**01:**
**Anthony Doyle**
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# An active approach to Asia will be key

## Here's why your clients should be taking a long-term look at the global growth powerhouse that is Asia, in spite of current headwinds.

Asia's spectacular rise – particularly that of China – has been a hot topic of conversation for many years now.

Home to 60% of the world's population, Asia's GDP is twice the size of the US and the region currently contributes a third of the world's global growth.

Further, China, India and Indonesia are expected to take three of the five top spots in the global economy by GDP by 2050.

Despite this, an allocation to Asia is still not a core component of most investors' portfolios.

Drawing on 50 years' experience in the region, Fidelity believes investors could gain substantially from a long-term, structural allocation.

Asia benefits from structural themes like great demographics and rising incomes with the latter in turn ensuring rising wealth and consumption, Fidelity cross asset class specialist Anthony Doyle[01] says.

"It's so diverse and there's so much change happening at the moment…It is an area of the world that investors, if they allocate to it, can benefit from a superior risk-adjusted return over the course of the long term," he says.

One way of doing this is through the Fidelity Asia Fund, overseen by portfolio manager Anthony Srom.

The Fidelity Asia Fund, incepted in 2005, provides investors with access to a concentrated high conviction portfolio of between 20 and 35 companies across Asia.

It operates on a disciplined 'one stock in, one stock out' approach, which is designed to increase the prospect of each company making a meaningful contribution.

Those stocks are selected on the back of bottom-up analysis produced by Fidelity's 40-strong team of analysts in the region, located in Shanghai, Mumbai, Singapore, Hong Kong and beyond.

"Having those analysts available and the research they produce available to the portfolio manager really allows us to do deep dives on each company and truly understand the potential for generating performance within the portfolio over the course of the medium to long term," Doyle explains.

Doyle says this on-the-ground presence denotes a real competitive advantage, making it much easier to navigate the different regulatory and accounting standards in each country.

"Anyone that's travelled through Asia will know how varied and diverse it is…It's so important to be there on the ground to actually meet with company management and truly understand the companies that you're investing in," he says.

And it's paid off, with the Fidelity Asia Fund achieving an annual return of 14.2% per annum over the last five years.

The fund also saw a particularly strong 2019, celebrating a net return of 23.73% for the 12 months to 31 January 2020.

"We managed to generate good performance last year, which is really encouraging and our stock selection drove that performance," Doyle says.

It's an impressive result given the increased volatility in the region last year, particularly with the geopolitical tension between China and the US that resulted in trade tariffs being imposed.

Where some may have sought to focus their attentions elsewhere, Fidelity saw it as an opportunity to take some contrarian views.

"The Fidelity Asia Fund doesn't have a style bias and often the stocks that enter the portfolio have a bit of a value, contrarian bias within them," Doyle explains.

As a result of the trade tariffs in particular, sentiment around Chinese equities shifted into negative territory.

Going against the grain, Fidelity remained selectively positive and ended the year with a Chinese equity holding as its top performer. In fact, it's been the top performer for the last five years.

In 2014, when Srom took over the fund, it invested in state-owned Kweichow Moutai, the producer of the world's most popular spirit, baijiu.

"To me it looked like a fundamentally sound company. Yes, you might get some short-term headwinds but negative sentiment is something that gets me very interested in an idea," Srom explains.

The fund has gradually built its position from then, topping up during various dips.

And why is that?

Depending on its age, in Australia, a 500ml bottle of baijiu will set you back anywhere between $99 and $5869.

It's the national drink of China, traditionally given as a gift or consumed on business occasions; put simply, baijiu is an institution in China.

For this reason, the majority of Kweichow Moutai's revenues and sales come from the domestic Chinese consumption market.

"It goes to show you that there are companies in China where tariffs placed on exports will have less of an impact, particularly if those companies are generating their profits from rising consumption and wealth in China," Doyle says.

That said, we can't talk about China at the moment – or the rest of the world for that matter – without discussing coronavirus, or COVID-19.

With more than 90,000 confirmed cases, in late February we saw markets tumble roughly 11% in a matter of days as panic set in. It was the worst seven-day period seen since the Global Financial Crisis.

"It's definitely an uncertainty for investors in China or emerging market investors, and now that cases have appeared in other developed nations the world is currently in risk-off mode," Doyle explains.

It's got investors splitting into two distinct camps: those that believe the impact will be short-term and those thinking the virus could develop further.

But Fidelity doesn't trade on short-term news and neither should you.

Fidelity advocates for a long-term holding, specifically a minimum investment period of five to seven years.

"The companies we hold in our portfolio are quality companies that can ride out any kind of economic dislocation that may result from a short-term or potentially longer term hit to economic growth," Doyle says.

Ultimately, it's unlikely that the virus will really detract from the long-term structural themes the Fidelity Asia Fund is built on, he adds.

"The region is simply too large to ignore for Australian investors now and it is characterised by superior returns in that many of these companies will benefit from rising incomes, rising wealth and rising consumption," Doyle surmises.

This is the region that will drive global growth in the coming decades and there are numerous different themes set to play out that investors can benefit from, he adds.

"It is truly a different type of market to what you might get in the ASX 200 and we think that Australian investors that take that long-term approach will stand a good chance of generating strong risk-adjusted returns going forward," Doyle says. **FS**

**The quote**

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Watch the video on www.fsitv.com