NOVEMBER 2013

PERSPECTIVES

FIDELITY FUNDS EMERGING ASIA FUND

Inactivity to opportunity

Emerging Asian stock markets have gone through a volatile period. Concerns that the Federal Reserve could taper its quantitative easing programme and a weaker economic outlook for emerging Asian countries weighed on investor sentiment. Teera Chanpongsang, portfolio manager of Fidelity Funds Emerging Asia Fund, thinks that even though economic data releases have been mixed, many of the policy changes needed to rebalance emerging Asian economies have been implemented. He believes that the region's equity markets have a lot to offer.

WHAT HAS HAPPENED THIS YEAR AND WHY ARE YOU POSITIVE FOR 2014?

Emerging Asian markets made a strong start at the beginning of 2013, but suffered in the second half given the changing risk-on/risk-off environment. This was driven by fears over Chinese growth, general policy inertia in the region and events in the US.

Going forward, though, there are signs of progress. For instance, economic activity in China is stabilising and its leaders are likely to implement market friendly reforms over the coming years. Meanwhile, India and Indonesia, which have been the main culprits of policy inertia, have started to make necessary policy decisions to tackle their troubled current and fiscal account deficits. Moreover, the market has discounted some of the mixed economic data from the region. Valuations are looking attractive, particularly for high-quality companies that underperformed during the indiscriminate sell-off in the market.

SO HAS YOUR LONG-TERM OUTLOOK CHANGED?

I continue to believe that emerging Asia's long-term outlook is healthy. The recent macroeconomic environment has been challenging, but volatility has largely been driven by a mass exodus of investors who feared another 1997-like collapse. These comparisons were made due to rising current account deficits in India and Indonesia and weakening currencies. However, I believe these judgements were too hasty. As opposed to 1997, emerging Asian economies generally have bigger foreign reserve surpluses and debt is held locally, not by foreigners. There is also lower leverage in the system at both the public and corporate level. Also, the underlying fundamentals behind emerging Asian economies are strong. As such, favourable demographics, rising incomes, increased consumer spending and the associated changes in lifestyles will likely continue to drive these economies and their markets over the long-term.

WHAT IS YOUR VIEW ON THE ASEAN REGION?

Some of the share price weakness in the third quarter was justified, but not the level of the sell-off seen in August. It was largely due to three things: high valuations, which made these markets look less attractive; external factors, mainly the threat of tapering in the US; and mixed economic data.

With regards to the latter, I believe the ASEAN markets of Indonesia and Thailand are experiencing a cyclical slowdown. Indonesia needs to resolve its current account deficit and inflation is a headwind. The 44% fuel hike earlier this year, which I think was necessary, has increased inflation. But the worst, I think, is over. Whilst inflation will likely remain high for the rest of the year, I would expect a downward trend. The current account is alarming and policy makers are starting to address this, but concerns over the issue led to a weaker Rupiah. However, over time, this weakness in the currency can help resolve the current account problem as imports become expensive and exports look cheap. Regardless of these problems, Indonesia still has favourable demographics and its citizens are enjoying increasing wealth. The country is also in the middle of an infrastructure spending boom and foreign direct investment is continuing to grow.

TEERA CHANPONGSANG is portfolio manager of Fidelity Funds – Emerging Asia Fund.

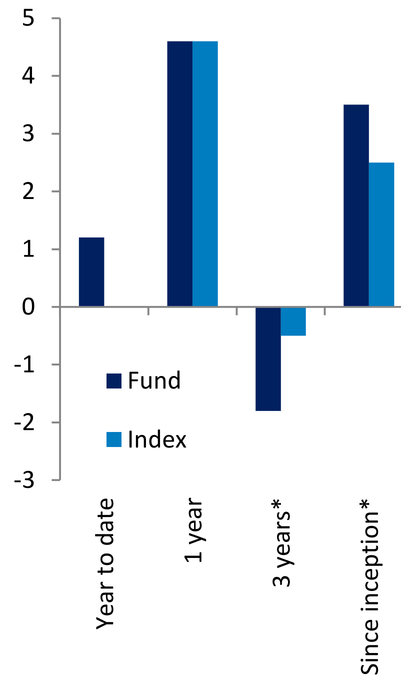
Teera joined Fidelity in 1994 as a research analyst. In 1998, he became a Portfolio Manager and took over Fidelity Funds Thailand Fund. Subsequently, he moved to the UK in 2004 to manage Fidelity Funds Global Telecommunications Fund. He relocated back to Hong Kong in July 2007 and began managing Emerging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

Thailand also has a positive long-term story, but has suffered from a slowdown in consumer spending. This is largely due to the end of a short-term government scheme to offer tax rebates to first time buyers of Thai-built cars. However, the major flaw in this policy is that people still have to pay off their car loans, which has reduced spending in the following year. More recently, we have seen less investment in the manufacturing sector, which will weigh on 2013 GDP numbers. However, I think this slowdown is cyclical and I expect an export-led rebound in GDP growth next year. This will be further helped by a delayed pick-up in domestic demand.

Elsewhere, I think Malaysia and the Philippines remain in good health. The Philippines is my top pick in the ASEAN region, both from an economic and company standpoint. Increasing consumption and improving infrastructure are helping growth, inflation has fallen to close to 2.5% and its current account is in record surplus. The economy is in a sweetspot, which, in turn, is an advantage for companies operating in the country.

Returns (%)
as at 31.10.13



Source: Morningstar, nav-nav, net income reinvested, in USD. Fund launched on 21 April 2008.

Index: 33.33% MSCI China, 33.33% MSCI India, 33.33% MSCI Malaysia, Indonesia, Philippines, Thailand

*annualised return

Holdings can vary from those in the index quoted. For this reason the comparison index is used for reference only.

WHY ARE YOU GETTING MORE POSITIVE ABOUT INDIA?

India can be frustrating and rewarding in equal measure. Politics plays a large part in the development of the country and high levels of bureaucracy and political stalemate are often a roadblock to essential infrastructure projects and reform. It is a difficult environment to understand, and because of this many investors stay away from the market. However, the government is finally making some difficult decisions, which will be good in the long-term such as reducing oil subsidies. For me, India offers opportunities. Although investors are put off by the politics, history has shown that when things are bad, the country manages to reform, pushing markets upwards. There are many very good high-quality Indian companies with strong fundamentals that are overlooked. I often use market weakness to buy into high-conviction ideas.

That is not to say that investing in India does not come with risks. There are a number of risks we must monitor, especially as India is currently at a cross-road in terms of its economy and politics. However, I think it will take the correct turn. With the economy, GDP growth is slowing from the high numbers of the past decade, but the main concern is its large current account deficit. This has led to a large depreciation of the Indian Rupee, which in the short-term has been an additional headwind to the economy. India is a huge importer of oil and gold, but recent measures put in place to curb these imports, such as increased duties on gold imports and phased reduction of subsidies on fuel prices for the general population, are starting to have a positive impact on reducing this deficit. Meanwhile, Indian politics is a minefield and the run-up to next year's general election promises to bring both hope and chaos. It also means that infrastructure projects and reform are likely to be put off until after the election. Early indications are that the more business-friendly Narendra Modi of the BJP party is a front-runner to become the new prime minister. The upcoming state elections in November and December will be an interesting indicator of the possible outcome. If Modi is elected, I would expect markets to react very positively and would not be surprised if it triggers a new investment cycle, resulting in a pick-up in GDP growth.

Despite all of the questions over India, the general long-term trend is positive. There are over a billion people in India, it is a young nation with highly qualified individuals who offer services for cheaper than the developed world and citizens are getting wealthier. As a result, I find a number of stock ideas related to the consumer sector and also in companies that are able to provide high quality goods and services at lower prices than their developed market counterparts.

HOW ARE YOU APPROACHING CHINA?

China is the main driving force behind Asian markets. What happens here impacts the whole region. China's intended move to a consumer-led economy is well-documented and I also subscribe to this thesis. Its economy is stabilising and the companies I meet all point towards an optimistic outlook after a tough couple of years. I like a number of areas in the Chinese market and have an overweight stance in information technology (IT) and consumer-related stocks. Incomes are growing, consumer tastes are changing and the internet plays an increasingly important role in the lives of people in terms of leisure, business and buying goods.

One area where I am against the general consensus is through my overweight stance in a few state-owned Chinese banks. Rising debt levels, concerns over under-regulated wealth manager products and expectations that financial reforms will lead to increased competition and reduce their powers have made these an investment to avoid. However, many Chinese banks are now extremely cheap and trade below book value. This is especially attractive as reforms will help align the interests of state-owned companies and their shareholders and make inefficient and poorly managed companies leaner and more profitable. New competition will also lead to these companies focusing on those parts of their business in which they can become market leaders.

WHAT ARE YOUR TOP STOCK-PICKS FROM THE EMERGING ASIA REGION?

China

Tencent is China's leading online social network company and owns Wechat, China's 'Whatsapp'. It is also a key player in online search. Wechat has over 500 million subscribers. Tencent is increasingly able to monetise this business by offering games, advertising and ecommerce through the Wechat platform. Its large scale and superior execution of services will help drive earnings growth going forward.

India

In keeping with the theme of high quality, low cost outsourcing **Tata Consultancy Services (TCS)** is a key holding. TCS is one of the world's top IT services companies. Its record of superior execution of projects, strong capabilities across a variety of services and geographies, and well managed operations makes it one of the 'go to' IT outsourcing firms. In addition, we are seeing increased demand for IT outsourcing from developed markets, especially the US. As a result, I expect strong mid-teen growth over the next few years. This makes TCS more resilient to margin pressures from low-cost entrants than peers. In addition to this, the depreciation of the Indian Rupee makes its services look even cheaper than outsourcing firms in other countries.

Indonesia

Tempo Scan Pacific manufactures and distributes a range of established middle-tier consumer health and personal hygiene brands in Indonesia. It has a strong market position, is conservatively run, has a strong balance sheet and will be able to finance growth from its own internally generated cash. Furthermore, its large distribution network of close to 75 thousand direct distribution points and nearly 25 thousand indirect distribution points (i.e. resellers) makes it a possible take-over target for a foreign health care multi-national looking to grow its distribution footprint in Indonesia.

Malaysia

Gamuda is a civil engineering and construction firm with non-core businesses such as property development, toll road and water supply concessions. There are two drivers to Gamuda's investment case. First is the increasing infrastructure spend, which I am confident will continue following the ruling government's election win in May 2013 (e.g. national rail network expansion). Secondly, the sale of its non-core assets should release value. I expect an agreement between the federal government and Selangor state, which will allow Selangor to buy all water concessions in the state whilst allowing Gamuda to retain operational and maintenance contracts. This means that Gamuda will receive a cash windfall. Most of these proceeds are likely to be paid out as a special dividend. Given its stable dividend yield of about 3%, investors can expect a total yield of almost 10%.

Philippines

One of my top stock picks in the Philippines is **Alliance Global Group**, a consumer conglomerate with liquor, gaming and property businesses. It also owns the McDonalds franchise in the Philippines. Its liquor business has strong pricing power. It also owns Manila's first integrated casino resort, with more in the pipeline. Alliance Global Group is a great way to get exposure to the opportunities presented by the Filipino consumer.

Thailand

Thailand's second-largest mobile operator **Total Access Communication** is an attractive opportunity. It has taken leadership of the 3G roll-out across the country, which has lower regulatory costs than the 2G concession. Increased smartphone demand and mobile internet usage will help lift the company's average revenue per user and operating leverage.

Top ten holdings
as at 30.09.13

Tencent	4.7
Industrial & Commercial Bank of China	4.0
Infosys	3.9
Housing Development Finance Corporation	3.3
China Construction Bank	3.2
Tata Consultancy Services	3.1
Reliance Industries	2.8
ITC	2.3
HDFC Bank	2.2
China Mobile	2.1

Top security holdings are those securities in which the largest percentage of the fund's total assets are invested. Holdings in different securities issued by the same company are listed separately and any exposure achieved by derivatives is not shown. This means that the data may not always represent the total exposure of the portfolio to any given company. A full list of holdings, including derivatives, can be found in the fund's annual and/or semi-

DUTCH RISK INDICATOR

Important Information

This information is for Investment Professionals only and should not be relied upon by private investors. It must not be reproduced or circulated without prior permission.

This communication is not directed at, and must not be acted upon by persons inside the United States and is otherwise only directed at persons residing in jurisdictions where the relevant funds are authorised for distribution or where no such authorisation is required. Fidelity/Fidelity Worldwide Investment means FIL Limited and its subsidiary companies. Unless otherwise stated, all views are those of Fidelity. Top security holdings are those companies in which the largest percentages of the fund's total net assets are effectively invested. Positions in other funds - including ETFs (Exchange Traded Funds) – can appear in this table, but index derivatives form part of an "Other Index / Unclassified" category which will not appear.

Reference in this document to specific securities should not be interpreted as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. The research and analysis used in this documentation is gathered by Fidelity for its use as an investment manager and may have already been acted upon for its own purposes.

Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and F symbol are trademarks of FIL Limited. Fidelity Funds is an open-ended investment company established in Luxembourg with different classes of shares. Reference to FF before a fund name refers to Fidelity Funds. Fidelity only offers information on products and services and does not provide investment advice based on an individual's circumstances.

The value of investments can go down as well as up and investors may not get back the amount invested. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of an investment. Foreign exchange transactions may be effected on an arm's length basis by or through Fidelity companies from which a benefit may be derived by such companies. Past performance is not a reliable indicator of future results. Investments in small and emerging markets can be more volatile than other more developed markets. Due to the lack of liquidity in many smaller stock markets, certain country select funds may be volatile and redemption rights may be restricted in extreme circumstances. In certain countries, and for certain types of investments, transaction costs are higher and liquidity is lower than elsewhere. There may also be limited opportunities to find alternative ways of managing cash flows especially where the focus of investment is on small- and medium-sized firms. For funds specialising in such countries and investment types, transactions, particularly large ones, are likely to have a greater impact on the costs of running a fund than similar transactions in larger funds. Prospective investors should bear this in mind when selecting funds. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and Key Investor Information Document (KIID), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg;
Germany: Investments should be made on the basis of the current prospectus and/or the Key Investor Information Document (KIID), which is available along with the current annual and semi-annual reports free of charge from FIL Investment Services GmbH, Postfach 200237, 60606 Frankfurt/Main or www.fidelity.de. Issued by FIL Investment Services GmbH.
Austria: Investments should be made on the basis of the current prospectus and/or the Key Investor Information Document (KIID), which is available along with the current annual and semi-annual reports free of charge from FIL Investment Services GmbH, Kastanienhöhe 1, D-61476 Kronberg im Taunus, Germany; as well as with the Austrian paying agent UniCredit Bank Austria AG, Vordere Zollamtstrasse 13, A-1030 Wien, FIL (Luxembourg) S.A. – Zweigniederlassung Wien, Mariahilfer Strasse 36, 1070 Wien or www.fidelity.at. Issued by FIL (Luxembourg) S.A.
Malta: Growth Investments Limited is licensed by the MFSA. Fidelity Funds are promoted in Malta by Growth Investments Ltd. in terms of the EU UCITS Directive and Legal Notices 207 and 309 of 2004. The Funds are regulated in Luxembourg by the Commission de Surveillance du Secteur Financier.
Switzerland: Our legal representative in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Our paying agent for Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich.
Italy: Please contact your financial advisor or the local branch of your bank in Italy.
Spain: For the purposes of distribution in Spain, Fidelity Funds is registered with the CNMV Register of Foreign Collective Investment Schemes under registration number 124, where complete information is available from Fidelity Funds authorised distributors. The purchase of or subscription for shares in Fidelity Funds shall be made on the basis of the Key Investor Information Document (KIID) that investors shall receive in advance. The Key Investor Information Document (KIID) is available free of charge and for inspection at the offices of locally authorised distributors as well as at the CNMV.
Portugal: In Portugal, Fidelity Funds are registered with the CMVM and the legal documents can be obtained from locally authorised distributors.
Nordic region: Please contact your financial advisor or the local branch of your bank in Nordic countries.
United Kingdom: Please note that not all funds in the SICAV fund range are suitable for UK investors and tax advice should be sought before investing. Fidelity Funds are recognised under section 264 of the Financial Services and Markets Act 2000 as amended by Rule 2(24) of the Undertakings for Collective Investment in Transferable Securities (UCITS) Regulations 2011. Investors should note that loss caused by such recognised funds will not be covered by the provisions of the Financial Services Compensation Scheme (or by any similar scheme in Luxembourg) if the fund is unable to meet its obligations, however claims for loss in regards to such recognised funds against a Financial Conduct Authority-authorised firm such as Fidelity will be. The full prospectus and Key Investor Information Document (KIID) for these funds are available from Fidelity on request by calling 0800 414 181. The UK distributor of Fidelity Funds is FIL Investments International.The Netherlands: In the Netherlands, documents are available from FIL (Luxembourg) S.A., Netherlands Branch (registered with the AFM), World Trade Centre, Tower H, 6th Floor, Zuidplein 52, 1077 XV Amsterdam (tel. 0031 20 79 77 100). Fidelity Funds is authorised to offer participation rights in the Netherlands pursuant to article 2:66 (3) in conjunction with article 2:71 and 2:72 Financial Supervision Act.
Belgium: We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus/Key Investor Information Document (KIID), which is available along with the current annual and semi-annual reports free of charge from our European Service Centre in Luxembourg , and from CACEIS Belgium S.A., the financial service provider in Belgium which head office is based avenue du Port 86C, b320, 1000 – Bruxelles.Issued by FIL Investments International (FCA registered number 122170) a firm authorised and regulated by the Financial Conduct Authority.

FIL Investments International is a member of the Fidelity Worldwide Investment group of companies and is registered in England and Wales under the company number 1448245. The registered office of the company is Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ, United Kingdom. Fidelity Worldwide Investment's VAT identification number is 395 3090 35.

SSO12147

Fidelity
WORLDWIDE INVESTMENT