Fund perspective

Fidelity Asia Fund

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Key points

- The Fund has outperformed over the year-to-date, with support coming from positive stock selection.
- Portfolio turnover remains low as we stay true to the companies we invest in.
- Within the technology hardware sector, we have realigned our holdings in the search for more attractively valued names.
- We have retained our cautious approach towards China amid concerns about debt levels and weak consumption.
- China still offers attractive stock opportunities, especially for companies providing services to the secondary housing market.
- 2024 will remain challenging, but many stock valuations are fair, and our expectations for next year remain high.

Fund performance

Net returns as at 30 September 2023

Timeframe	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa	15 yr % pa	Since inception (29/09/05) % pa
Fund	13.82	5.16	7.40	10.05	12.17	9.77	9.65
Benchmark	10.46	0.13	2.89	6.14	7.47	7.13	6.71
Active return	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. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. Benchmark: MSCI AC Asia ex-Japan Index NR, effective 1 January 2010. Benchmark data prior to 1 January 2010 is a blend of the MSCI Asia ex-Japan index and the MSCI All Country Asia ex-Japan Index NR: NR at the end of the benchmark name indicates the return is calculated including reinvesting net dividends. The dividend is reinvested after deduction of withholding tax, applying the withholding tax rate to non-resident individuals who do not benefit from double taxation treaties.

Market review

The Fund has outperformed over the year-to-date, with relative returns driven by positive stock selection. Drilling deeper, the top-five contributors have each come from a different Asian market, with the holdings adding the most value in 2023 being significant detractors in 2022. This underlines the importance of staying true to the companies we believe in.

Recent portfolio moves

Overall, the Fund's turnover remains relatively low compared to other calendar years, but we have made some changes that revolve around the Fund's existing positions.

In one instance, we trimmed TSMC, a Taiwanese semiconductor manufacturer to fund better ideas that could earn a higher return for the portfolio. For example, in the first quarter of 2023, we added Samsung Electronics group, which now represents almost five per cent of the Fund's net asset value. This chimes with our established overweight exposure to the technology hardware sector. Similarly, we may consider reallocating some divestment proceeds towards ASML which we think is another attractively priced semiconductor producer already held by the Fund.

Elsewhere, we increased our position in HDFC Bank that has been a core holding for many years. We also exited Trip.com, given China's post-COVID tourism recovery has not been as buoyant as expected.

A cautious approach to investing in China

China remains at the forefront of investors' minds, and the team has been cautious towards this market for some time. The summer of 2023 saw the government introduce more assertive policy support, which prompted a mixed reaction from the market. Some investors interpreted these moves positively, while others were more muted.

Ultimately, the market must distinguish between the current economic cycle and fundamental drivers. Over the short term, a cyclical rebound is possible, but the long-term structural issues underpinning our caution have not changed. In essence, we believe there is too much debt in the system and insufficient growth, translating into soft consumer inflation data, falling interest rates, and currency weakness. These are the potential symptoms of debt deflation within the market.

However, interesting investment opportunities do exist, particularly in the consumer staples and discretionary sectors. But there's no rush for us to make significant investments in China, especially as stock valuations, although drifting lower, are still not attractive.

Underlining our high-conviction positions

Despite our cautious approach towards China, we still invest with conviction in several companies. The first is Focus Media, a media business specialising in digital signage. It is currently delivering relative outperformance and gaining advertising market share. Furthermore, the company is increasing its average selling prices, which boosts our investment thesis. In financial terms, the business has a robust balance sheet, and the management team is potentially exploring capital management initiatives. Also, the firm's share price remains attractively valued, with the potential for further upside.

Within the housing construction and infrastructure segments, the Fund has a relatively high weighting in SK SHU Paint, a waterproof system service provider and paint manufacturer. Our analysis points to a trough in primary demand within the housing market. What may surprise investors is the growth potential of the secondary housing market in China. Given the unsettling conditions of the past few years, the purchase and sale of existing homes is a more appealing alternative for some people. When people buy existing houses, there's a good chance they will decide to refurbish the property, supporting the businesses above. Indeed, this thesis is playing out, with the relative performance of both firms heading in the right direction.

Fair valuations and upbeat expectations for 2024

The outlook for 2024 will be challenging as the market will continue to grapple with inflation, high interest rates, and currency spikes and troughs. We also expect interest rates to remain higher for longer or until these elevated levels can no longer be sustained. In stock terms, valuations in Asia Pacific ex-Japan look broadly fair in terms of multiples, margins, and returns. Some countries, like India, are expensive outliers, while China is becoming cheaper. All things considered, our expectations for 2024 remain high.