

Fidelity Asia Fund

Quarterly report

As at 30/06/2022

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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\$1,221.91M

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 (%)

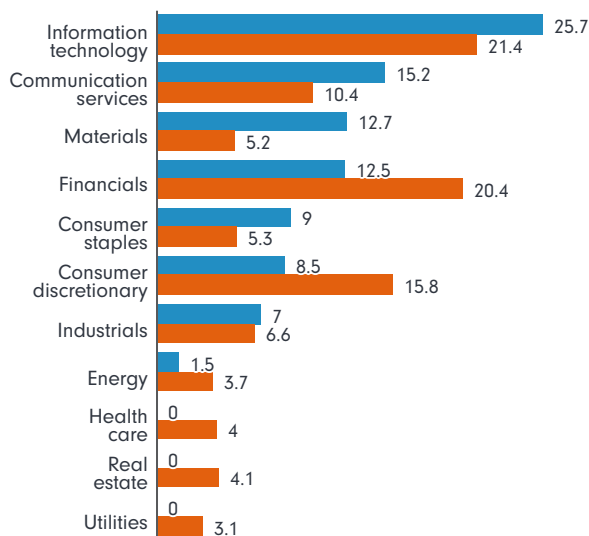
	Fund	B'mark
Kweichow Moutai Co Ltd	9.0	0.4
Focus Media Information Technology Co Ltd	8.9	0.0
Taiwan Semiconductor MFG Co Ltd	8.7	6.7
HDFC Bank Ltd	7.6	0.0
Beijing Oriental Yuhong Waterproof Technology Co Ltd	7.6	0.0
Tencent Holdings Ltd	6.3	4.8
Skshu Paint Co Ltd	5.1	0.0
AIA Group Ltd	4.8	2.2
Sk Hynix Inc	4.5	0.7
Asml Holding Nv	4.3	0.0

Performance %

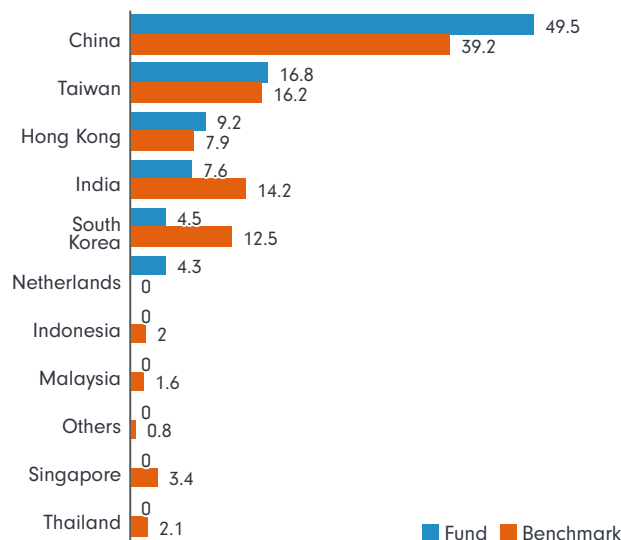
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	2.24	3.85	-11.59	-12.71	8.43	11.62	11.64	15.03	8.20	10.30
MSCI All Country Asia ex-Japan Index NR	-0.36	-0.63	-11.48	-18.15	2.80	5.37	5.47	9.80	5.24	7.12
Excess return	2.60	4.48	-0.11	5.44	5.63	6.25	6.17	5.23	2.96	3.18

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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Fund performance

The Fund returned 3.8%, while the index returned -0.6% over the quarter. A significant proportion of the outperformance was driven by positions in China. Expectations of a pickup in demand on the back of policy support, and improving sentiment amid easing Covid restrictions, proved rewarding for selected stocks.

Structural drivers support selected Chinese holdings

The mortgage loan rate in China, which is the leading indicator for the property sector, and long-expected rate cuts point to an improving macroeconomic environment. Moreover, in May, construction demand improved slightly from April, although it was still at a relatively low level. Against this backdrop, positions in SKSHU Paint and Beijing Oriental Yuhong advanced on optimism around a recovery in demand. The exposure to Kweichow Moutai added value. Despite a lockdown and subdued consumer sentiment, the company reported strong revenue and profit growth, driven by a mix upgrade from newly launched products with higher prices. Focus Media Information Technology advanced on the back of a strong runway for growth. Despite a weak demand environment in the short term, it could gain as companies are likely to maintain their advertising budgets.

Strong growth prospects buoyed certain positions

The position in Yum China Holdings, the operator of Pizza Hut and KFC restaurants in China, added value. Investors are confident of its long-term growth prospects on the back of same store sales growth, which indicates that it could gain from untapped demand. Elsewhere, the position in shipping giant

China Merchants Energy Shipping (CMES) contributed to performance. Investor sentiment was supported by better-than-expected results owing to the growth of its dry bulk and container shipping businesses. Demand for the dry bulk business beat market consensus during the usually slack season. Earnings contribution from its container shipping business also saw a significant improvement due to a booming market and high operating efficiency.

Technology demand slowdown weighed on semiconductor names

Positions in ASML Holding, MediaTek and chipmaker SK Hynix detracted from relative returns. Weaker demand for consumer electronics led to concerns over an inventory build-up and weaker pricing cycle in the semiconductor industry. However, these holdings are retained as long-term sector tailwinds remain very strong amid a shift towards semiconductor intensive areas.

Outlook

Looking ahead, the issues facing investors remain largely similar to those in the previous quarter. Downward earnings revisions will likely increase, leading to questions on the valuation multiples that investors are prepared to pay for this lower revenue stream. However, there are some stock opportunities within a select number of areas that have faced significant selling pressure and whose risk/reward profile now looks attractive.

Despite the macroeconomic issues facing China, some mainland listed A-shares appear interesting. The market is currently very short-term focussed, so we can expect more volatility. However, the most likely outcome in my view is that each mutation of Covid will exhibit less virulence, to the point of allowing China to eventually exit its zero-Covid policy. This could possibly be later this year or in the

next calendar year, which is clearly within the Fund's investment horizon. Any such easing of mobility restrictions could result in a material stock market rebound, particularly for some of the stocks that are held in the Fund. That said, we will wait for opportunities to emerge and remain of the view that careful and focused stock picking is the primary way to generate alpha.

Outside of China, Asian technology firms with a leading global position also offer opportunities. Although short-term demand for technology products may fall, areas such as foundries are still undersupplied, which offers a degree of pricing power.

Major contributors (%)

As at 30/06/2022	Active pos.	Contribution
Kweichow Moutai Co Ltd	7.8	1.9
Skshu Paint Co Ltd	3.1	1.8
Beijing Oriental Yuhong Waterproof Technology Co Ltd	7.3	1.3
Focus Media Information Technology Co Ltd	7.5	1.2
Samsung Electronics Co Ltd	-4.8	0.8

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Techtronic Industries Co Ltd	4.9	-1.7
Asml Holding Nv	4.6	-1.2
Sk Hynix Inc	4.7	-1.0
Mediatek Inc	3.8	-0.7
Meituan	-1.5	-0.5

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