



The case for Asia

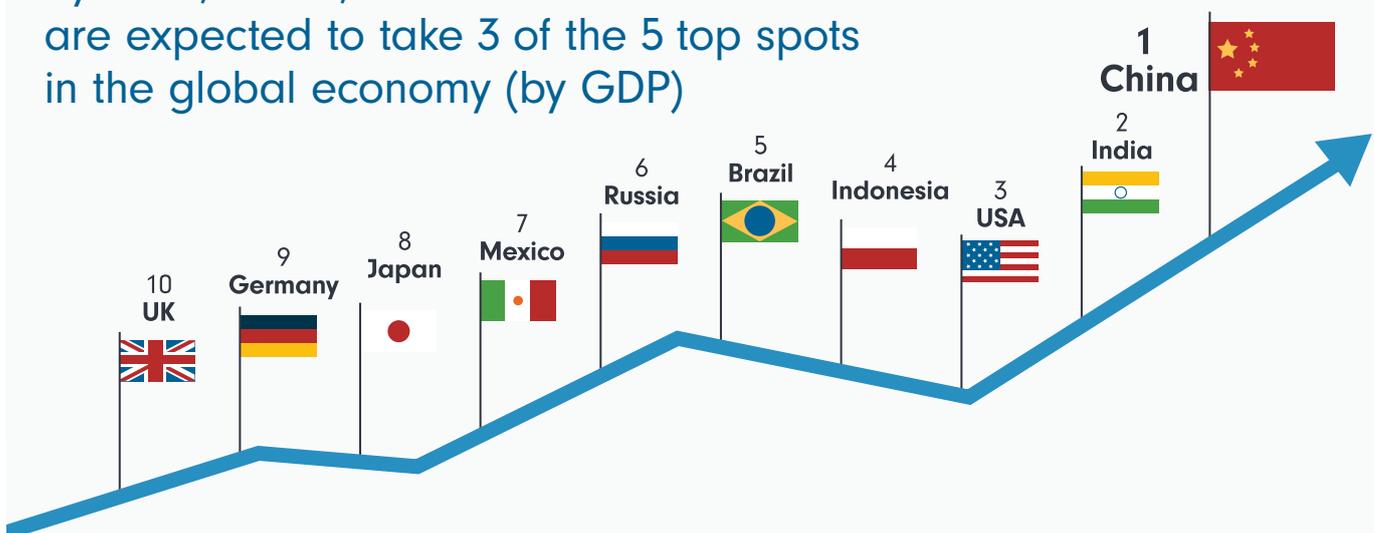
A multi-faceted region offering exposure to innovation and growth.

In the last two decades, Asia has become a powerhouse of global growth. Demographics and digitalisation are fuelling a boom economy that's expected to continue for decades to come. However, this complex and dynamic collection of markets also brings the challenges and opportunities of volatility. An active allocation to Asian equities offers the potential to harness this growth and seek resilient, risk-adjusted returns as the growth story of this region unfolds.

“The last five years have been quite challenging. Markets in this region have been volatile, particularly China and that presents opportunities we’ve taken advantage of.”

Anthony Srom, Fidelity Asia Fund Portfolio Manager

By 2050, China, India and Indonesia are expected to take 3 of the 5 top spots in the global economy (by GDP)



Source: The world in 2050, GDP at Purchasing Power Parity from 2016 levels, PWC, February 2017.

Asia is home to 60% of the world's population (4.5 billion people)¹



China
1.42 billion



India
1.37 billion



Indonesia
269.5 million



Pakistan
204.5 million

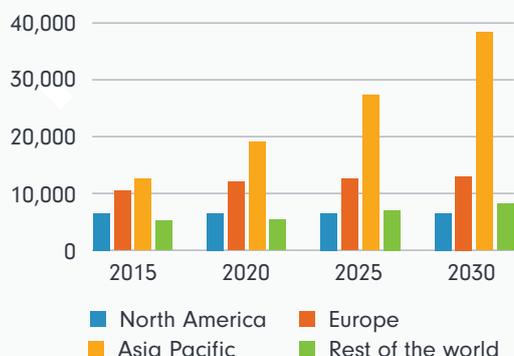
How demographics and technology are driving growth

With more and more people being lifted out of poverty, income levels across Asia are also increasing. This rise in the middle-class population is expected drive significant demand for goods and services in the region during the next three decades.

As a region at the forefront of the technology industry, the digital revolution has brought even greater momentum to Asian economies. In the last 20 years, technology innovation has accounted for nearly a third of Asia's per capita growth². For investors, the Asian technology sector can be an excellent way to capture returns coming from growth in consumption. It can also work well as a defensive portfolio allocation at a time when wider global equities markets appear to be reaching their peak.

Asian middle-class spending is trending far ahead of other regions³

Spending by Asian middle-class is forecasted to top US\$35 trillion by 2030



Source: The Brookings Institution, The Unprecedented Expansion of the Global Middle Class, 2017.

Are investors missing out on Asia?

In spite of the strong economic and demographic trends we're seeing in this region, Asian companies are underrepresented in global equity indices. In the MSCI AW Index, for example, Asian stocks make up just 10.2% of the index⁴. When you consider that indices like this are used as benchmarks, many investors can expect to be underweight in their allocation to Asian equities.

The Asian investment universe

In the last twenty years, we've seen a dramatic shift towards emerging economies in the Asian region. China and South Korea have taken over the top two slots in the MSCI AC Asia ex Japan index. These two countries now make up more than half the index, compared with a modest 5% share back in 1998⁵.

An ever-changing economic landscape

At the stock and sector level, we've also seen the rise of emerging economies, with Chinese internet giants Baidu, Alibaba and Tencent snapping at the heels of their FAANG (Facebook, Apple, Alphabet, Netflix, Google) counterparts in the US. But these large cap players are just a part of the tech enterprise movement in Asia. There has been a recent surge in new digital businesses that don't yet feature in broad market indices. Investors looking to capitalise on tech innovation and growth in the region need to look beyond established stocks and indices.

Four of the MSCI AC Asia ex Japan top ten holdings come from the financial sector, which speaks to the importance of this industry in the Asia growth story. With only one developed country (Hong Kong) currently represented in the top ten, we see a region continuing to evolve as a diverse collection of economies and industries with much to offer investors.

While this view may present investors with potential for higher growth, volatility in the region can be expected to continue. Greater diversification and strong fundamentals in selected stocks are essential to positioning portfolios to ride out ups and downs in the region, and the global economy overall.

MSCI AC Asia ex Japan Index top 10

Tencent Holdings	China	Communication services
Alibaba Group	China	Consumer discretion
Samsung Electronics	Korea	Information Technology
Taiwan Semiconductor MFG	Taiwan	Information Technology
AIA Group	Hong Kong	Financials
China Construction Bank	China	Financials
Ping An Insurance	China	Financials
China Mobile	China	Communication services
Housing Dev Financial Corp	India	Financials
Reliance Industries	India	Energy

Source: MSCI AC Asia ex Japan index, top 10 companies as at 28 June 2019.

The active advantage for risk and return

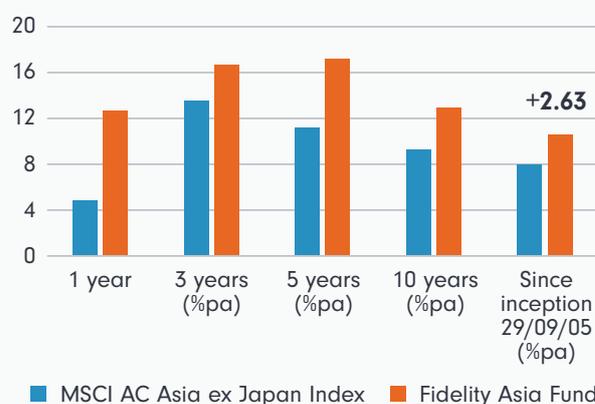
The Fidelity Asia Fund holds a concentrated high conviction portfolio of 20-35 companies across Asia. Portfolio Manager Anthony Srom is backed by a 400 strong team of investment professionals worldwide. Together they explore the whole Asian equities universe to find the best ideas to include in the Fund.

As well as applying disciplined analysis to picking these best ideas, the portfolio is carefully weighted for diversification across countries, sectors and companies. This further supports our goal of delivering sustained returns and managing downside risk for investors.

Recommended as a long-term holding, we aim to outperform the benchmark over a five to seven-year timeframe.

Delivering returns to investors for more than a decade

Net returns of the Fidelity Asia Fund to 30 June 2019



Taiwan Semiconductor Manufacturing Company: leading the field in chip technology

Taiwan Semiconductor Manufacturing Company (TSMC) has been at the forefront of chip design since the early 1980s. Today TSMC dominate the outsourced semiconductor industry and enjoy more than 50% market share. They supply the world's leading technology companies including the biggest brand of all - Apple. 2018 saw their seventh consecutive year of record revenue and an increase of 5.5% on the previous year. Their R&D investment in 2018 was US\$2.8 billion, and they have an ongoing commitment to sustainability and corporate social responsibility⁶.

A consistent focus on developing a sophisticated and large-scale manufacturing capability has enabled the business to benefit from growing demand for their product. Providing chips for a wide range of devices has broadened their expertise, keeping them one step ahead of competitors in the race to release the next generation of chips. The company is well positioned to reap the benefits of new technology megatrends such as Artificial Intelligence and 5G networks.

Expert access to the best investment opportunities in Asia

Fidelity has been on-the-ground in Asia for over 40 years. This extensive track record in the region provides our Fidelity Asia Fund Portfolio Manager, Anthony Srom, with a truly unique and independent view of the factors shaping returns from Asian companies. Based in Singapore, Anthony joined Fidelity in 2006 and has 21 years of investment experience.

With the Fund's concentrated, high conviction approach, Anthony and his team have more time to focus on specific stocks to truly understand the key drivers of potential returns. This strategy also provides greater opportunity for each holding to significantly contribute to overall fund performance.

Anthony follows a strict framework for stock selection, based on three variables he believes drive stock performance: company fundamentals, market sentiment and current valuations. Based on careful consideration of these three key inputs, Anthony aims to bring the best ideas in the region into the portfolio and manage the risk around it.

Like to know more?

If you'd like to know more about the Fidelity Asia Fund, visit our website or call or email our Client Services team.

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1 worldometers.info/population/countries-in-asia-by-population 2 IMF Data, The Digital Revolution in Asia, April 2019. 3 The Brookings Institution, The Unprecedented Expansion of the Global Middle Class, 2017. 4 Fidelity International/MSCI All Worlds Index, 30 June 2019. 5 MSCI, Bloomberg, Fidelity International, June 2019. MCSI AC Asia ex Japan Index (MXASJ Index) geographical composition. 1998 data as of 30 June 1998, 2018 data MSCI fact sheets for June 2019. 6 TSMC Annual Report 2018.

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 tax. Returns of more than one year are annualised. The return of capital is not guaranteed.

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