

Is it time to buy Emerging Asia?

Teera Chanpongsang is portfolio manager of Fidelity Funds (FF) - Emerging Asia Fund and India Focus Fund.

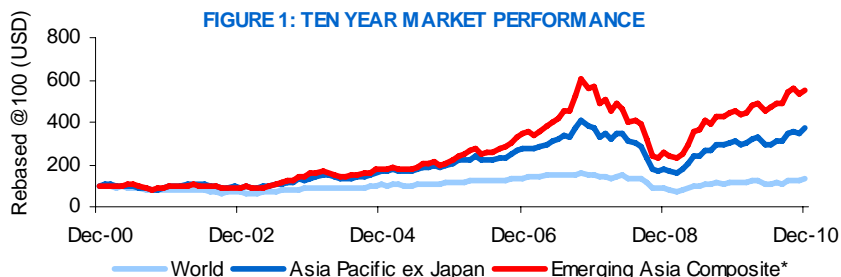
Teera joined Fidelity in 1994 as a research analyst. In 1998, he became a Portfolio Manager and took over FF - Thailand Fund. Subsequently, he moved to the UK in 2004 to manage FF - Global Telecommunications Fund. He relocated back to Hong Kong in July 2007 and began managing Emerging Asia portfolios.

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.

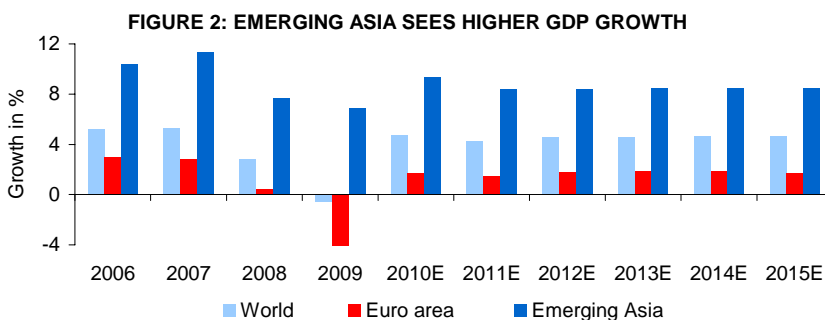
Emerging Asian equities had a strong run in 2010, but some investors fear this trend may not continue in 2011. There are concerns that rising inflation and monetary tightening might dampen economic growth. However, Teera Chanpongsang, who manages the Fidelity Funds – Emerging Asia Fund strongly believes in the region’s medium to long term growth story. He argues that short periods of volatility should be seen as an opportunity to invest in the region for its attractive long term structural growth prospects.

WHAT IS YOUR OUTLOOK FOR EMERGING ASIAN EQUITIES IN 2011?

I remain positive on the region for 2011. The correction in the last few weeks has brought valuations down to more reasonable levels, while corporate earnings growth continues to be very resilient. Most companies I have visited during my recent research trips to China, India and some of the ASEAN countries are confident about generating strong future earnings growth. With consensus expectations turning more negative on Emerging Asia in the recent months, many of the stocks have the potential to positively surprise the market. Emerging Asia has outperformed the developed markets over the long term (see Figure 1) and I believe it should continue to do so in future. Prudent stock selection will be even more important in 2011, playing to the strength of my fundamental bottom-up investment approach.



Source: Thomson Financials Datastream; *Fund benchmark, data sourced from JP Morgan calculated on MSCI Index 1/3 India/Pakistan + 1/3 China + 1/3 Thailand/Indonesia/Philippines/Malaysia



Source: International Monetary Fund, World Economic Outlook Database October 2010

Economic fundamentals remain strong in Emerging Asia and the region is expected to sustain superior economic growth than what we are seeing in the Developed economies (as seen in Figure 2). Strong economic growth in Emerging Asia is structural in nature and resilient to a global slowdown. It is a product of growing populations, rising income levels, low ownership of discretionary products such as cars and televisions, as well as structurally high savings and low debt levels. Gross domestic product and consumption will continue to grow as more young people join the work force and others shift from agriculture to manufacturing and services. Improving infrastructure and urbanisation will connect more people to the mainstream. These long term trends bode well for equity markets.

SECTOR ALLOCATION (%)

as at 31.12.10	Fund	Relative
Financials	34.7	2.8
Energy	16.0	0.8
Information Technology	12.0	4.4
Consumer Discretionary	9.0	1.9
Industrials	8.5	-0.8
Materials	6.4	-1.4
Health Care	5.7	3.8
Consumer Staples	4.8	-2.5
Telecommunication Services	1.1	-6.0
Utilities	0.3	-4.4

COUNTRY ALLOCATION (%)

as at 31.12.10	Fund	Relative
India	31.5	-1.8
China	25.0	-6.6
Indonesia	12.7	1.7
Thailand	10.4	2.3
Malaysia	8.7	-4.8
Hong Kong	6.2	6.1
Philippines	3.9	1.4

TOP TEN HOLDINGS (%)

as at 31.12.10	Fund	Relative
Infosys Technologies	4.9	1.1
Reliance Industries	4.4	1.1
CNOOC	2.5	0.5
Tata Consultancy Services	2.5	1.2
Tencent Holdings	2.3	1.3
Industrial & Commercial Bank of China	2.3	0.2
HDFC Bank	2.1	0.6
Genting (Malaysia)	2.0	1.0
Housing Development Finance	1.9	0.0
CIMB Group Holdings	1.9	0.5

Source: Fidelity

Benchmark: MSCI Emerging Asia Composite Index (Gross)

References to specific securities are for illustrative purposes only and are subject to change without notice. They should not be construed as a recommendation or advice to transact in the securities.

DO YOU THINK RISING INFLATION HAS THE POTENTIAL TO DERAIL GROWTH?

Inflation is a short term concern but I do not think it would derail economic growth in Emerging Asia at this stage. This is because the current inflation is driven more by food prices, partly due to the weather, and monetary tightening is not very effective in controlling this kind of inflation. The central banks in Asia in general carefully manage their monetary policies to support long term sustainable growth. I am less concerned about inflation because it has already peaked in some economies while in others it is expected to peak in the coming months.

Also, one must put the recent rise in interest rates into a historical perspective. Most countries had aggressively loosened monetary policy during the global financial crisis to stimulate growth. What we are seeing now is a process of policy normalisation and current interest rates are nowhere near pre-crisis levels.

WHAT ARE YOUR CONCERNS ABOUT THE REGION?

The sustainability of economic recovery we are seeing in the developed world is a key concern for me. A continued recovery in the west will lead to even stronger economic growth in Emerging Asia, given the strong demand for exports that is likely to follow. There are increasing indications that the US in particular, is forming a sustained recovery pattern, but there are risks to this scenario given the level of indebtedness of US and European governments.

Another key concern is the rise in oil prices. Oil is a key import commodity for many countries in my investment universe. Higher import bills could put pressure on fiscal balances. I am also closely watching developments on the Korean peninsula.

But I think the opportunities in the region far outweigh these risks. Corporate earnings growth is expected to remain robust this year and in 2012 (see Figure 3). As a part of my investment process, I will continue to spend significant time visiting companies, their competitors, multi-national companies and government officials to select attractive stocks for the portfolio.

FIGURE 3: STRONG EARNINGS GROWTH EXPECTATIONS

EPS Growth %	2009	2010E	2011E	2012E
China	16.8%	30.2%	15.4%	16.6%
India	16.8%	22.1%	22.7%	19.0%
Indonesia	13.8%	18.3%	22.7%	16.3%
Malaysia	-19.9%	32.1%	16.7%	11.9%
Philippines	14.7%	31.4%	9.6%	14.4%
Thailand	35.1%	19.9%	21.0%	15.9%

Source: MSCI, IBES, FactSet, Morgan Stanley Research, 21 January 2010

HOW DIFFERENTLY HAVE YOU POSITIONED THE FUND FOR 2011 COMPARED TO 2010?

The Fund remains positioned to benefit from the structural growth in Emerging Asia, but going into 2011 I have increased exposure to stocks that should benefit from the expected recovery in developed markets, such as energy stocks, software services providers and certain exporters.

I raised exposure to oil refiners such as Reliance Industries and CNOOC in anticipation of higher energy prices as the global recovery takes hold. I also initiated positions in coal miners in view of strong demand and supply constraints due to floods in Queensland in Australia.

I increased exposure to Indian outsourcing firms as I believe the emphasis on productivity and improved corporate earnings in the US bode well for this sector. Here, I added to positions in Infosys Technologies and Tata Consultancy Services. I also bought Hong Kong-based electronics component manufacturer AAC Acoustic Technologies, due to the strong momentum in smartphone and tablet PC sales.

Conversely, I trimmed exposure to the financials sector in view of government policy headwinds and a rising interest rate environment. In particular, I sold out of some property stocks in Thailand and Philippines and continue to underweight the sector in most other countries.

I also reduced exposure in stocks where valuation targets were reached. Examples include positions in Indonesian automobile producer, Astra International, Chinese sportswear company, Anta Sports Products, and Indian media conglomerate, Zee Entertainment, which have been liquidated.

Overall, the fund is overweight in the consumer discretionary, healthcare, energy and information

technology sectors while it is underweight the more defensive sectors such as consumer staples, utilities and telecommunications.



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