

Institutional Perspective:

SEVEN DEADLY WINS – ASIA EX JAPAN EQUITIES

FEBRUARY 2010

Asia: Go where the growth is...

"The centre of gravity is shifting to Asia. I firmly believe that China is the investment opportunity of the next decade. The economies of the Western world, particularly America, the UK, and Europe, are going to see lower growth than before, because of the cost of solving the financial crisis."

ANTHONY BOLTON, PRESIDENT, FIDELITY INVESTMENTS

A decade ago, the Asia ex Japan combined economy was equivalent to 30% of the US economy. No one needs to be told that, since then, the phenomenal growth of markets like China and India has changed the balance of global economic power. Today, Asia's GDP now matches 60% of US output. In little more than a decade it is forecast that China and India will match that 60% on their own¹.

FAVOURABLE DEMOGRAPHICS AND URBANISATION

China and India are home to 38% of the world's population. Together, they represent the largest consuming population in the world. Over the next five years, about half of their population will be found in the productive and high-consumption age range of 15-49 years old. Consequently, the middle-income population in Asia is estimated to grow by some 850 million over the next ten years².

Let's consider China alone, for a minute. 350 million people will be added to China's urban population by 2025. In Europe today, 35 cities have more than one million people living in them. By 2025, 221 Chinese cities will have populations of that size³.

The infrastructure to support that social change must be built. Retailing habits are changing. Mass transit systems must be built. New homes, offices and shops are under construction. These are not new stories but they create an internal demand that has helped lessen the impact of the global slowdown.

INDUSTRIALISATION AND EXPORTS

This urbanisation has been enabled by a self-reinforcing cycle of industrialisation built on low labour cost advantages. A highly successful model emerged which enabled more and more manufacturing to be outsourced to Asia. Domestic companies emerged often supported by governments, which have developed into world class companies that lead their sectors.

EMERGING CONSUMERS

Organised retailing may be commonplace in the west but in many parts of Asia it has still to arrive. As urbanisation increases, that will change. Only 2-3% of Indian retailing takes place in a format we would recognise in the west. It is higher in China, at 20%, but that is still a remarkably low level⁴. The roll out of retail chains and shopping malls across the region has the potential to harness the untapped demand of the growing middle classes. Investors in the likes of Pantaloon Retail in India or CP ALL in Thailand will benefit from growth rates that mature market retailers could only dream of achieving.

DOMESTIC GROWTH

Increasingly, growth is becoming more balanced throughout Asia, as economic activity finds new domestic drivers. Historically, the workhouse of the world, Asian economies are gradually finding domestic growth drivers and becoming less dependent on foreign consumers.

CREDIT CRUNCH WILL SLOW THE WEST, NOT THE EAST

The credit crunch was almost entirely inspired by Western banks and its impact has been equally asymmetric. Asian banks had very limited exposure to US and European sub-prime assets and did not indulge in the same level of financial sophistication in their products via the use of derivatives.

The fact that Western governments have had to bail out their banking sectors is likely to restrain growth in western economies. As a result, growth is even more likely to be found in Asia, where the relatively well capitalised banking sectors, particularly in China and Hong Kong, now look stronger in comparison to their western counterparts.

CONCLUSION

The outlook for the region appears favourable and the underlying long-term story remains intact. Growth, while lower than at its peak last year, is still in excess of that to be found in the west. Attractive dividend payouts, healthy balance sheets and improved corporate governance should appeal to investors. The region has come a long way from the days of the Asian crisis in 1997/98. Some reliance on the west will unavoidably remain but increasingly stronger intra-regional relationships may finally bring a fuller sense of decoupling to fruition. Asian markets may be proving more resilient for good reason.

URBAN POPULATION AS A PERCENTAGE OF TOTAL POPULATION

	1970	2000	2015	2030
United States	74	79	84	87
Western Europe	72	76	79	83
China	17	36	49	60
India	20	28	32	41
Asia excluding Japan	20	34	43	52

Source: United Nations, CLSA Asia Pacific Markets, June 2009

Institutional Perspective:

THE FIDELITY INSTITUTIONAL PACIFIC EX JAPAN FUND

The Fidelity Institutional Pacific ex Japan Fund is managed by John Lo on a fundamental, bottom-up basis.

John focuses on evaluating company fundamentals and favours companies that are under-researched or under-followed as they may represent attractive investment opportunities, as well as companies with entrenched market positions where this strength and management of the company is exhibited in the ability to grow market share while maintaining pricing power.

JOHN LO

John Lo joined FIL in 1993 and was based in London as an investment analyst for 2 years. He then moved to Hong Kong in 1996 and was promoted to portfolio manager in 2001.

Prior to FIL, John was a corporate advisory executive at Ernst & Young.

John holds a Bachelor of Science from the University of Wales College and a Master of Business Administration from Manchester Business School.

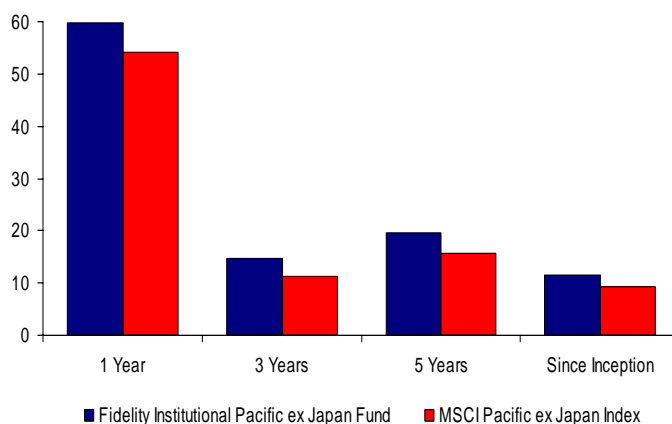
COUNTRY POSITIONING (%)

As At 31.12.09	Fund	Index
Australia	64.5	68.4
Hong Kong	19.0	19.2
Singapore	10.0	11.5
China	5.1	0.0
New Zealand	0.0	0.9
Cash & other	1.4	0.0

Source: FIL Limited, 31/12/2009

Index: MSCI All Countries Asia Pacific ex Japan Index

FIDELITY INST PACIFIC EX JAPAN FUND - PERFORMANCE



Source: FIL Limited, 31/12/2009. Since inception date is 31/05/1996. Performance figures are calculated gross of fees in sterling terms. Benchmark is the MSCI Pacific ex Japan Index. These annualised returns are for the Fidelity Institutional Pacific ex Japan Fund. The standard fee for investment into this Fund is 0.80% p.a. Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

SECTOR POSITIONING (%)

As At 31.12.09	Fund	Index
Financials	46.6	48.5
Materials	15.9	17.8
Consumer Staples	10.7	7.5
Consumer Discretionary	9.3	4.5
Information Technology	6.6	0.6
Energy	4.6	4.9
Industrials	2.8	7.8
Health Care	1.4	2.1
Utilities	0.7	3.3
Telecommunication Services	0.0	2.9
Cash	1.4	0.0

Source: FIL Limited, 31/12/2009

Index: MSCI All Countries Asia Pacific ex Japan Index

Sources: 1. CLSA, June 2009; 2. McKinsey Quarterly, December 2008; 3. McKinsey Global Institute, March 2009; 4. CLSA, summer 2005

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