Fidelity Asia Fund

Quarterly report

As at 31/03/2023

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$1,239.70M
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 (%)

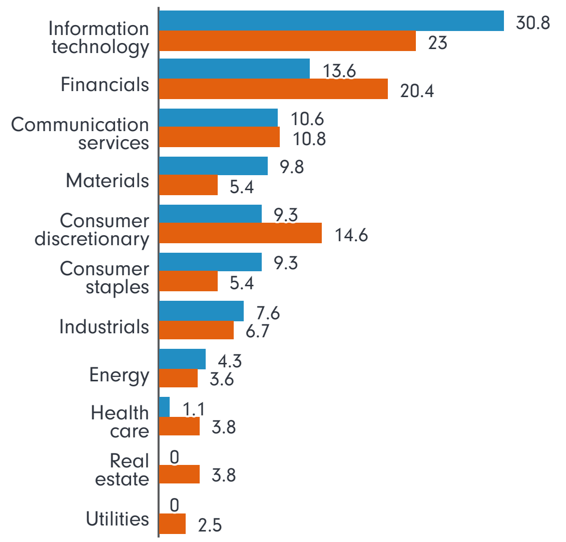
	Fund	B'mark
Focus Media Information Technology Co Ltd	10.6	0.0
Taiwan Semiconductor MFG Co Ltd	10.0	7.4
Kweichow Moutai Co Ltd	9.3	0.3
HDFC Bank Ltd	8.7	0.0
Asml Holding Nv	7.2	0.0
Sk Hynix Inc	5.4	0.6
Techtronic Industries Co Ltd	4.9	0.3
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	4.9	0.0
AIA Group Ltd	4.9	2.1
Skshu Paint Co Ltd	4.9	0.0

Performance %

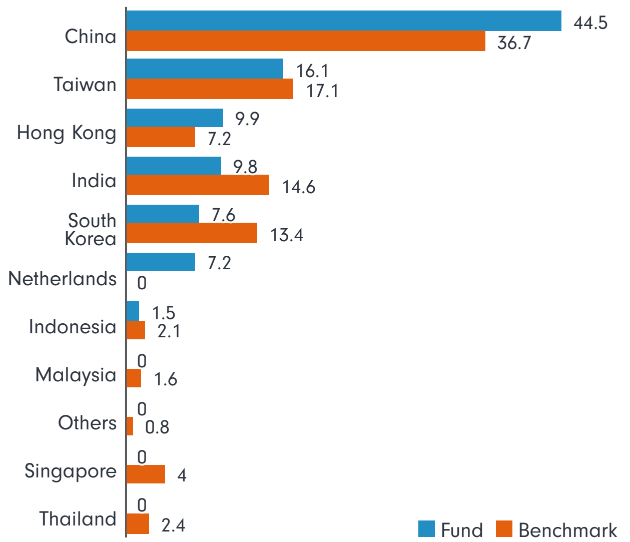
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	3.96	9.12	17.97	9.23	9.74	9.11	12.32	13.83	8.77	10.16
MSCI All Country Asia ex-Japan Index NR	4.19	5.65	11.54	2.14	3.78	2.82	7.91	8.76	5.82	6.97
Excess return	**-0.23**	**3.47**	**6.43**	**7.09**	**5.96**	**6.29**	**4.41**	**5.07**	**2.95**	**3.19**

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 ended the first quarter of 2023 on a positive note amid optimism over China's re-opening earlier in the year and a sharp rebound in the Korean and Taiwanese markets. Notwithstanding recent marginal improvements, inflationary pressure remained high across most global markets, driving major central banks to announce rate hikes during the quarter. Rising geopolitical tensions between the US and China led to some profit taking post the market rally at the start of the year. The recent turmoil in the global banking sector and concerns over global economic development also added to regional market volatility towards the end of the quarter. Chinese markets advanced as foreign investors favoured Chinese equities for their attractive valuations and an upbeat outlook for a consumption-led recovery. South Korean and Taiwanese markets rallied strongly, aided by the strong influx of foreign investment, which favoured attractively valued IT stocks. Australian equities advanced, buoyed by expectations of a soft landing and an increased appetite for risk assets. Conversely, Indian equities remained under pressure as foreign institutional investors continued to rotate away from the market amid concerns over high valuations. Hong Kong equities also ended the period lower. Within ASEAN, Malaysia and Thailand remained largely subdued, while Indonesia and the Philippines outperformed the broader Asian region.

Fund performance

A slowdown in the semiconductor sector in the first half of 2023 appears to be priced in and investors are looking forward to a recovery in the second half of the year. Shares in ASML Holding, a key supplier to the sector advanced amid a market-wide rally. In addition, ASML reported solid sequential growth in terms of both earnings and sales. The company makes advanced lithography equipment for etching small circuits on semiconductors. It is the sole supplier of next-generation extreme ultraviolet chip technology to the semiconductor industry, which gives it a competitive advantage. MediaTek's proposal to issue an encouraging cash dividend and TSMC's announcement that it had left its first-quarter sales forecast unchanged boosted investor sentiment. MediaTek maintains a strong leadership position as a mobile system-on-chip provider. TSMC offers long-term structural growth within semiconductors and is a front-runner with cutting edge technology. Meanwhile, news that South Korea and Japan agreed to resolve a trade dispute that has weighed on the Korean semiconductor industry for more than three years boosted the position in SK Hynix. The exposure to China Merchants Energy Shipping enhanced gains. It primarily operates in tankers, dry bulk and LNG ships. It is expected to gain from a recovery in demand for oil, especially with an improvement in air and road traffic as COVID-19 led restrictions ease. The position in HDFC Bank slid amid a market-wide sell off in Indian equities. However, the 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. The exposure to BOC Aviation detracted from returns amid rising concern about in the timing of new aircraft supply, higher financing costs and recession risk in developed markets. Nonetheless, it is expected to benefit from the resumption of air travel in China and the Asia-Pacific market; as the aviation industry continues to recover towards 2019 levels. Elsewhere, the lack of exposure to Tencent and Alibaba weighed on relative returns. The former gained from encouraging returns and easing regulatory headwinds. Shares in the latter rose on news that it will split into six business segments. The restructuring could lead to multiple initial public offerings, which lifted investor sentiment.

Outlook

Economic activity in China is picking up, but we remain cautious on its longer-term growth prospects until its high debt level comes under control. Other events that could benefit the region include concrete actions to restructure the property sector and a solid recovery in China's economic growth. We suspect the US Fed has become too aggressive on its monetary policy. The market is likely to view any 'pivot' as a near-term positive, though we have reservations. Looking ahead, the Fund will be much more cautious with respect to possible investments in China. It seems clear that economics is being trumped by ideology and security in that country. Having said that, every investment is a potential risk, and there are tremendous investment opportunities in the Chinese market. Chinese building material companies appear to be passing through the trough of highly negative demand, cost input inflation and a liquidity squeeze. The Chinese consumer sector has attracted some market attention and has rebounded somewhat since the reopening, it still has not attracted conviction demand from onshore investors. Beyond China, hardware technology remains in focus, given the massive investment expected in AI, machine learning and cloud computing over the next 5–10 years. A more rational supply side, such as memory chip, and an accelerating demand side are supportive for the sector in a multi-year view. Energy is another area for structural opportunity in the region, as supply is under constraint amid a lack of capital investment, while demand continues to rise, especially in emerging countries.

Major contributors (%)

As at 31/03/2023	Active pos.	Contribution
Asml Holding Nv	6.8	1.4
Mediatek Inc	3.8	0.9
Taiwan Semiconductor MFG Co Ltd	2.7	0.6
China Merchants Energy Shp Ltd	2.7	0.5
Meituan	-1.7	0.5

Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Tencent Holdings Ltd	-5.0	-0.8
HDFC Bank Ltd	8.7	-0.5
Alibaba Group Holding Ltd	-3.2	-0.3
Samsung Electronics Co Ltd	-3.2	-0.3
Boc Aviation Ltd	2.7	-0.3

Signatory of:

PRI Principles for Responsible Investment

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