Fidelity Asia Fund

Quarterly report

As at 31/12/2022

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$1,130.60M
Number of stocks: Typically 20-35
Management cost: 1.16% 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 (%)

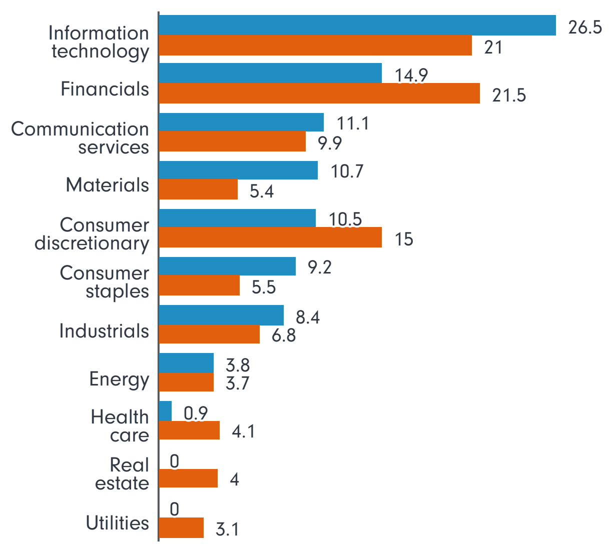
	Fund	B'mark
Focus Media Information Technology Co Ltd	11.1	0.0
HDFC Bank Ltd	9.4	0.0
Kweichow Moutai Co Ltd	9.2	0.3
Taiwan Semiconductor MFG Co Ltd	8.9	6.4
Asml Holding Nv	6.2	0.0
AIA Group Ltd	5.5	2.4
Techtronic Industries Co Ltd	5.4	0.3
Beijing Oriental Yuhong Waterproof Technology Co Ltd	5.3	0.0
Skshu Paint Co Ltd	5.3	0.0
Sk Hynix Inc	4.8	0.6

Performance %

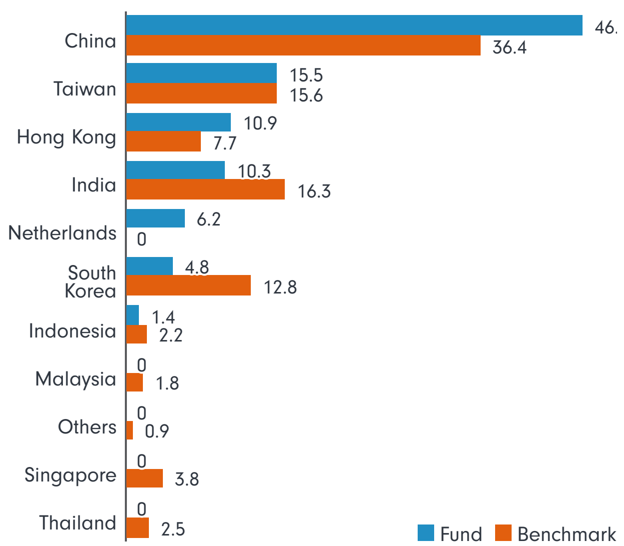
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	-1.04	8.12	-3.60	-14.77	4.18	7.64	10.92	12.91	6.90	9.76
MSCI All Country Asia ex-Japan Index NR	-1.43	5.57	-2.71	-13.88	-0.27	2.23	6.48	8.07	4.21	6.73
Excess return	**0.39**	**2.55**	**-0.89**	**-0.89**	**4.45**	**5.41**	**4.44**	**4.84**	**2.69**	**3.03**

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.

Fund performance

Investors recognised the extremely discounted valuations on Chinese stocks, which suffered on account of negative sentiment and are now seeing a revival in investor confidence amid relaxation of Covid-19 control measures. As a result, positions in Trip.com and BOC Aviation advanced on expectations of a resumption in international travel demand. Shares in Focus Media Information Technology also attracted investor interest following a sell-off in recent months and an improving economic outlook. The company announced a special dividend, highlighting management's commitment towards its shareholders and once business activity picks up steam and its clients increase their marketing spending, it will likely gain from the high utilisation rate of its network of screens. The company has expanded its customer base and is providing better services at higher average selling prices. The re-opening of the border between China and Hong Kong also boded well for investor sentiment towards AIA Group, on expectations of business expansion in China and the return of cross border insurance product sales for mainland visitors in Hong Kong. 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 Kweichow Moutai detracted from returns. The recent Chinese Communist Party's leadership reshuffle triggered concerns over the potential impact that the country's common prosperity goals would have on luxury products such as high-end baijiu. A consumption slowdown and a flare-up in Covid-19 cases also weighed on near-term investor confidence towards Moutai. Nonetheless, the market appears to have priced in the overly negative sentiment with no imminent catalyst. Bafang Electric Suzhou growth stalled amid Covid-19-led lockdowns and weaker demand for electric bikes in the US and Europe. Bafang highlights efficient cash flow management, and the position is retained as it aims to take a significant share of the Chinese e-scooter market and is also pursuing the high-end electric motorcycle business. The holding in China Merchants Energy Shipping held back gains on the back of weak returns from its dry bulk and container segments. Lockdowns in China, an economic slowdown across the world and the disruption of grain trade in Ukraine and the US led to a decline in freight rates/demand for major and minor bulks. Companies affiliated to the real estate sector, including Beijing Oriental Yuhong and SKSHU Paint gained. Both companies are expected to gain from industry consolidation as competitors have folded in the property downcycle, which points to improving pricing power. The position in HDFC Bank contributed to returns as it reported healthy business growth led by strong traction in commercial and rural banking. The bank maintains a healthy asset quality with a sequential decline in slippages and healthy recoveries and continues to offer superior returns compared to its peers. Investor sentiment was buoyed by the news that following the merger with Housing Development Finance Corporation. HDFC Bank will be considered as an extension of the former according to the new MSCI rules and would effectively increase the weightage of HDFC Bank sharply in the MSCI global index, removing the overweight problem of foreign institutional investors, which was a technical overhang. ASML delivered upbeat results amid strong booking numbers. Its management is optimistic about a capacity ramp-up and margin improvement in 2023. ASML has tremendous pricing power and growth prospects, given that it is a monopoly supplier of extreme ultraviolet (EUV) machines, which is critical equipment for leading-edge chip manufacturing that is seeing structural growth trends against the backdrop of increased digital penetration. Furthermore, the company is well positioned and stands to benefit as logic/foundry competition is likely to drive capital expenditure growth and as memory spending increases.

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 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-19 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.

Major contributors (%)

As at 31/12/2022	Active pos.	Contribution
Focus Media Information Technology Co Ltd	10.0	1.1
Skshu Paint Co Ltd	5.1	0.9
Asml Holding Nv	6.3	0.8
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	5.0	0.8
AIA Group Ltd	2.8	0.5

Major detractors (%)

As at 31/12/2022	Active pos.	Contribution
Kweichow Moutai Co Ltd	8.5	-1.5
China Merchants Energy Shp Ltd	1.9	-0.7
Tencent Holdings Ltd	-4.1	-0.6
Sk Hynix Inc	4.3	-0.3
Bafang Electric Suzhou Co Ltd	1.6	-0.3

Signatory of:

PRI Principles for Responsible Investment

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