Fidelity Asia Fund

Quarterly report

As at 30/09/2023

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$1,127.41M
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 (%)

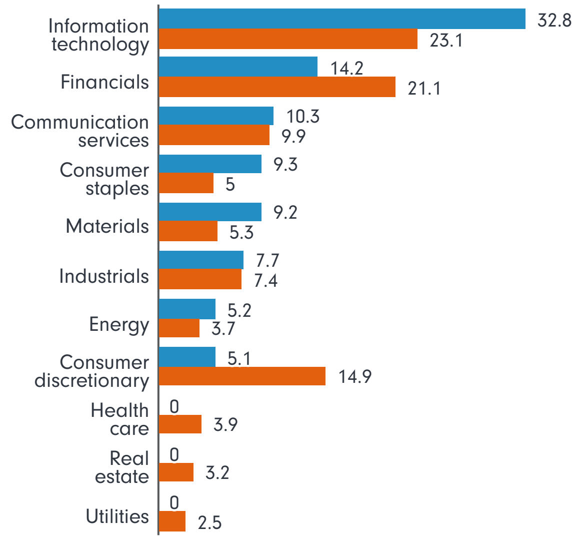
	Fund	B'mark
Focus Media Information Technology Co Ltd	10.1	0.0
HDFC Bank Ltd	9.8	0.9
Taiwan Semiconductor MFG Co Ltd	9.7	7.0
Kweichow Moutai Co Ltd	9.3	0.3
Asml Holding Nv	6.1	0.0
Sk Hynix Inc	5.9	0.8
Samsung Electronics Co Ltd	5.8	4.9
Techtronic Industries Co Ltd	5.1	0.2
Beijing Oriental Yuhong Waterfroof Technology Co Ltd	4.7	0.0
Skshu Paint Co Ltd	4.5	0.0

Performance %

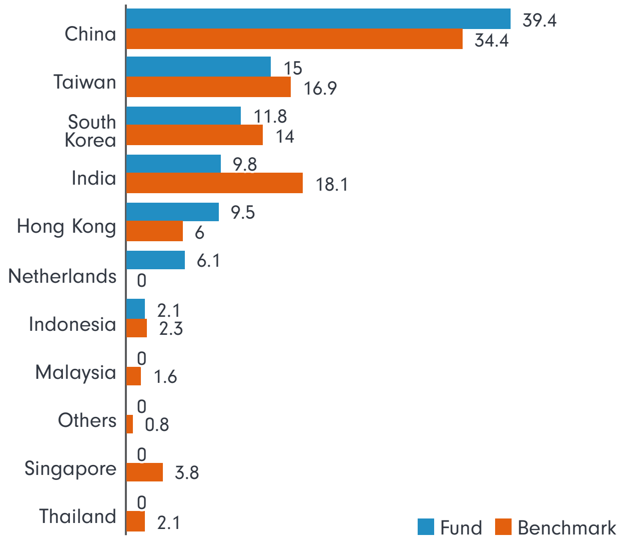
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Asia Fund	-3.65	-1.65	-3.52	13.82	5.16	7.40	10.05	12.17	9.77	9.65
MSCI All Country Asia ex-Japan Index NR	-2.34	-0.31	-0.96	10.46	0.13	2.89	6.14	7.47	7.13	6.71
Excess return	**-1.31**	**-1.34**	**-2.56**	**3.36**	**5.03**	**4.51**	**3.91**	**4.70**	**2.64**	**2.94**

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.

Market performance

Regional equities retreated over the quarter. The period started on a positive note amid expectations of policy support from China. However, subdued macroeconomic data releases and renewed stress on the financials and real estate sectors in China led to a sell-off in the latter part of the quarter. Against this backdrop, Hong Kong equities slid. In light of rising turbulence, Chinese authorities showed their commitment to supporting the economy by introducing a number of measures, including lowering mortgage rates and easing home purchase requirements. Technology-focussed South Korean and Taiwanese equities also ended the period lower. The lack of incremental improvements in spot prices for memory chips was a headwind for these markets. On a positive note, Indian equities ended in positive territory and outperformed regional peers. Its economy grew at its fastest pace in a year in the June quarter, supported by strong services activity and robust demand and also witnessed continued foreign and domestic institutional investor interest on a year-to-date basis. Within ASEAN, Malaysia was among the best performers in the region. At a sector level, information technology (IT) and real estate were key laggards, while energy advanced amid supply concerns.

Fund performance

Shares in private lender HDFC Bank retreated following underwhelming financial numbers following its merger with Housing Development Finance Corporation (HDFC). Nevertheless, the long-term investment thesis for the bank remains intact. HDFC Bank has a robust deposit franchise, solid asset quality and is a good business that stacks up very well versus other regional banks. The merged entity will benefit from cross-selling opportunities due to access to the mortgage business' huge client base, which has a low overlap with clients in its banking operations. The position in insurer AIA Group slid in-line with broader Hong Kong and Chinese markets. It has a differentiated business strategy and proven track record in terms of its management and execution. AIA is expected to gain from its business expansion in China and the return of cross border insurance product sales for mainland visitors in Hong Kong. It is well positioned to embrace the development and growth of Chinese and other Asian insurance markets in the long run. Shares in semiconductor manufacturer ASML slid. News of potential order cuts for chip equipment amid weakening demand weighed on investor sentiment. Nonetheless, ASML has strong pricing power and good growth prospects, given that it is a near monopoly extreme ultraviolet machine supplier, which is critical equipment for leading-edge chip manufacturers that are seeing structural growth trends. The holding in power tools company Techtronic Industries slid amid confusing guidance for its Milwaukee brand. The company had initially issued a conservative growth outlook, but retracted its guidance, saying that Milwaukee would be able to register encouraging growth. The position was retained as Techtronic is a leader in the power tools market. Shares in Focus Media Information Technology, a digital display advertiser, advanced on the back of encouraging earnings for the first half of 2023. The company's business is witnessing an improvement month-on-month and its decision to hike advertising prices was well received by investors. The holding in baijiu maker Kweichow Moutai reported better than expected quarterly results, supported by higher sales. It has a strong brand that helps it to maintain pricing power, making it a structural growth opportunity in the Chinese consumption space. The company's focus on enhancing its direct sales is also likely to bode well for its earnings growth prospects. The allocation to paint manufacturer SKSHU Paint proved rewarding. The company's quarterly earnings improved, supported by good top-line growth and margin recovery. Among holdings in the materials sector, SKSHU Paint is a structural winner and has the potential to gain market share. It is a leader in a niche industry and has a very strong distribution network. Shares in shipping giant China Merchants Energy Shipping attracted investor interest. The company is expected to gain from a recovery in demand for oil, especially with an improvement in air and road traffic.

Outlook

While Chinese authorities have introduced some policy measures, in particular to support the property market, there is no clear pathway for Chinese GDP growth. 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 presents some interesting opportunities on a fundamental level, but caution is needed to find those that present an attractive risk-reward profile. 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. As air traffic rebounds, more aircraft will be needed to fill the gap in the market. 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 artificial intelligence, cloud computing and electric vehicles over the next 5–10 years.

Major contributors (%)

As at 30/09/2023	Active pos.	Contribution
Focus Media Information Technology Co Ltd	9.6	1.1
Kweichow Moutai Co Ltd	8.7	0.8
Indo Tambangraya Megah Pt	1.9	0.5
China Merchants Energy Shp Ltd	2.8	0.4
Skshu Paint Co Ltd	4.5	0.3

Major detractors (%)

As at 30/09/2023	Active pos.	Contribution
Asml Holding Nv	6.5	-1.1
HDFC Bank Ltd	9.0	-1.1
AIA Group Ltd	2.8	-0.5
Techtronic Industries Co Ltd	4.9	-0.4
Pdd Holdings Inc	-0.8	-0.3

Signatory of:

PRI Principles for Responsible Investment

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