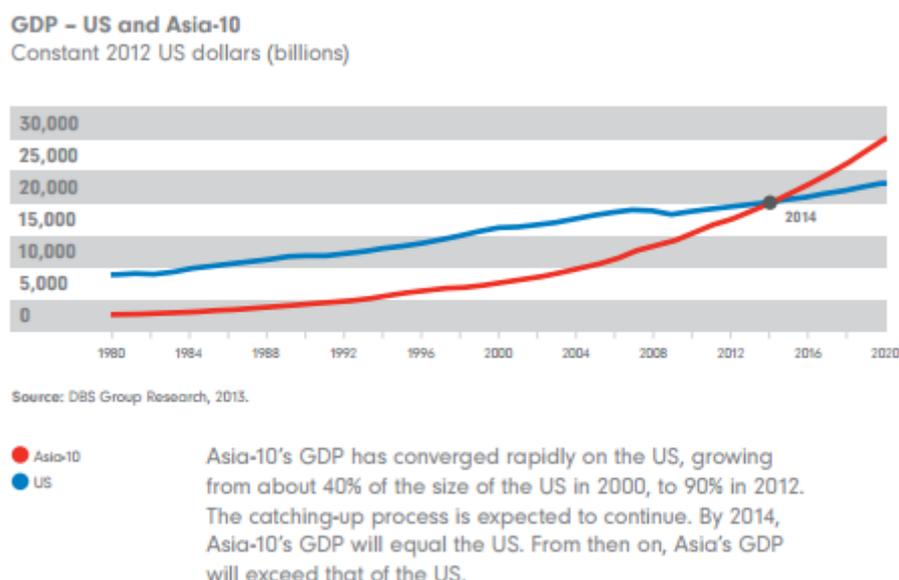


More tigers in the mix

While Asia has been rocked by the entry of China into the currency wars, we remain very positive on the region as an investment destination over the longer term. The growing urbanisation of a rising and wealthy middle class, with mounting disposable income, is a key thematic across many countries in the area. There has also been an overriding theme of reform, with bigger economies such as China and India leading the way, to shift the balance away from the old export driven model, towards a more domestic demand, domestic consumption-driven model.

This trend has already seen the combined GDP of the top ten countries in Asia overtake and pull away from that in the US.



Source: Fidelity Asia

While some Asian countries are going through a relatively weak patch in terms of growth, we expect to see ongoing policy responses (as we have seen in China, and also this week in India) to support economic expansion. Whilst some volatility may persist, we see the prospect of more easing by several countries in Asia as potentially setting up for a strong end to the year for stock markets in the region.

In looking at fund options to gain exposure to the Asian thematic we believe that the Fidelity Asia Fund is another strong play.

The Fidelity Asia Fund is a concentrated and actively managed fund with a flexible mandate, which results in returns that can deviate significantly from its benchmark. The Fund has an impressive track record of

outperformance over the medium term.

We are bullish on the Asian region longer term, and believe that recent volatility has set up an entry point into the Fidelity Asia Fund.

Accordingly, we are initiating coverage with a buy on the Fidelity Asia Fund.

Fat Prophets Managed Fund Overview - Fidelity Asia Fund

Fat Prophets Rating:	Low	Medium	High
Conviction			✓
Historical Performance			✓
Management		✓	
Risk			✓
Liquidity		✓	
Fee Reasonableness			✓
Minimum Investment	A\$25,000		

Fund Details

Strategy

The Fidelity Asia Fund is a concentrated, long-only, high conviction Asian equity fund.

The objective of the fund is to achieve returns in excess of the MSCI AC Asia (ex-Japan) Index over the medium term by investing in undervalued shares, derivatives and cash. The Manager uses bottom up stock selection to invest in up to a maximum of 35 holdings.

The Manager targets companies with a compelling business model, an above-average earnings growth rate relative to the sector, the ability to allocate capital resources effectively, a track record of increasing returns on equity over time and attractive valuations. Cash of up to 10% may be held when undervalued securities cannot be found and currently this sits at 8.8% of the fund.

Investors in the Fund can expect the Portfolio to contain listed companies based in the ten countries China, Hong Kong, Taiwan, Korea, Malaysia, Singapore, India, Thailand, Indonesia and the Philippines. **The Managers suggest the fund is appropriate for investors with a minimum time horizon of five to seven years.**

Management

The fund is managed by Anthony Srom who has been with Fidelity since 2006 and he has been the portfolio manager of the Asia Fund since June 2014. Prior to this Anthony managed the Fidelity Thailand Fund from April 2008 to March 2012 which returned 69.6%, 61.8% and 1.2% for the years 2009 to 2011 respectively.

He has also managed an internal Asia Pacific ex-Japan pilot fund and is based in Singapore so his investment experience in the Asian region is extensive.

Given his relatively short tenure at the helm of the Fidelity Asia Fund we cannot attribute the fund's past performance to Mr Srom's decision making, nevertheless we are satisfied with his track record of managing the Fidelity Thailand Fund and length of tenure with Fidelity.

When considering investing in a fund it is important to look further than the Portfolio Manager to also consider the depth of the resources available to them to draw upon for research. In this case the Portfolio Manager is able to tap into the knowledge of more than 30 research specialists and 50 analysts who specialise in Asian Equities and are on the ground in Asia. The team is located in Shanghai, Dalian, Seoul, Hong Kong, Taiwan, Singapore, Mumbai and Delhi. They are further supported by Fidelity's global research team of 100 equity research professionals.

Risks

Given the concentrated nature of the portfolio, the risks associated with investing in emerging markets and exposure to currency an investment in this fund should be considered to be at higher end of the risk spectrum. Given the Manager's track record and exposure to emerging market themes on which we are positive we feel investors should be adequately compensated for this risk.

The Fund is long only so doesn't have a mandate to be able to short sell securities.

The Fund is not hedged back to Australian dollars.

Fees and terms

The Fund's management expense is 1.15% per annum. This includes GST, administration and investment costs. There is a buy/sell spread of 0.4%.

The minimum investment is A\$25,000. Applications and withdrawals may be made every Sydney business day.

The fund may pay distributions annually on June 30. The last distribution on 30 June 2015 was \$1.18, with a reinvestment price of \$14.29 giving a running yield of 8.26%.

The fund size is relatively small, sitting at \$12.69 million as at August 31. A smaller fund can though be more agile in volatile markets with the ability to add to or liquidate positions without moving the market. It also opens up the opportunity to invest in less liquid stocks that would otherwise be deemed uninvestable by bigger funds, which increases the size of potential investment opportunities available to this fund.

Performance

The Fidelity Asia Fund has a robust track record of outperformance over the medium term but has seen exceptional outperformance over the past 5 years in particular.

Past performance net returns as at 31/08/15

Timeframe	1 mth %	3 mth %	6 mth %	1 yr % pa	3 yr % pa	5 yr % pa	7 yr % pa	Since inception (29/09/05) % pa
Fund*	-3.60	-4.79	0.52	19.95	21.75	11.76	7.64	8.88
Benchmark**	-6.59	-12.20	-5.85	10.75	16.63	7.74	6.85	7.22
Active return	2.99	7.41	6.37	9.20	5.12	4.02	0.79	1.66

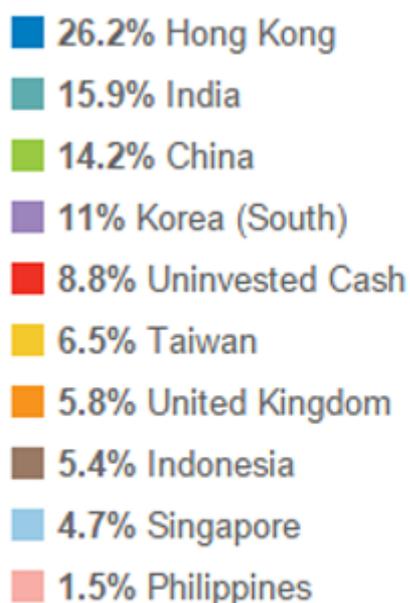
Source: Fidelity Asia

On a one year basis the fund has delivered a return of 19.95% which compares favorably to the benchmark (MSCI AC Asia ex Japan) which delivered 10.75%. This equates to an impressive 9.2% of outperformance.

While the quantum of this outperformance is unlikely to be sustained, looking further back to the three year and five year numbers we note the fund has outperformed the benchmark by 5.12% and 4.02% which on a per annum basis is very respectable.

The current positioning of the Fund illustrates how it holds a diverse portfolio across the Asian region. It is worth noting that the fund had cash of 8.8% as at the end of August. Given the recent volatility in the market and the long only nature of the Fund, holding cash helps mitigate the downside risk should shares become oversold and enable the Fund to take advantage of any significant buying opportunities when they arise.

By Country



Source: Fidelity Asia

The fund's top holdings by country are Hong Kong, India and China which fits well with our own investment view. While over a quarter of the fund is invested in Hong Kong it is important to note that many Chinese firms are listed in Hong Kong so it is likely the true exposure of the fund is more tilted towards China than the above chart indicates.

We like the 16% weighting towards India, which is undergoing structural reforms that will make the economy more competitive. Indeed India is set to overtake China to become the fastest growing large economy in the world at just over 7 percent p.a.

The fund has an 11 percent weighting in Korea, a market which is cheap at around 10 times earnings but has been feeling the pinch from a strong won. We see scope for further easing by the Korean authorities, and we are also looking for an appropriate entry point to recommend an exposure to the region. We have traffic lighted the South Korean ETF a couple of times in recent months.

Top 10 holdings as at 31/08/2015

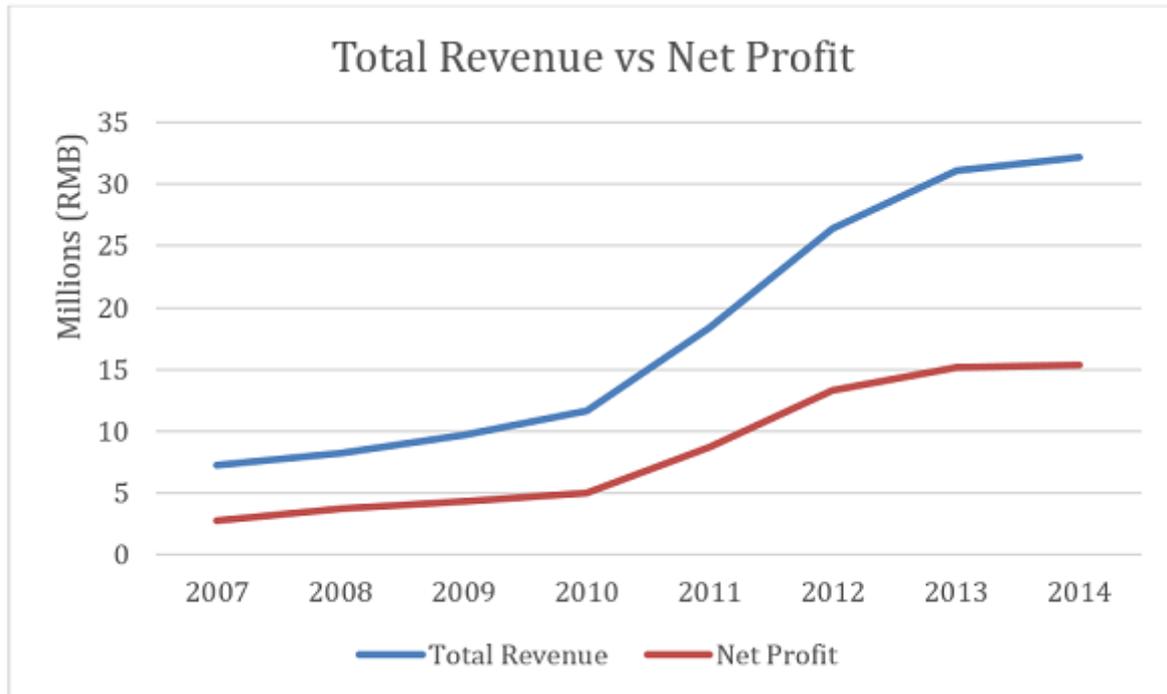
	% total net assets
Kweichow Moutai Co Ltd	7.3%
Taiwan Semiconductr MFG Co Ltd	6.5%
Prudential Plc	5.8%
Ck Hutchison Holdings Ltd	5.7%
HDFC Bank Ltd	5.5%
Sun Pharmaceutical Ind Ltd	5.0%
HSBC Holdings Plc	4.9%
Jardine Strategic Holdings Ltd	4.4%
Korea Elec Power Corp	4.2%
Bank Rakyat Indonesia Tbk Pt	4.1%

Source: Fidelity Asia

With a maximum of 35 holdings the Fund is very concentrated, with the top 10 holdings making up 53.4% of the fund.

The top 10 holdings are solid blue chip companies that are set to become some of the key beneficiaries of economic growth in the Asian region.

The largest holding is **Kweichow Moutai Company Limited** which is a large state owned enterprise in China specialising in the production and sales of Maotai liquor (white wine) with the annual output exceeding 10,000 tons. The company is currently trading on a PE of 15 and a yield of 2%, and is well placed to benefit from growth in demand for 'luxury' products like white wine. As can be seen in the below chart the trend is definitely encouraging with net profit tripling in the last five years to \$15 billion RMB in 2014 (US\$2.358 billion at today's exchange rate).



Source: Reuters

We note that some of the Funds top 10 holdings are also held in our Fat Prophets portfolios.

Taiwan Semiconductor Manufacturing Co Ltd is one of the leading semiconductor manufacturers in Taiwan. While not immune to the recent sell off in China, it has held up better than many of its peers, which we put down to its diverse customer base and leading market position. It is currently trading on an undemanding valuation of around 11.5 times projected earnings and an EV/EBITDA multiple of 5.6 times with a projected dividend yield of 3.2 percent.

We also have **HSBC** as a buy in our UK portfolio. While it has underperformed recently due to rising compliance and business restructuring costs we believe it is well positioned to capitalise on a recovery in economic activity in the region.

Sector breakdown as at 31/08/15

By Industry



Source: Fidelity Asia

In terms of sector allocation the portfolio is heavily weighted towards Financials, Industrials, Information Technology and Consumer Staples. These four sectors make up 67.8% of the portfolio. We expect the areas will ride the long term growth story in Asia well and we are comfortable with the weightings.

Summary

While the region has been rocked by the entry of China into the currency wars, Asia is an area we remain very positive on as an investment destination over the longer term.

The growing urbanisation of a rising and wealthy middle class, with mounting disposable income, is a key thematic across many countries in the area. **There has also been an overriding theme of reform, with bigger economies such as China and India leading the way, to shift the balance away from the old export driven model, towards a more domestic demand, domestic consumption-driven model.**

While some Asian countries are going through a relatively weak patch in terms of growth, we expect to see ongoing policy responses to support economic expansion. Whilst some volatility may persist, we see the prospect of more easing by several countries in Asia as potentially setting up for a strong end to the year for stock markets in the region.

In looking at fund options to gain exposure to the Asian thematic we believe that the Fidelity Asia Fund is a strong play. With the Fund's concentrated portfolio, research capability and 9 percent cash to call on to take advantage of the recent volatility, we are confident in the manager's ability to continue to outperform going forward.

Accordingly, we are placing a buy on the Fidelity Asia Fund.



Invest in the
Fidelity Asia Fund today!
 as well as over 700 Managed Funds on the
 new Super Prophets digital investment platform

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 help@superprophets.com.au



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Snapshot FAF

Fidelity Asia Fund

Latest Closing Price: \$13.62

The objective of the fund is to achieve returns in excess of the MSCI AC Asia (ex-Japan) Index over the medium term by investing in undervalued shares, derivatives and cash. The Manager uses bottom up stock selection to invest in up to a maximum of 35 holdings.

Investors in the Fund can expect the Portfolio to contain listed companies based in the ten countries China, Hong Kong, Taiwan, Korea, Malaysia, Singapore, India, Thailand, Indonesia and the Philippines. The Managers suggest the fund is appropriate for investors with a minimum time horizon of five to seven years.

Market Capitalisation: A\$12.69M

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