rate for the first time since April 2020. The central bank has also lowered the reserve requirement ratio. Hong Kong equities ended the period lower. Indian and South Korean equities fared better than the broader index. Encouragingly, Taiwanese equities gained momentum, primarily driven by robust growth in the semiconductor industry, which benefited from strong fifth-generation (5G) related demand. Australian equities ended the period higher and were relatively resilient over the quarter. At a sector level in the region, health care, consumer discretionary and energy were notable laggards, while information technology (IT) led gains.

Fund performance

Long-term growth prospects attracted investor interest

Shares in **Focus Media Information Technology**, China's largest operator of indoor advertising, benefited from sector rotation. The stock had been trading at undemanding valuations and is expected to gain from the high utilisation rate of its network of screens. The exposure to semiconductor chipmaker **SK Hynix** lifted performance. Investor sentiment is supportive of its structural growth prospects and a pickup in demand for memory chips. Taiwanese semiconductor company **MediaTek** gained amid increasing market share, strong sales prospects and optimism around the launch of its new mobile chip that supports 5G technology. More recently, it has announced device maker adoption and endorsement from major smartphone manufacturers. Elsewhere, the holding in China's baijiu producer

Kweichow Moutai added value. Investor sentiment was buoyed by the appointment of a new chairman who pledged a series of long-term reforms, as well as improved marketing and pricing. Its share price was further supported by expectations of an ex-factory price hike for its premium liquor Moutai.

Policy easing supported property related stocks

Over the year, the Chinese property sector faced headwinds from regulatory and credit tightening. As a property-market downturn threatened to hamper GDP growth in 2022, China's policy makers moved to expand support. Over the quarter, news of regulatory issues appears to have abated and a Chinese central bank rate cut was welcomed by investors, supporting the share price of property related companies. Consequently, positions in building materials group **Beijing Oriental Yuhong** and paint manufacturer **SKSHU Paint** added value.

Selected positions detracted from relative returns

The position in India's leading private lender **HDFC Bank** held back gains as investors rotated into other financial companies. Concerns over competition from fintech groups also weighed on its share price. Nevertheless, it remains a core holding in the portfolio. It consistently maintained best in class asset quality across business cycles and has a technological edge versus its peers. **Yum China**, the operator of Pizza Hut and KFC restaurants in China, ended lower. Shares in the company slid amid concerns over cost inflation, as well as COVID-19 outbreaks that dampened consumer spending and restricted travel. The position is retained for its dominant market position and mispriced growth prospects. The exposure to **China Merchants Energy Shipping (CMES)** detracted from performance. The shipping company operates crude oil and bulk carriers. While the bulk shipping segment is doing well, demand recovery for crude oil is yet to reach a meaningful level. Moreover, the scrapping of aged vessels is being delayed, restraining any increase in freight rates for very large crude carriers (VLCCs). The position is held in anticipation of a pick-up in demand for crude and a tightening of shipping supply.

Outlook

Over the last 12 months, the benchmark has delivered subdued returns, ending the year lower. This is despite massive monetary and

fiscal stimulus plus economies gradually 're-opening'. Nevertheless, the market is relatively expensive with a high degree of risk, be that macro or political.

Given our cautious market view, we believe that the primary way to generate performance is careful stock picking and there are opportunities. Current market focus is the debate about how transitory higher inflation will be. We believe that inflation is likely to be higher for longer and we continue to focus on stock selection. Companies with genuine pricing power and capex light business models are preferred.

Over the year, we have seen a heightened level of regulatory developments in China impacting industries such as mobile payment, fintech and e-commerce. The positive news is that regulation is being increasingly 'factored' in by the market and valuations have started to reflect this and, in some cases, over-corrected, leading to investment opportunities. Separately, select China A-shares continue to offer good risk/reward and large sentiment swings can present mis-priced opportunities. There are opportunities to benefit from dips in the semiconductor cycle as well. The long-term structural drivers of technology are material and unlikely to dissipate in the near-term.

Major contributors (%)

As at 31/12/2021	Active pos.	Contribution
Beijing Oriental Yuhong Waterproof Technology Co Ltd	6.3	1.4
Sk Hynix Inc	4.5	1.3
Mediatek Inc	3.1	1.1
Kweichow Moutai Co Ltd	7.5	1.1
Focus Media Information Technology Co Ltd	4.8	0.9

Major detractors (%)

As at 31/12/2021	Active pos.	Contribution
HDFC Bank Ltd	7.2	-0.5
China Merchants Energy Shp Ltd	1.8	-0.4
Yum China Holdings Inc	1.9	-0.3
Samsung Electronics Co Ltd	-5.0	-0.3
Trip.com Group Ltd	1.4	-0.3

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