

# Fidelity Asia Fund Update

July 2019

**Anthony Srom, CFA**  
Portfolio Manager

This material is intended for the general information of advisers and wholesale investors only, and should not be relied upon by retail investors.

# Portfolio Manager Profile

Anthony Srom



**Based in:  
Singapore**

**Years of Investment  
Experience: 22**

**Education:**

**B.Comm., Bond  
University, Queensland,  
Australia**

**CFA Charterholder**

Funds Managed		Total AUM: US\$1,811m	
Fidelity Asia Pacific Opportunities Fund	US\$396m	Sep 2014 – Present	
Fidelity Funds – Asian Pacific Opportunities Fund	US\$371m	Jun 2014 – Present	
Fidelity Asia Fund	US\$214m	Jun 2014 – Present	
Fidelity Korea - Asia Equity Investment Trust	US\$457m	Jun 2014 – Present	
Asia Pacific ex Japan institutional segregated mandates	US\$373m	Nov 2016 – Present	
Asia Pacific ex-Japan Pilot Fund		Mar 2012 – Jun 2014	
Fidelity Funds – Thailand Fund		Apr 2008 – Mar 2012	
Experience at Fidelity			
Portfolio Manager, Singapore		2015 – Present	
Investment Analyst / Country Fund Manager, Singapore		2008 – 2014	
Investment Analyst, Singapore		2006 – 2008	
Previous Experience			
Transport Analyst, ABN Amro, Sydney, Australia		2004 – 2006	
Transport Analyst, Goldman Sachs JBWere, Melbourne, Australia		2002 – 2004	
Transport Analyst, Deutsche Bank, Sydney, Australia		2001 – 2002	
Assistant Analyst, Deutsche Bank, Sydney, Australia		1997 – 2001	

Source: Fidelity International, data as of 30 April 2019.

# Portfolio Characteristics

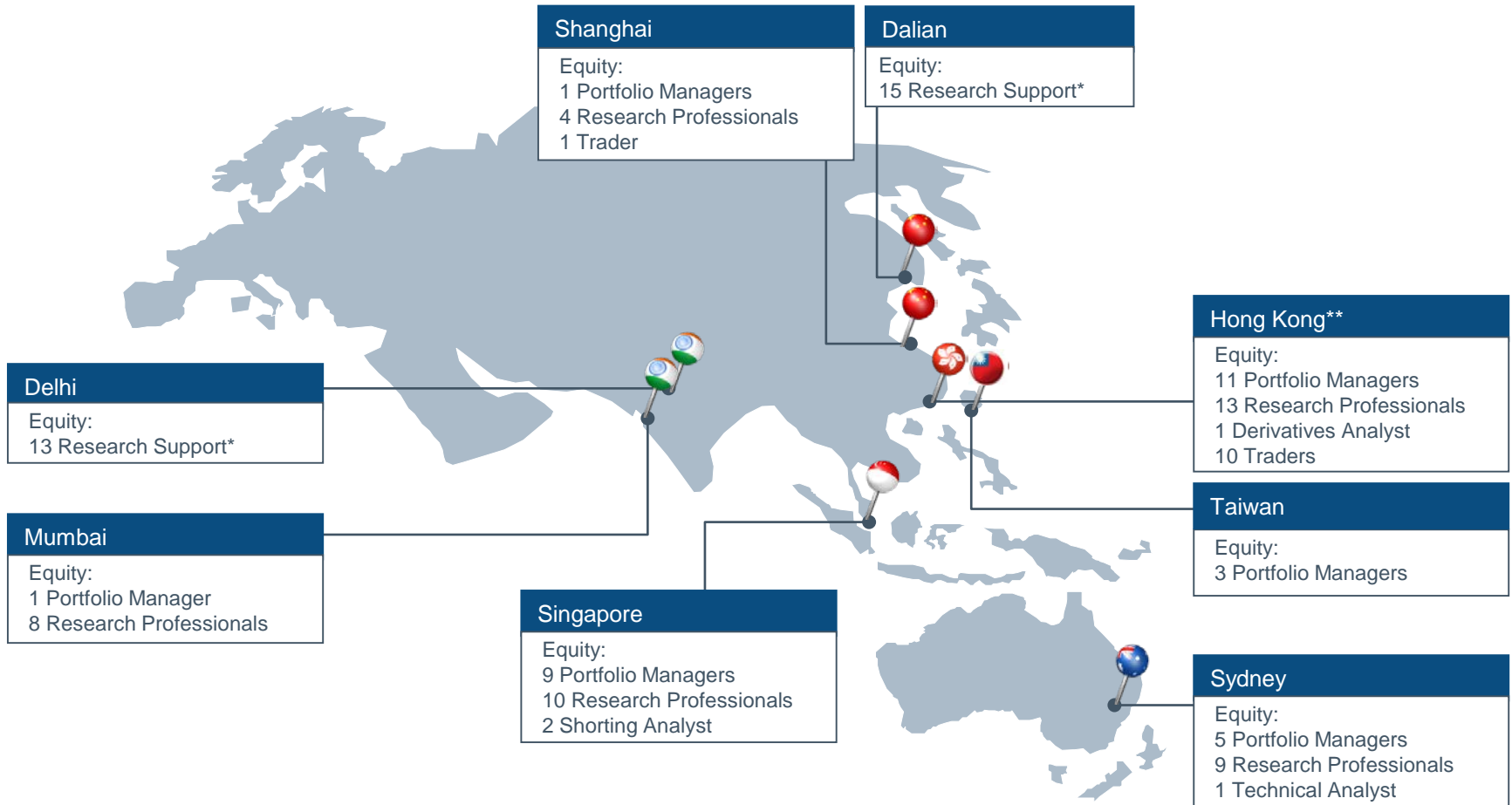
- Concentrated → high active money
- Diversified → lower volatility
- No deliberate style bias

Item	Metric	Comment
<b>Number of holdings</b>	Typically 20 - 35 stocks	Aim to hold half a dozen names >400bps relative to the index sized by level of conviction
<b>Maximum stock position</b>	Will hold up to 10% 'active' in the highest conviction ideas	Prepared to hold 0% of large caps in the benchmark (e.g. Samsung Electronics)
<b>Maximum sector position</b>	+/- ~20% relative	Need to differentiate between 'benchmark' position and 'economic' positions.
<b>Maximum country position</b>	+/- ~20% relative	
<b>Active money</b>	Typically ~90%	An outcome of portfolio management
<b>Ex-post tracking error</b>	4 - 8%	Aim for portfolio diversification via regular risk assessment
<b>Portfolio beta</b>	An outcome of stock selection, but has generally been below 1	There is no target beta
<b>Peer analysis</b>	Stock overlap with competing funds	0 – 20% vs external funds 10 – 25% vs. Fidelity funds

Source: Fidelity International.

# Research Resource

## Significant Breadth and Depth Across the Asia Pacific ex Japan Region



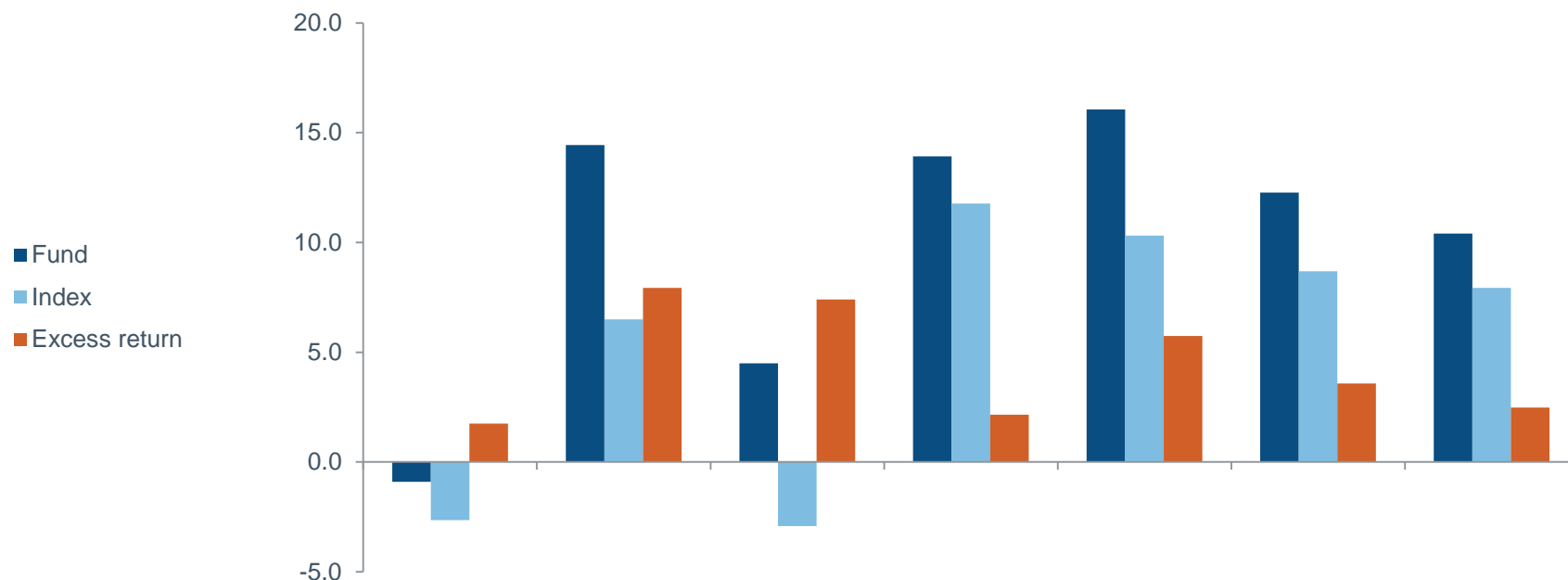
Source: Fidelity International, 31 March 2019. Data is un-audited. Research professionals include equity analysts and associates

\* Also referred to as Research specialist

\*\* Hong Kong: Portfolio managers include 2 multi asset portfolio managers

# Net performance

As at 31 May 2019



	3 month (%)	6 month (%)	1 year (%)	3 year p.a. (%)	5 year p.a. (%)	10 year p.a. (%)	Since inception p.a. (%)
Fidelity Asia Fund	-0.9	14.4	4.5	13.9	16.1	12.3	10.4
MSCI AC Asia Ex Japan NR AUD	-2.6	6.5	-2.9	11.8	10.3	8.7	7.9
<b>Excess return</b>	<b>1.7</b>	<b>7.9</b>	<b>7.4</b>	<b>2.2</b>	<b>5.7</b>	<b>3.6</b>	<b>2.5</b>

**Past performance is not a reliable indicator of future results. This fund invests in overseas markets and the value of investments can be affected by changes in currency exchange rates.**

Source: Fidelity International, as of 31 May 2019. The index is the MSCI AC Asia ex-Japan Index NR. 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. The Fund was launched on 29 September 2005 and the since inception data reflects this start date. Portfolio Manager tenure since 1 June 2014.

# Country Positioning

31 May 2018

Country	Portfolio weight (%)	Relative weight (%)
Hong Kong	17.2	6.1
India	13.8	4.5
Indonesia	5.9	3.6
Taiwan	14.5	1.7
Pakistan	0.0	-0.1
Philippines	0.4	-0.6
Malaysia	0.0	-2.6
Thailand	0.0	-2.6
Singapore	0.0	-4.0
China	32.1	-5.1
Korea (South)	6.4	-10.4
Cash	9.6	9.6

30 Nov 2018

Country	Portfolio weight (%)	Relative weight (%)
China	46.6	10.8
Hong Kong	20.5	9.5
Indonesia	2.9	0.3
Pakistan	0.0	-0.1
Philippines	0.3	-0.9
India	8.1	-2.4
Malaysia	0.0	-2.7
Thailand	0.0	-2.8
Taiwan	10.1	-3.0
Singapore	0.0	-4.4
Korea (South)	3.7	-12.3
Cash	7.9	7.9

31 May 2019

Country	Portfolio weight (%)	Relative weight (%)
China	46.9	10.5
Hong Kong	17.5	5.8
Indonesia	3.2	0.7
Pakistan	0.0	0.0
Philippines	0.2	-1.2
India	8.6	-2.5
Malaysia	0.0	-2.6
Taiwan	10.2	-2.7
Thailand	0.0	-3.4
Singapore	0.0	-3.8
Korea (South)	3.7	-10.5
Cash	9.7	9.7

Overweight Underweight

Source: Fidelity International, data as at 31 May 2019. Index is the MSCI AC Asia ex Japan Index NR. Holdings can vary from those in the index quoted. Numbers may not sum due to rounding.

# Key geopolitical risks

Trade War

Potential cold war  
containment

Fight for liquidity  
globally –  
China not winning

**Requires being patient for opportunities  
particularly after Q1**

# Technological global supply chain impact





















- Fund positioning is staying out of companies which will be impacted
- Looking for domestic opportunities caught up in sell down
- China is a massive and growing market
- Stocks include Hangzhou Hikvision & Kweichow Moutai
- ASML - supplier of componentry to manufacturer - revenue derived from APAC.

References to specific securities should not be construed as a recommendation to buy or sell these securities and may not represent actual holdings in the portfolio at the time of this viewing.



# Top / Bottom 10 Active Positions

As at 31 May 2019

Security Name	Sector	Country	Portfolio (%)	Index (%)	Relative (%)
Kweichow Moutai	Consumer Staples	China	9.1	0.1	 9.0
HDFC Bank	Financials	India	8.6	0.0	 8.6
AIA Group	Financials	Hong Kong	9.5	2.5	 7.0
China Petroleum and Chemical Corporation	Energy	China	6.6	0.4	 6.2
BOC Aviation	Industrials	China	5.5	0.0	 5.5
Han's Laser Technology Industry Group	Industrials	China	4.6	0.0	 4.6
Sun Hung Kai Properties	Real Estate	Hong Kong	5.1	0.6	 4.5
Shandong Gold-Mining	Materials	China	4.2	0.0	 4.2
Taiwan Semiconductor Manufacturing	Information Technology	Taiwan	8.0	4.1	 3.8
Midea Group	Consumer Discretionary	China	3.8	0.0	 3.8
Hong Kong Exchanges and Clearing	Financials	Hong Kong	0.0	0.8	-0.8 
Industrial and Commercial Bank of China	Financials	China	0.0	1.1	-1.1 
Housing Development and Finance Corp	Financials	India	0.0	1.1	-1.1 
China Mobile	Communication Services	China	0.0	1.2	-1.2 
Reliance industries	Energy	India	0.0	1.2	-1.2 
Ping An Insurance Group of China	Financials	China	0.0	1.5	-1.5 
China Construction Bank	Financials	China	0.0	1.7	-1.7 
Samsung Electronics	Information Technology	Korea (South)	0.0	4.4	-4.4 
Alibaba Group Holding	Consumer Discretionary	China	0.0	4.8	-4.8 
Tencent Holdings	Communication Services	China	0.0	5.3	-5.3 

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Source: Fidelity International, data as at 31 May 2019. Data shown relates to the Fidelity Asia Fund. Comparative Index: MSCI AC Asia ex Japan NR. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity International.

# Renminbi & stock selection

- Model of China in past has been trade surpluses that's been monetized and turbo charged economy
- Opposite now with capital inflow into China and trade almost zero
- Need to liquidate treasuries
- Growth is slowing, GDP growth is slowing
- Will require QE stimulus and downward pressure on the currency OR
- Keep currency stable - which is unpalatable
- Further devaluation is likely

# The Process in Action

## Kweichow Moutai



### Fundamentals



- A 'franchise' stock like Coca Cola.
- Net cash balance sheet, real pricing power evidenced by a long history of rising DPS.

### Sentiment

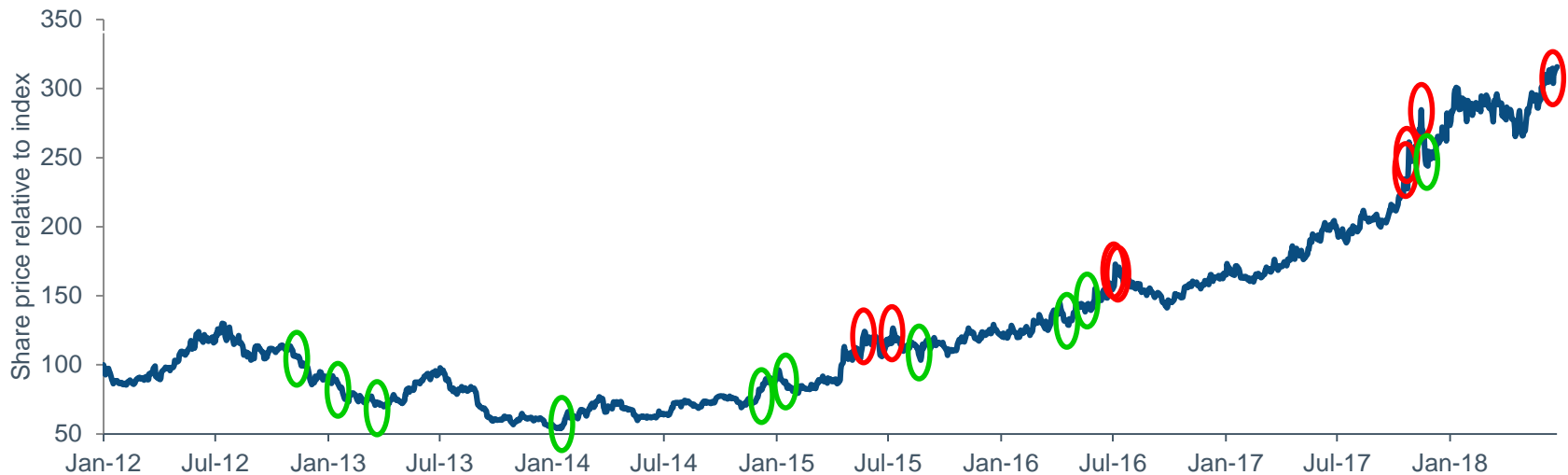


- Highly negative due to corruption crackdown & subsequent inventory overhang.

### Valuation



- Supportive using P/E Relative to the market and EV/TFE versus expected returns.



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Source: Bloomberg as at 1 July 2019. For illustration only. Green circles indicate when more than 50bps of the stock was bought, red circles indicate when more than 50bps of the stock was sold. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity International. Past performance is not indicative of future performance.

# BOC Aviation

## Asia's only listed aircraft lessor



- Only listed aircraft lessor in Asia means it is not a well understood business in the region
- Good management team and backed by Bank of China
- Funding cost advantage vs peers
- Boeing 737 Max issues => market concerns on volume growth for new aircraft
- Expect this to be a short-term issue => added



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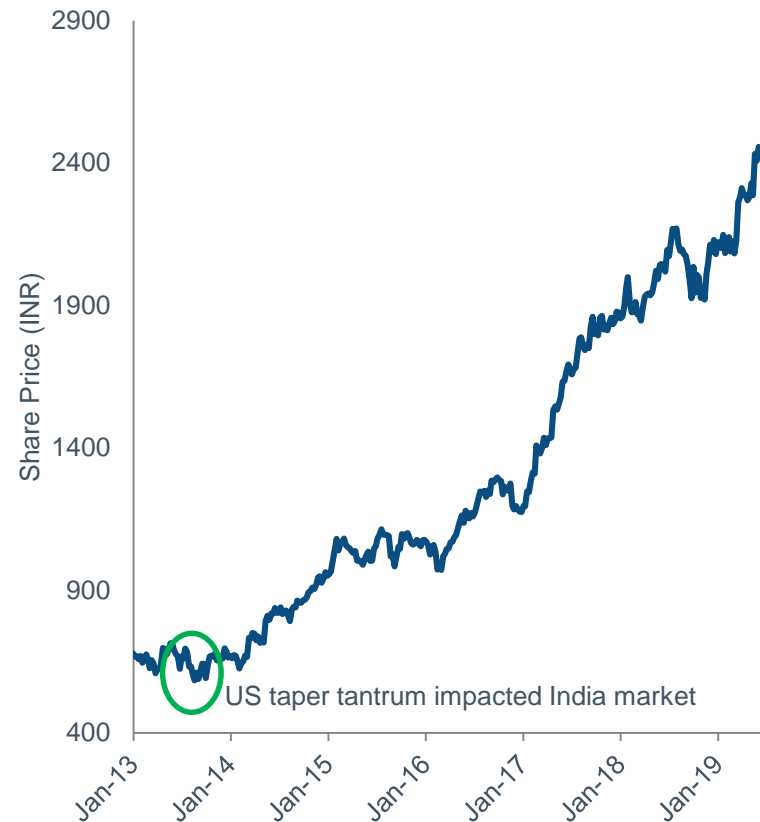
Source: Thomson Reuters Datastream as at 1 July 2019. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity International. Past performance is not indicative of future performance.

# HDFC Bank



## India's largest non-state owned bank

- High quality management team
- Commercially minded when pricing risk vs state-owned banks => lower non-performing assets on balance sheet
- Low cost of funding a competitive advantage
- Leading technology for business operation and customer offerings => more customers in an increasingly digit savvy market
- Gaining market share, especially in rural India



Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Source: Thomson Reuters Datastream as at 1 July 2019. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity International. Past performance is not indicative of future performance.

# Investment Philosophy

## Concentration through stock selection

- More time to understand what matters
- 20 - 35 positions
- Does not compromise diversification or risk management

## A contrarian view

- What is not priced in to the stock?
- How am I thinking differently to the market?
- Patience – the fortitude to tolerate potential performance ‘drag’ from being early

## Valuation anomalies

- Mostly come through a differentiated view of company and industry fundamentals
- Investor sentiment also plays a role

Source: Fidelity International

# Investment process

## Idea Generation

- Fidelity's global research network.
- Broker, stock and industry screens.
- Own ideas.

## Stock Selection

- Fundamentals, Sentiment and Valuation (FSV) drive performance.
- A 'one stock in, one stock out' mentality at the upper stock limit.
- How are we different to the market?

## Portfolio Construction

- Function of concentration being matched by a level of conviction fundamentals.
- Correlation, volatility, liquidity, country and sector weights play a role.
- Risk models.

**A bottom up fundamental approach; positions sized by conviction; diversified risk**

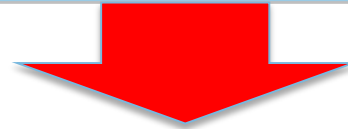
Source: Fidelity International

# The investment framework

## Framework summary

### Fundamentals

Earnings risk	Upside	Neutral	Downside
Direction of ROIC	Improving	Neutral	Deteriorating
<b>Sentiment</b>	Positive	Neutral	Neglect
<b>Valuation Multiples</b>	Cheap	Neutral	Expensive



Two lists of stocks

Ideas

Funders

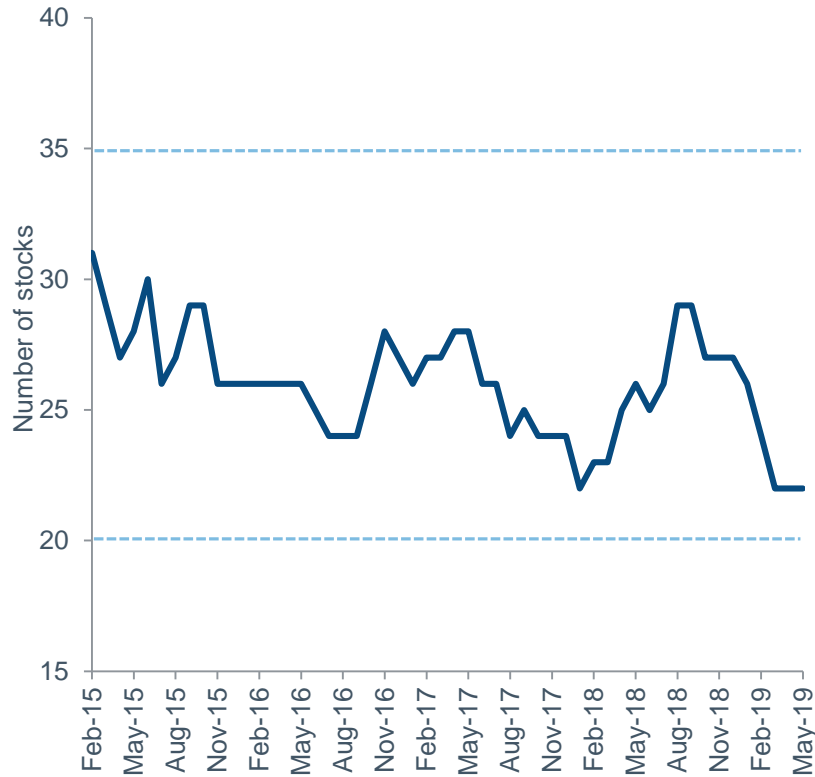
A 'one stock in, one stock out' mentality at the upper limit

Source: Fidelity International



# High Conviction Investing Outcomes

## Concentrated portfolio



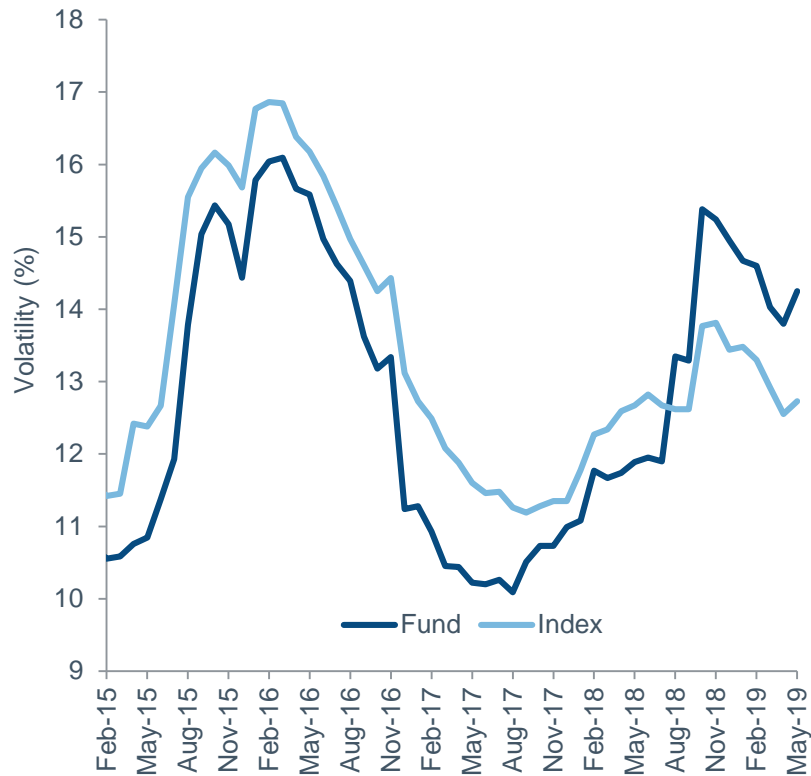
## High active money



Source: Fidelity International, as of 31 May 2019, The index is MSCI AC Asia ex Japan NR. Data shown relates to the Fidelity Asia Fund.

# But it does not always mean more risk

## Portfolio volatility vs index



## Beta below one



Source: Fidelity International, as of 31 May 2019, The index is MSCI AC Asia ex Japan NR. Data shown relates to the Fidelity Asia Fund.

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