Fund perspective

Fidelity Asia Fund

Anthony Srom, Portfolio Manager

Gary Monaghan, Investment Director

January 2023

Key points

- 2022 was a difficult year for the portfolio, but we retain conviction in the stocks we own. Portfolio turnover has been low over the last 12 months.
- China is our largest country overweight, and we have added to existing positions. The easing of Covid policies has benefitted our China holdings such as Trip.com.
- We are underweight India as the market as a whole has looked relatively expensive for some time.
- We maintain exposure to several chipmakers and semiconductor manufacturers. Sentiment towards technology as a whole has been weak, but long-term tailwinds remain in place.
- The Fund doesn't have a great deal of exposure to longer duration growth stocks, in particular Chinese internet names.
- We focus on companies with solid balance sheets, have good products and trade at a valuation where the risk reward looks attractive.

Performance

Performance − Fidelity Asia Fund

MSCI AC Asia ex Japan Index (Net) (AUD)

Period	Fund (%)	Index (%)
1 year	-14.77	-13.88
3 years	4.18	-0.27
5 years	7.64	2.23
10 years	12.91	8.07
15 years	6.90	4.21
Since tenure	12.4	7.2

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.

2022 was a tough year for investors. How did the portfolio fare?

Last year was a difficult year for performance, with the portfolio underperforming its comparative index. We saw so much macro volatility relating to the war in Ukraine, monetary policy moves and China's Zero Covid Policy (ZCP). Looking back, we delivered reasonably strong outperformance in Q2 and Q4, but this was offset by more difficult times in Q1 and Q3.

What changes have you made to the portfolio in this environment?

Despite this tough backdrop, we retain conviction in the stocks we own, and portfolio turnover has been low. China is our largest overweight, and we were adding to positions in 2022 given weak market sentiment and low valuations. We believe there are several mispriced opportunities in China when taking a longer-term view of these businesses.

At the stock level, key holdings include Focus Media, which is a display advertising company in offices, shopping malls and cinemas with a dominant market share and operates in a duopoly market structure. The company was added last year following a decision to rotate out of Tencent. These two stocks are highly correlated as advertising revenues are a key driver and, after weighing up their respective merits, we identified a better risk-reward profile in Focus Media.

Travel company Trip.com is a relatively new addition. China's ZCP was obviously a major headwind for travel bookings but we took the view that this would ease and the stock is ideally positioned to benefit from re-opening of the domestic Chinese economy and its borders. This has actually played out quicker than we anticipated, and a number of re-opening related companies have also bounced back strongly, including holdings such as AIA. A key business segment for AIA is mainland Chinese taking out Hong Kong dollar or US dollar policies when in Hong Kong, and there are expectations that this will come back with the easing of ZCP.

What's your view on India?

We are underweight India as the market as a whole has looked relatively expensive for some time. On a multi-decade view, the market is now around peak valuation levels and margins are not particularly attractive, so in some ways you are being asked to pay up for not particularly attractive fundamentals. Investors have started to recognise this as of late and we have recently seen a rotation away from India into more attractively valued areas such as China.

The portfolio has a couple of holdings in India, including private hospital network operator Fortis Healthcare. This was a relatively opportunistic addition last year as the stock fell significantly over the course of just a couple of days for non-fundamental reasons. We like Fortis Healthcare's long-term prospects, and its valuation looks attractive compared to competitors such as Apollo Hospitals.

How is the portfolio exposed to interest rate moves?

One of the most exposed names in the portfolio would be power tools manufacturer Techtronic. Listed in Hong Kong, it has significant exposure to US property. It has suffered as investors have become more concerned over the outlook for the sector given the Federal Reserve's aggressive hiking path and the implications for US mortgage rates.

We have been adding to the company through this period of market weakness and it remains a meaningful active position today. The journey hasn't been smooth but the stock looks to have bottomed out towards the end of 2022 and we now look to have gone past the trough in terms of earnings downgrades.

Techtronic should benefit from the long-term need for more housing, while any infrastructure projects will see increased demand for power tools from contractors. It has also done a very good job in taking the market lead in cordless power tools, an area that is gaining market share among construction workers.

How is the weak global macro picture informing your view on technology given the portfolio's exposure to the sector?

Technology is the largest absolute sector position, with our holdings focused in chipmakers and semiconductor manufacturers such as TSMC, ASML, SK Hynix and MediaTek. This has been a relative drag on performance of late due to general concerns over IT inventory and budget cuts and a slowdown in demand for semiconductors, especially for chips used in personal computers and smartphones.

We maintain a high degree of conviction that the long-term tailwinds for these holdings remains strong, underpinned by the global shift towards semiconductor-intensive areas such as high-powered computing, electric vehicles and artificial intelligence. In the near-term, we've continued to see some weakness in results but we believe that a lot of negativity is in the price and we see potential for an improving operating environment in the second half of this year.

What are the key risks you are monitoring?

The Fund doesn't have a great deal of exposure to longer duration growth stocks – particularly Chinese internet names – and 'growth' stocks would probably benefit most from any easing of rates and subsequent improvement in sentiment. The counter to this is that we don't think companies such as Alibaba and Tencent are the same companies that they used to be given the regulatory changes we have seen in the areas they operate.

It is also possible that we could see a more severe recession or economic downturn than many market participants are expecting. This kind of outcome is not reflected in current valuations. Lastly, everyone wants to put Covid to the back of their mind and move on from the difficulties we have all experienced over the last three years. Things are looking better at the moment, but we can't rule out a mutation of some sort which sets us back and this is a risk factor that we continue to analyse. As a result, we focus on companies with solid balance sheets, have good products and trade at a valuation where the risk-reward looks attractive.

Learn more at fidelity.com.au