

Generating alpha in a low-growth world

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“In general, countries within the Asia Pacific ex Japan region are little impacted by the crisis in Japan given the limited degree of macro inter-dependency. In a low-growth world, uncovering lesser known winners in Asia that are benefiting from rising consumerism or climbing the value chain remains my key alpha generation strategy. Asia Pacific ex Japan remains an under-researched market with favourable demographics and therefore offers excellent stock-picking opportunities for bottom-up-focused managers.”

Joseph Tse, Portfolio Manager

IN YOUR PERSPECTIVE, WHICH COUNTRIES OR SECTORS IN ASIA PACIFIC EX JAPAN WILL BE IMPACTED THE MOST BY THE RECENT TRAGIC EVENT IN JAPAN? WHICH ONES WILL BENEFIT FROM THIS? DID YOU RE-POSITION YOUR PORTFOLIO IN LIGHT OF THIS?

In general, countries in Asia Pacific ex Japan are little impacted by the crisis in Japan given their limited macro inter-dependency with Japan. Sectors which will be affected included:

- **Nuclear Power** – The world may have to rethink their nuclear power plans following this tragic event. Nuclear plant builders in Korea and China may be among the most impacted. Moreover, uranium producers in Australia may also be hurt.
- **Alternative Energy** – Less nuclear supply in the future means more demand for traditional energy sources (e.g. thermal coal). There should be more demand for other alternative energy sources such as solar.
- **Technology parts and components** – Japan is a key supplier of some key technology parts and components. Some technology product supply chains may be negatively affected. Taiwanese technology players who rely upon Japanese inputs could also be impaired. On the other hand, if the yen were to strengthen meaningfully in light of this event, Korean exporters should benefit.

I did not meaningfully alter my positions following the Japan earthquake. I have very limited exposure to stocks that could be permanently hurt by the event. Meanwhile, I have no plans to buy stocks which may benefit from the crisis temporarily. Stocks that may benefit in the longer-term are currently expensive in valuation terms.

UNDER CURRENT MARKET CONDITIONS (E.G. RISING INFLATION IN A RECOVERING GLOBAL ECONOMY, SOVEREIGN DEBT DIFFICULTIES), WHAT TYPES OF COMPANIES ARE LIKELY TO EMERGE AS THE MARKET WINNERS? CAN YOU QUOTE ANY EXAMPLE?

Inflation seems to be rising around the world. I agree with the saying that the days of China exporting deflation to the OECD is over. From here on, China will likely export inflation to the rest of the world. This could prove to be a multi-year trend. If inflation is with us, interest rates will inevitably have to rise at some point. Higher interest rates are good for banks that have strong deposit franchises. HSBC, Hang Seng Bank and DBS Bank are prime examples.

WHAT IS YOUR VIEW ON CHINA'S 12TH FIVE YEAR PLAN? WHICH SECTORS WILL BENEFIT THE MOST FROM THIS?

In China, the objective of the twelfth Five-Year Plan is to shift China's emphasis from exports and investment towards consumption and from urban and coastal growth towards rural and inland development. The priority is to create a harmonious environment for sustainable growth by addressing more equitable wealth distribution, expanding domestic consumption and improving social safety nets. Sectors that are likely to benefit include consumer (especially for mass market), tourism, healthcare, services, new energy and so on. Thus, the consumption theme in China offers a huge growth potential for investors. My portfolio is positioned to benefit from the potential rising consumerism and lifestyle changes underway in the country and the region.

TOP 10 OVERWEIGHT HOLDINGS (%)

as at 28.02.11	Fund	Benchmark
Bank Of China Hong Kong Ltd	2.5	0.5
Tencent Holdings Limited	2.6	1.1
Samsung Electronics Co Ltd	5.7	4.3
HTC Corp	2.4	1.1
SINA Corp	1.3	0.0
Li & Fung Ltd	1.8	0.6
Softbank Corp	1.2	0.0
Far Eastern New Century Corp	1.3	0.2
Wharf Holdings Ltd	1.6	0.4
Hong Kong Exchs & Clearing Ltd	2.0	0.9

Source: Fidelity International

Benchmark: MSCI All Countries Far East ex Japan Index

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WHAT ARE THE CURRENT KEY INVESTMENT THEMES?

Asian consumption story – Asian countries make up a significant part of the world population, and the world's biggest consumer market. Over the last decade, the population in Asia, especially rural population, has witnessed strong income growth due to a combination of secular drivers and supportive policy actions. Rising income bodes well for consumption stocks, especially when penetration of most consumer goods in Asia remains low, particularly in rural areas and small cities. The enormous size of Asian consumer market and low consumer goods penetration present significant growth potential. Most Asian governments are making meaningful efforts to restructure their economies from export-dependent to domestic-consumption-driven market structures.

The rise of the Internet economy – The internet services sector is another beneficiary of the Asian consumption boom. Taking China as an example, the low-but-rising internet penetration rate in the country represents significant growth potential for leaders in the internet industry like Tencent and Sina. The internet sector generally operates on a 'winner-takes-all' basis.

The liberalization of the RMB – China is accelerating its moves to internationalise the RMB, and Hong Kong is playing an increasingly important role as an offshore centre for Renminbi business. I believe this will be an interesting multi-year theme.

Asian producers moving up the value chain – Asian companies are moving up the value chain as the economy rebalances away from low value-added manufacturing. I believe that winners in this space are hard to find, but uncovering them would be extremely rewarding.

WHAT IS THE RATIONALE BEHIND YOUR BIGGEST OVERWEIGHT POSITIONS?

Bank of China Hong Kong: This company is the second largest bank in Hong Kong in terms of deposits and loans. Its close tie with Bank of China, its parent company, continues to support its stronger-than-peer loan growth, both in Hong Kong and China. BOCHK is also the best renminbi play in Hong Kong as it is the only designated renminbi-clearing bank in Hong Kong.

Tencent Holdings Limited: Tencent is recognised as the largest internet social networking operator in China. Its instant messaging service QQ has over 75% market share of China's internet user network. Its diversified product offering and ubiquitous services offer huge monetisation potential. To date, only around 11% of Tencent's users are paying with modest average daily spending of approximately US\$0.10, implying an ample upside opportunity.

Samsung Electronics: Samsung Electronics remains one of my top picks. Korea's No.1 electronics manufacturer is well-positioned to benefit from the mobile computing boom (smartphones / tablets). The company has been strengthening its position in almost every segment including semiconductors, handsets, displays and home appliances. Valuation at below mid-cycle level in both an absolute basis and relative to the Korean market.



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Fund**Perspective:**

