Fidelity Funds – Emerging Asia Fund

Fund Perspective

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Should Emerging be your next destin-Asian?

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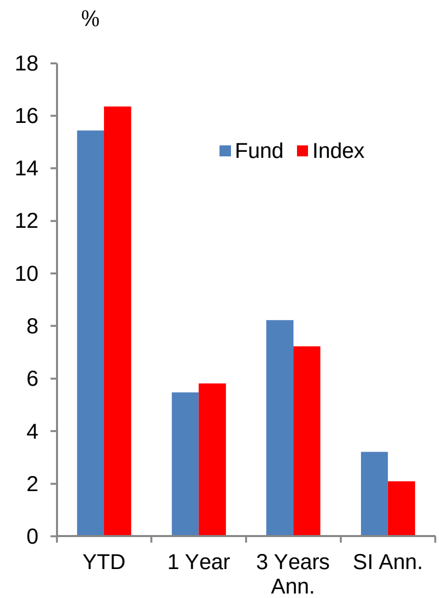
Teera joined Fidelity in 1994 as a research analyst. In 1998, he became a Portfolio Manager and took over FF Thailand Fund. Subsequently, he moved to the UK in 2004 to manage FF Global Telecommunications Fund. He relocated back to Hong Kong in July 2007 and began managing Emerging Asia portfolios.

Teera graduated from Chulalongkorn University, Thailand, with a Bachelor of Arts (Accounting). He also holds an MBA degree from the University of California, Berkeley, in the United States.

CUMULATIVE RETURNS (%)

as at 31.10.12



Source: Morningstar, NAV-NAV, gross income reinvested excluding initial charge in USD.

YTD=Year to date, SI= since Inception on 21.04.2008.

*3 Year and SI returns are annualised returns
Index: MSCI Emerging Asia Composite Index (Gross) – a customised index consisting of 1/3 India, 1/3 China and 1/3 Thailand/Indonesia/Philippines/Malaysia.

Teera Chanpongsang believes that careful evaluation of stock-specific prospects and regional diversification are key strategies for alpha generation in the dynamic macroeconomic and political landscape of emerging Asia. Indeed, positive stock selection has strongly contributed to the fund's superior returns compared to the index since inception. Going into 2013, Teera is confident that the growth opportunities in these markets will persist as a number of key structural drivers remain in place. These include the move from investment-led to consumption-led growth in China, ongoing reforms in India, the free-trade agreement among ASEAN nations and infrastructure spending that is underway in countries such as the Philippines and Indonesia. The FF Emerging Asia Fund offers an opportunity to tap into the region's growth potential while it has the ability to take advantage of the best opportunities within the 'true' emerging Asia.

YOU HAVE RECENTLY INCREASED YOUR POSITION IN CHINA. ARE YOU MORE CONFIDENT HERE FOLLOWING THE CONCLUSION OF THE LEADERSHIP CONTEST?

The contest reduces political uncertainty that has, in part, held back Chinese markets and the new leaders can now refocus on the five year plan, which drives China's economic setting. Recent underperformance is throwing up some interesting investment opportunities when comparing China to the rest of emerging Asia, especially in cyclical sectors such as financials and information technology. For instance, I recently established positions in **China Construction Bank** (CCB) and **Lenovo**. CCB has shown an ability to withstand the negative debt cycle and has better asset quality than its peers. Moreover, its valuations are attractive compared to regional peers. I also took advantage of weakness in the Chinese market to buy notebook manufacturer Lenovo. The company is gaining market share and is continuously improving its margins, particularly in emerging markets. The firm surpassed earnings expectations despite a slowdown in the personal computer space, which strengthens my conviction that the stock could be a winner in the medium term.

WHAT ARE YOUR VIEWS ON INDIA FOLLOWING RECENT REFORMS?

As expected, investors welcomed the much-awaited reforms in India. These included the decision to allow significant foreign direct investment in the retail sector and a reduction in the subsidy on energy. The reforms were largely aimed at reviving private investment and containing the country's fiscal deficit, two primary factors that have been weighing on India's GDP growth and investor sentiment. The real economic benefits will take time to set in and there is scope for the government to do more, especially at a time when growth is moderating and inflation remains a concern. If it does, it can catapult the economy to a high growth trajectory. I believe that valuations are still attractive and there is room for re-rating. For instance, I have a high-conviction holding in pharmaceutical exporter **Cipla** due to its low risk model of exporting through partnerships, without any front-end investment. Their inhaler product has high growth potential in Europe and other emerging markets. The company also has a strong domestic portfolio with continuous new launches.

HOW DOES CHINA MEASURE UP AGAINST INDIA?

I do not focus on one country versus the other; rather, I look at one company versus another and will invest where I see the best opportunity regardless of the country where it is listed. However, from a structural growth perspective both countries look attractive, but India still seems a bit behind China in terms of getting its house in order. Also, valuations in China are more attractive at the moment, but history shows that sentiment in China changes rapidly and the valuation gap can quickly close. As mentioned above, a regional fund allows me to compare the merits of, for example, a Chinese bank versus its Indian, Thai or Malaysian peers, then invest where I see the best outcome.

Fidelity™
WORLDWIDE INVESTMENT

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TOP 10 OVERWEIGHT HOLDINGS (%)

as at 31.10.12	Fund	Index
TENCENT HOLDINGS	3.4	1.8
HDFC BANK	3.7	2.4
INDUSTRIAL & COM BK OF CHINA	3.4	2.2
CIPLA	1.4	0.3
AMBUJA CEMENT	1.4	0.3
ULTRATECH CEMENT	1.4	0.4
GREAT WALL MOTOR	1.2	0.1
ICICI BANK	2.2	1.1
ADVANCED INFO SVC	1.6	0.6
BAIDU	0.9	-

Source: FIL Limited.
Index: MSCI Emerging Asia Composite Index (Gross)

Top overweights and underweights are those securities that had the largest active positions relative to the index. Holdings in different securities issued by the same company are aggregated, along with any exposure achieved by derivatives.

WHY IS MALAYSIA YOUR LARGEST UNDERWEIGHT POSITION?

Malaysia has a number of high-quality companies, but valuations look quite stretched, particularly versus other emerging Asia countries. I believe companies in China, Indonesia and Thailand offer better opportunities at present. Nevertheless, I have a position in telecommunications services provider Axiata as I believe it should benefit from its subsidiaries in growth markets. Apart from being a defensive holding, the stock is being re-rated and dividends are growing due to a rising payout ratio. This is also a play on frontier markets as the company operates in Malaysia, Indonesia, Sri Lanka and Bangladesh.

WHAT IS YOUR VIEW ON FRONTIER MARKETS AND ARE YOU INVESTING IN THEM?

These markets are very interesting, but also underdeveloped. A lot has been made recently of Myanmar, and while it is very interesting I do not think it is investable just yet. The Frontier markets are an exciting story, but as investors in Vietnam in 2010 found out, investing here does not come without large risks. I believe one must approach them with care as they are highly volatile and liquidity is an issue. I have some indirect exposure to these countries through companies such as Axiata and Siam Cement, a Thai-based company which exports throughout the region. My stock picking approach focuses on my view on risk and reward and, as such, I have not entered frontier markets yet and prefer to maintain indirect exposure to these areas.

WHERE ARE YOU CURRENTLY FINDING OPPORTUNITIES? COULD YOU GIVE EXAMPLES FROM THE PORTFOLIO?

I continue to favour cement companies, but get my exposure through India and ASEAN markets that are embarking on infrastructure building plans. I am also optimistic about certain engineering and construction firms in Indonesia and India due to this reason. The fund holds some overweight positions in banks amid growing credit demand throughout the region and favourable factors such as falling interest rates. I think India-based **HDFC Bank** has an excellent capital position and strong management. I consider this to be one of the highest quality stocks held in the portfolio.

I like IT names, particularly in China. For example, **Tencent** and **Baidu** are long-term winners with strong market positions that benefit from structural growth in internet usage. Another example within China is **Great Wall Motor**, the domestic leader in China's sports utility vehicles (SUV) market. I think it will see strong volume growth as it is a direct beneficiary of growing middle class demand while it currently trades at attractive valuations with double-digit earnings growth. Insurance, consumer staples and selected utilities in China also look interesting.

I maintain an underweight in the utilities and telecoms sectors. Within telecoms I am avoiding large incumbents like China Mobile, but I am interested in a number of ASEAN names. Thai telecommunication services provider **Advanced Info Services** is one of my top overweight positions as it provides attractive total returns comprising of consistent earnings growth and handsome dividend yields.

IS INFLATION A PROBLEM IN EMERGING ASIA?

Inflation has been sticky in China and India, mainly on account of food prices. Monetary policy has limited ability to correct such a phenomenon. However, inflation has come down from the levels seen in 2011 and it also appears to be under control in ASEAN countries. Overall, I think the risks due to inflation have subsided.

WHAT DOES 2013 BRING?

2013 promises to be an exciting time for Emerging Asia. There are many potential positive catalysts for the region: the outlining of policies from the new China leadership; the impact of India reforms; more ASEAN integration. On top of this we also have elections in Malaysia, further opening up of Frontier markets like Myanmar and continued post-flood reconstruction in Thailand. These short-term injections can add additional fuel to the long-term growth drivers in the region, which will continue unabated. I believe that concerns for economic growth across the region, especially China, are at their lows and, more importantly, companies will continue to grow. This, in turn, will improve investor sentiment towards the region. Many emerging Asia markets have witnessed over 20% growth so far this year, and while I can not predict market returns, I think that the companies will be in better shape next year than they are this year. This will hold them in good stead for the year ahead.

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