Fidelity Asia Fund

Quarterly report

As at 30/06/2023

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$1,252.33M
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 (%)

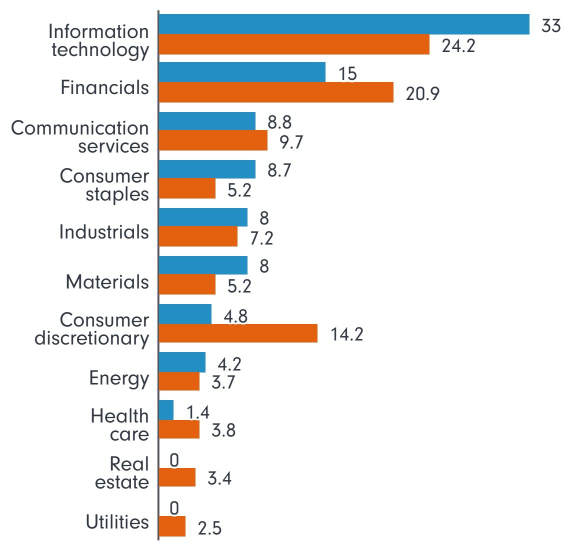
	Fund	B'mark
Taiwan Semiconductor MFG Co Ltd	10.0	7.8
HDFC Bank Ltd	10.0	0.0
Focus Media Information Technology Co Ltd	8.8	0.0
Kweichow Moutai Co Ltd	8.7	0.3
Asml Holding Nv	6.9	0.0
Sk Hynix Inc	6.4	0.8
Techtronic Industries Co Ltd	5.3	0.3
AIA Group Ltd	5.0	2.0
Samsung Electronics Co Ltd	4.5	5.1
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	4.1	0.0

Performance %

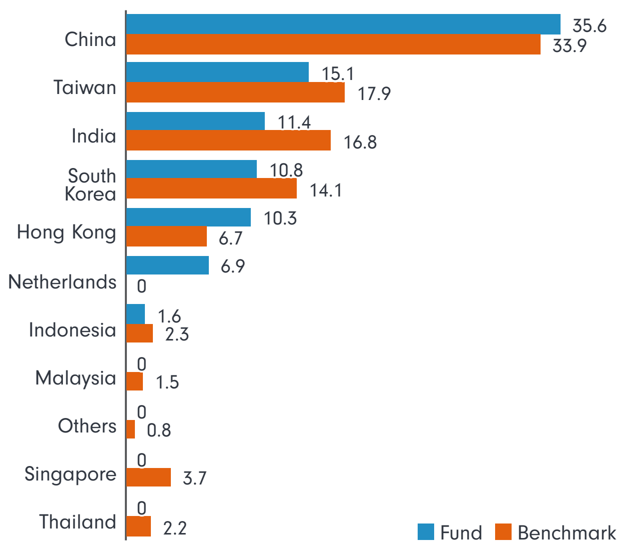
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	1.37	-1.91	7.04	3.18	8.20	8.20	11.12	12.66	9.40	9.89
MSCI All Country Asia ex-Japan Index NR	-0.14	-0.65	4.96	2.12	2.29	3.06	7.25	7.87	6.60	6.83
Excess return	**1.51**	**-1.26**	**2.08**	**1.06**	**5.91**	**5.14**	**3.87**	**4.79**	**2.80**	**3.06**

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.

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Market performance

Regional equities retreated over the quarter, primarily due to weakness in China amid rising geopolitical tensions, concerns over potential curbs on US investments in Chinese firms and weaker-than-expected macroeconomic data from China. This was slightly offset by the rise in Asian technology stocks. Chinese and Hong Kong equities slid sharply as signs of a weak recovery in China weighed on investor sentiment. The People's Bank of China cut several key rates in an effort to restore market confidence and support the economy, and indicated that it would roll out stimulus measures to support its GDP growth target. Australian equities also slid in line with the broader market. In ASEAN, all countries barring Indonesia ended in negative territory. Most countries witnessed capital outflows during the quarter. Technology-focused markets, including South Korea and Taiwan, advanced. Foreign investors were encouraged by news flow around developments in AI. Indian stocks outperformed the region, supported by inflows from foreign institutional investors. Its GDP expanded by 6.1% in the first quarter, driven by broad-based improvements in private and public consumption and investment. At a sector level, IT advanced the most, buoyed by the significant outperformance of semiconductor names as developments around AI supported sentiment. The communication services, real estate and consumer discretionary sectors were notable laggards.

Fund performance

Property related stocks have been derated with a lack of stimulus measures coming through. Consequently, holdings in building material stocks detracted from performance. Moreover, investors were sceptical about the macroeconomic situation in China and there are concerns that the market was too optimistic on a strong bounce back in consumer sentiment. Against this backdrop, security selection in the materials and consumer discretionary sectors detracted from returns. Encouragingly, an overweight stance and security selection in information technology (IT) stocks, the best performing sector over the quarter, contributed to performance. Holdings in paint manufacturer, SKSHU Paint, and building materials group, Beijing Oriental Yuhong, detracted from relative returns. Both companies are expected to gain from industry consolidation as competitors have failed in the property downcycle, which points to improving margins. Overall, the property sector is undergoing significant change as weaker players are exiting the market and those that survive have gained market share, which will translate into better margins in the future. Shares in Chinese consumption-led companies slid amid a market wide sell-off. Positions in Yum China, the operator of Pizza Hut and KFC restaurants in China, and premium liquor producer Kweichow Moutai, retreated. The long-term thesis for these stocks remains intact. Shares in advertising company Focus Media Information Technology also ended the quarter lower. Encouragingly, its business is witnessing consistent improvement and its clients are likely to increase marketing spending to rebuild brand equity once business conditions normalise. The exposure to semiconductor names including SK Hynix, ASML Holding and Taiwan Semiconductor Manufacturing (TSMC) supported performance. Optimism around increasing demand for AI chips and a sooner-than-expected recovery in the overall chip industry buoyed investor sentiment. Investor sentiment was buoyed around the possible synergies post the merger of Housing Development Finance Corporation (HDFC) with HDFC Bank in July. The merger will create a stronger financial entity by leveraging their strengths. The merged entity will have a broader product portfolio and an enhanced market presence.

Outlook

The market outlook appears challenging as there is no clear pathway for Chinese GDP growth. It seems clear that economics is being trumped by ideology and security in that country. Valuations appear less attractive and we expect global interest rates and inflation to remain higher for longer. This creates a challenging backdrop for companies to operate in and requires a deep understanding of businesses and valuations to generate returns for shareholders. Overall, the Asia Pacific region more broadly presents some interesting opportunities on a fundamental level, but caution is needed to find those that present an attractive risk-reward profile. We have to consider the possibility of a difficult scenario for markets in the second half of this year and focus on firms with dominant market positions and strong balance sheets. At a country level, India is increasingly coming into focus as valuation multiples for certain segments of the market have derated. Meanwhile, the A-share market continues to produce individual stock ideas as there are many good companies trading at low valuations. With reopening across the region, opportunities are still to be found in the aviation space. While there are well-documented beneficiaries of the energy transition, we remain confident in the investment case for very large crude oil carriers on a multi-year view. We believe that the increasing supply shortfall is yet to be fully priced in, providing investment opportunities in the coming years. Hardware technology also remains in focus, given the massive investment expected in AI, cloud computing and electric vehicles over the next 5–10 years. A more rational supply side, such as memory chips, and an accelerating demand side are supportive for the sector over the long term.

Major contributors (%)

As at 30/06/2023	Active pos.	Contribution
Sk Hynix Inc	5.1	1.4
HDFC Bank Ltd	9.4	0.7
Tencent Holdings Ltd	-4.7	0.6
Asml Holding Nv	7.0	0.6
Alibaba Group Holding Ltd	-2.9	0.6

Major detractors (%)

As at 30/06/2023	Active pos.	Contribution
Skshu Paint Co Ltd	4.4	-1.2
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	4.5	-1.1
Kweichow Moutai Co Ltd	8.7	-0.9
China Merchants Energy Shp Ltd	2.8	-0.5
Indo Tambangraya Megah Pt	1.5	-0.5

Signatory of:

PRI Principles for Responsible Investment

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