

Fidelity Asia Fund

Quarterly report

As at 30/09/2022

Subscribe now

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\$1,050.58M

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 (%)

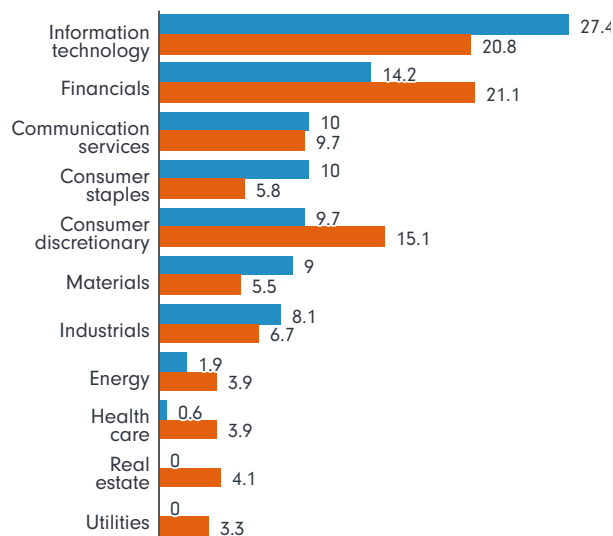
| | Fund | B'mark |
|--|------|--------|
| Kweichow Moutai Co Ltd | 10.0 | 0.4 |
| Focus Media Information Technology Co Ltd | 10.0 | 0.0 |
| HDFC Bank Ltd | 9.5 | 0.0 |
| Taiwan Semiconductor MFG Co Ltd | 9.1 | 6.5 |
| Techtronic Industries Co Ltd | 5.2 | 0.3 |
| Asml Holding Nv | 4.9 | 0.0 |
| Beijing Oriental Yuhong Waterproof Technology Co Ltd | 4.8 | 0.0 |
| Sk Hynix Inc | 4.7 | 0.6 |
| AIA Group Ltd | 4.7 | 2.0 |
| Skshu Paint Co Ltd | 4.2 | 0.0 |

Performance %

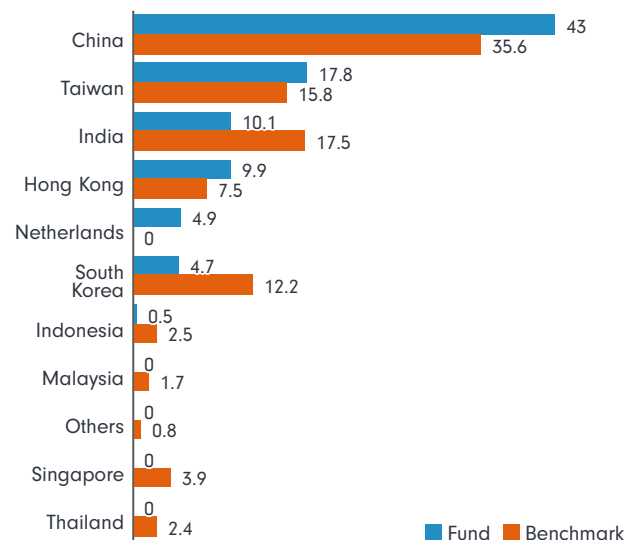
| | 1 mth | 3 mth | 6 mth | 1 yr | 3 yrs p.a. | 5 yrs p.a. | 7 yrs p.a. | 10 yrs p.a. | 15 yrs p.a. | Since Inception p.a (29/09/2005) |
|---|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------------------|
| Fidelity Asia Fund | -4.84 | -10.84 | -7.41 | -17.94 | 3.00 | 8.54 | 10.64 | 12.78 | 6.67 | 9.40 |
| MSCI All Country Asia ex-Japan Index NR | -6.99 | -7.84 | -8.42 | -19.95 | 0.25 | 2.81 | 5.69 | 8.10 | 3.78 | 6.50 |
| Excess return | 2.15 | -3.00 | 1.01 | 2.01 | 2.75 | 5.73 | 4.95 | 4.68 | 2.89 | 2.90 |

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.

Quarterly report

Market performance

Regional equities declined as they were caught in a sell-off amid muted global cues. Regional markets were phased by persistent concerns over a worsening macroeconomic trend globally against a backdrop of high inflation, weakening currencies, and continued monetary tightening by the US Federal Reserve. Growing worries about the economic outlook for China amid recent COVID-19 flare-ups and default risks regarding certain property developers also dented market sentiment. This resulted in a relentless sell-off for **Chinese** equities. **Hong Kong** equities delivered negative returns. **South Korea** and **Taiwanese** stock markets also slid amid a cautious investor sentiment.

Encouragingly, **ASEAN** stood out, with **Indonesian** equities being an outlier. A favourable macroeconomic backdrop, better-than-expected earnings results, and a bounce back in commodity prices gave enough reason for investors to stay bullish. **Indian** equities also recovered aided by inflows from foreign investors as they re-entered the market on hopes of a consumption-led recovery from waning COVID-19 tailwinds.

Fund performance

Property-related positions held back gains

The allocation to property-related names, including building materials group **Beijing Oriental Yuhong** and paint manufacturer **SKSHU Paint**, detracted from returns. Beijing Oriental delivered subdued results due to higher raw material costs. SKSHU Paint reported mixed results, as growth in its business-to-consumer (B2C) segment was offset by a downturn in its business-to-business (B2B) operations. Investors are concerned over the build-up of accounts receivable on the balance sheets of both companies. Nonetheless, these companies are expected to gain from industry consolidation as competitors have folded in the property downcycle, which points to improving pricing power – an important factor as commodity prices fall and product price hikes have stuck.

Market sentiment weighed on consumer names

The recent COVID-19 resurgence in some regions of China led to subdued discretionary spending and an overall reduction in demand.

Against this backdrop, despite reporting encouraging profits and a notable increase in revenue from the property sector, **Focus Media Information Technology**, an operator of indoor advertising, held back gains. Nonetheless, we believe the company's structural growth story remains intact. It has a capital-light business and strong profitability, and the underlying quality of its business is likely improving due to lower dependency on bigger customers. Elsewhere, shares in **Bafang Electric Suzhou**, a manufacturer of powertrains for electric bikes, retreated. The company's growth stalled amid COVID-19-led lockdowns and weaker demand for electric bikes in the US and Europe. The position is retained as the company aims to take a significant share of the Chinese e-scooter market and is also pursuing the high-end electric motorcycle business.

Conviction holdings added value

Against the backdrop of favourable foreign inflows for Indian equities and a rising interest rate environment, private lender **HDFC Bank** added notable value. Its shares were buoyed by the rally in Indian equities. Moreover, the bank reported robust quarterly results, led by significant growth within the retail and commercial banking segment. The long-term investment rationale for the bank remains intact, given its strong asset quality and a well-capitalised balance sheet. The holding in shipping conglomerate **China Merchants Energy Shipping** enhanced gains. It delivered results that were in line with expectations for the first half of the year, with growth in the tanker segment volumes and rates driven by a recovery in oil markets.

Reopening theme in China supported performance

Positions in **Yum China**, the operator of Pizza Hut and KFC restaurants in China, and online travel agency **Trip.com**, added value. Both companies are expected to benefit from a consumption pickup in China once COVID-19-related restrictions ease. Investors are confident of Yum China's long-term growth prospects on the back of potential gains from untapped demand, which could drive store sales roll-out. Trip.com is a key beneficiary of a recovery in travel, with its strong moat in serving customers with consumption power.

Outlook

We think that Asian markets centre around China, and we are still seeing a lot of news flow related to the property market given how

critical it is to China's GDP growth. While it is still early days, there appears to be a bit of traction with respect to restarts in the property sector – mortgage repayments are starting and contracted sales decline is stabilising, indicating that the property market may be potentially close to trough. Many investors are cautious on the Chinese property market as the region has witnessed significant negativity over the last 12–18 months, due in part to regulations and in part to the near-term global macroeconomic environment. We stay focused on the next three to five years, particularly around the industry structure, and are trying to project how the cycles are likely to play out within that time frame. In the meantime, it appears that there has been no significant new mutation of COVID-19 and the longer this goes on, the higher the chance of liberalisation of movement and 'opening' of China. Any such easing of mobility restrictions could result in a material stock market rebound, particularly for some of the stocks held in the Fund. That said, we continue to monitor market development and look for opportunities to emerge. We continue to believe that careful and focused stock picking is the primary way to generate alpha.

Major contributors (%)

| As at 30/09/2022 | Active pos. | Contribution |
|--------------------------------|-------------|--------------|
| HDFC Bank Ltd | 9.0 | 1.5 |
| Alibaba Group Holding Ltd | -3.2 | 0.6 |
| China Merchants Energy Shp Ltd | 1.7 | 0.6 |
| Yum China Holdings Inc | 3.0 | 0.5 |
| Trip.com Group Ltd | 3.0 | 0.5 |

Major detractors (%)

| As at 30/09/2022 | Active pos. | Contribution |
|--|-------------|--------------|
| Beijing Oriental Yuhong Waterproof Technology Co Ltd | 5.9 | -3.2 |
| Skshu Paint Co Ltd | 4.3 | -1.2 |
| Bafang Electric Suzhou Co Ltd | 2.2 | -0.8 |
| Focus Media Information Technology Co Ltd | 8.9 | -0.6 |
| ICICI Bank Ltd | -1.0 | -0.3 |

Signatory of:



fidelity.com.au



This document is intended as general information only. Prior to making any investment decision, retail investors should seek advice from their financial adviser. Please remember past performance is not a guide to the future. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. This document has been prepared without taking into account any person's objectives, financial situation or needs. You should also consider the relevant Product Disclosure Statements ("PDS") for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 044 922 or by downloading it from our website at www.fidelity.com.au. The relevant Target Market Determination (TMD) is available via www.fidelity.com.au. This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. You should consider these matters and seeking professional advice before acting on any information. While the information contained in this document has been prepared with reasonable care, to the maximum extent permitted by law, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. Past performance information provided in this document is not a reliable indicator of future performance. The document may not be reproduced or transmitted without the prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is Fidelity Australia. © 2022 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.