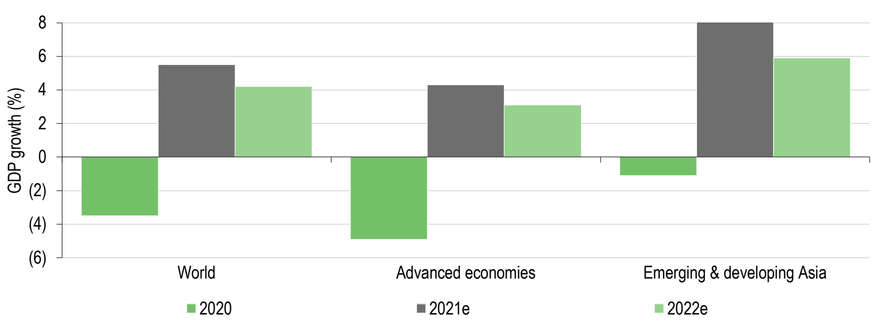
Fidelity Asian Values

'The winners of tomorrow' – starting to pay off?

Fidelity Asian Values (FAS) seeks long-term capital growth through investment in Asian stocks, excluding Japan. The manager, Nitin Bajaj, adopts a value investing style focused on smaller-cap stocks, a sector which he believes nurtures 'the winners of tomorrow', before they become well-known and expensive. This approach has been unfashionable for many years, and value and small-cap stocks have underperformed larger growth stocks, due to the popularity of mega-cap tech and other growth stocks. While this has hurt FAS's returns, which have underperformed the benchmark over the long term and especially in Q120, it has generated some excellent opportunities for Bajaj to acquire quality businesses at attractive valuations. Following a Q420 bounce back of value stocks, including the smaller-cap companies Bajaj favours, his efforts to exploit these opportunities appear to have started to pay off. FAS's performance has improved recently in absolute terms and against its blended benchmark.

Superior growth prospects in the Asia-Pacific region



Source: International Monetary Fund, Edison Investment Research

The market opportunity

Asian equity markets are priced at a discount to the world market and, despite a recent partial recovery, Asian small-cap value stocks are still trading at historically attractive levels, with a forward P/E ratio of around 10x, compared to Asian small-cap growth stocks, which are trading at forward P/Es of more than 20x. This suggests that investors with a long-term perspective may benefit from an allocation into Asian value stocks.

Why consider investing in Fidelity Asian Values?

- Offers exposure to quality Asian value stocks, acquired at attractive prices, at a time when value stocks are still very good value relative to growth stocks.
- There are signs that smaller-cap value stocks may be starting to find renewed favour with investors. If this is sustained, FAS will see further benefit.

Discount narrowing on improved performance

FAS's share price discount to NAV has narrowed in recent months as performance has improved. The discount presently stands at 3.0%, with scope to narrow further if investor sentiment towards value stocks continues to improve.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
Asian equities

3 February 2021

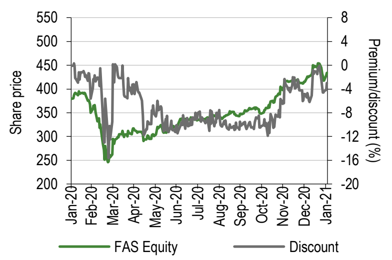
Price	**434.0p**
Market cap	**£317.6m**
AUM	**£360.2m**

NAV*	447.5p
Discount to NAV	3.0%

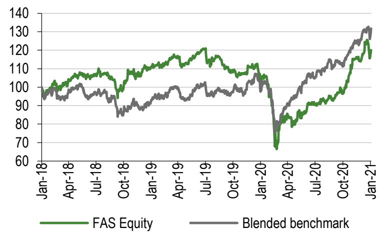
* Including income. As at 1 February 2021.

Yield	2.0%
Ordinary shares in issue	73.2m
Code	FAS
Primary exchange	LSE
AIC sector	Asia Pacific Smaller Companies
Benchmark	MSCI AC Asia ex-Japan Small Cap

Share price/discount performance



Three-year performance vs index



52-week high/low	454.0p	246.0p
NAV** high/low	457.5p	279.0p

**Including income.

Gearing

Gross market gearing*	7.4%
Net market gearing*	0.0%

*As at 31 December 2020.

Analysts

Joanne Collins	+44 (0)20 3077 5700
Mel Jenner	+44 (0)20 3077 5720

investmenttrusts@edisongroup.com

Edison profile page

Fidelity Asian Values is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Fidelity Asian Values aims to generate long-term capital growth principally from the stock markets of the Asia Pacific ex-Japan region. From 1 February 2020, it is benchmarked against the MSCI All Countries Asia ex-Japan Small Cap Index (previously the MSCI All Countries Asia ex-Japan Index).

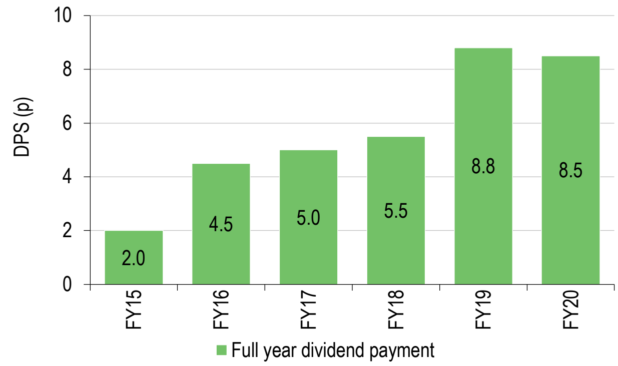
Recent developments

- 10 December 2020: FY20 annual dividend of 8.5p per share paid. This compares with an FY19 annual dividend of 8.8p per share.
- 13 October 2020: Final results for the financial year ended 31 July 2020. NAV TR -16.7% versus benchmark TR +2.7%. Share price TR -24.8%.

Forthcoming		Capital structure		Fund details	
AGM	December 2021	Ongoing charges	0.98% (FY20)	Group	FIL Investments International
Interim results	October 2021	Net market gearing	0.0%	Manager	Nitin Bajaj
Year end	31 July	Annual mgmt fee	Variable	Address	Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP
Dividend paid	December	Performance fee	None		
Launch date	13 June 1996	Trust life	Indefinite, subject to vote	Phone	0800 41 41 10 or 0800 41 41 81 (IFAs)
Continuation vote	Five-yearly, next 2021	Loan facilities	None (CFD used)	Website	fidelity.co.uk/fidelity-asian-values

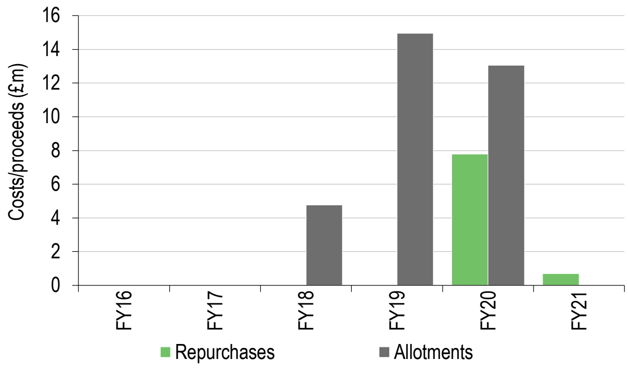
Dividend policy and history (financial years)

Dividends paid annually in December.

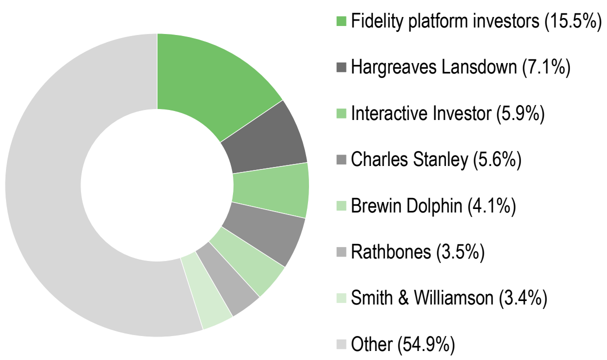


Share buyback policy and history (financial years)

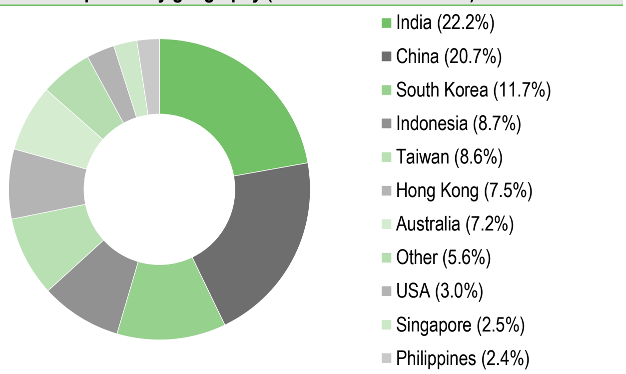
FAS has the authority, renewed annually, to repurchase up to 14.99% of shares and allot shares up to the equivalent of 10% of the issued share capital. Allotments in the chart below include the exercise of subscription shares.



Shareholder base (as at 31 December 2020)



Portfolio exposure by geography (as at 31 December 2020)



Top 10 holdings (as at 31 December 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 December 2020**	**31 December 2019***
Axis Bank	India	Financials	2.9	N/A
HDFC Bank	India	Financials	2.6	N/A
Granules India	India	Healthcare	2.5	N/A
China Yongda Auto Services	China	Consumer Discretionary	2.1	N/A
Taiwan Semiconductor MFG	Taiwan	Information Technology	2.0	N/A
Power Grid Corp of India	India	Utilities	1.9	3.4
Arwana Citramulia Tbk Pt	Indonesia	Industrials	1.9	N/A
SK Hynix	South Korea	Information Technology	1.7	N/A
Fufeng Group	China	Materials	1.6	2.4
Shriram Transport Finance Company	India	Financials	1.5	2.8
Top 10 (% of portfolio)			**20.7**	**22.0**

Source: Fidelity Asian Values, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in 31 December 2019 top 10.

Market outlook: Supported by growth and valuations

The Asian economies outpaced advanced economies during 2020's coronavirus crisis (see front page chart). Fast and stringent lockdowns in China and Hong Kong brought the virus under control much more swiftly than in western economies and while the US, the UK and Europe are struggling to contain second and third waves over the winter months, in China, Hong Kong, South Korea and Taiwan, economic activity has returned to almost normal levels in most sectors, except travel and hospitality. India and the South-East Asian economies have not fared as well.

Nonetheless, the International Monetary Fund (IMF) forecasts continued outperformance by the Asian economies in 2021, with projected growth of 8.3% this year and 5.9% in 2022, compared to a 1.1% contraction in 2020. This is almost twice the IMF's projected growth rates of 4.3% in 2021 and 3.1% in 2022, in the advanced economies (following a contraction of 4.9% in 2020). Asian growth prospects are also very positive over the medium and longer term, driven by the growth of the middle class, especially in China.

Asian equity markets have rebounded strongly from their precipitous falls in Q120, with some now trading at or close to all-time highs. This has been driven in part by the better-than-expected regional recovery and by the arrival of proven vaccines, which removed much of the downside risk to the economic outlook.

Political developments have also been supportive for Asian equity markets. The election of Joe Biden as US president eased political uncertainties in the Asian region. While the underlying sources of tension between the US and China will persist, relations with the Biden administration are expected to be less tense and more predictable. Investors also welcomed the passage of further aggressive US stimulus and sentiment was boosted further in the closing days of 2020 by the conclusion of a major free trade agreement between China, Japan, South Korea, the ASEAN countries, Australia and New Zealand, after eight years of negotiations. Between them, these nations represent one-third of global GDP. The deal is expected to provide a sustained boost to trade and economic growth across the region, by lowering tariffs and other trade barriers. India is presently not a signatory to the deal, but the door is open for it to join at a later date.

While Asian equity markets have performed strongly recently, their relative performance has been more mixed. Asian stocks have outperformed the UK market (Exhibit 2, LHS), but they have lagged the world market historically and this underperformance has worsened in the past couple of years (Exhibit 2, RHS). The price/earnings discount between Asian markets and the world index has widened steadily over the past couple of years, despite Asia's more promising growth prospects.

Another major theme for equity investors is the widening disparity between the performance of growth and value stocks. Global growth stocks, led by the US tech mega-caps, were outpacing value stocks before the onset of the pandemic, and since the Q120 market decline, growth stocks have recovered all the ground lost in the sell-off and have subsequently made unprecedented gains – of 40% or more in some cases – while value stocks have continued to languish below their pre-pandemic levels. On a forward P/E basis, global growth stocks are presently trading at 33x, while global value stocks are trading at 15x. This anomaly is as much a feature of Asian markets as it is in the US, the UK and Europe and the discrepancy is almost as stark – Asian small-cap growth stocks are trading at a forward P/E of 20x earnings, while Asian small-cap value stocks are at 10x.

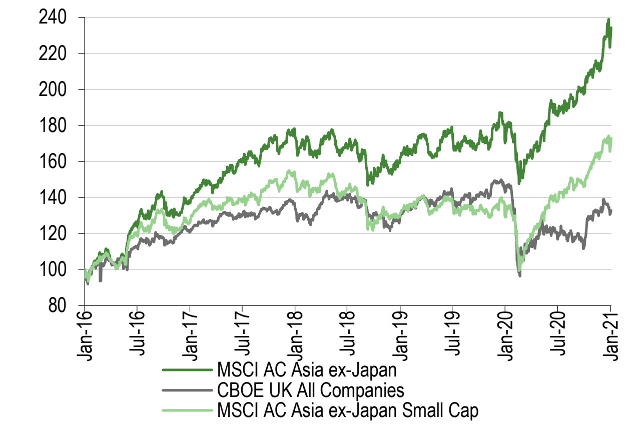
Value stocks in general have only been this inexpensive relative to growth stocks two or three times in the past century – the last time being the tech bubble of the late 1990s – and most market participants view the eventual correction of this disparity as inevitable. In fact, during Q420, there was a bounce back in Asian smaller-cap value stocks as investors welcomed the arrival of vaccines and the associated improvement in the global economic outlook. Smaller companies in India and the ASEAN countries, which had been laggards, were among the biggest winners from this rotation.

While some see this as the beginning of a trend improvement in value stocks, the recovery in value stocks has so far been tentative and it remains to be seen whether it will be sustained. In the meantime, many investors, including FAS's portfolio manager, Nitin Bajaj, believe the valuation gap between value and growth stocks still provides a great and rare opportunity to buy good companies at very attractive prices.

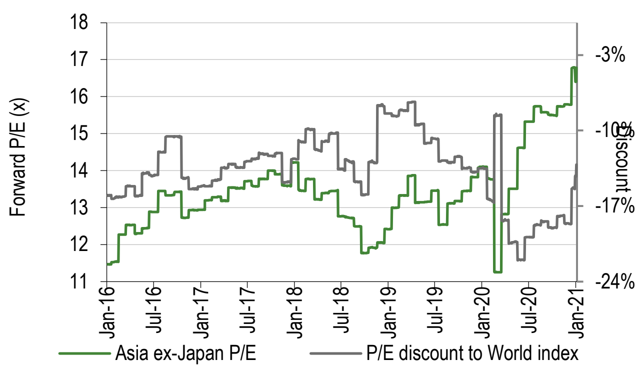
This factor, combined with Asia's favourable short- and longer-term growth outlook and the relatively attractive valuations of Asian stocks compared to the world market, suggests that investors with a longer-term perspective should benefit from an allocation to Asian stocks in general, and Asian value stocks in particular.

Exhibit 2: Market performance and valuation

Performance of indices, last five years (in £ terms)



Valuation of Asia ex-Japan equities



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 25 January 2021.

Fund profile: Focused on undervalued businesses

Fidelity Asian Values was launched in June 1996 and is listed on the Main Market of the London Stock Exchange. Since 1 April 2015, the lead manager has been Nitin Bajaj. He has over 18 years' investment experience and also manages Fidelity's Asian Smaller Companies Fund. Ajinkya Dhavale, an analyst specialising in Korea and Taiwan, has recently been appointed assistant portfolio manager. He has nine years' experience with Fidelity and, like Bajaj, is based in Singapore. The managers aim to achieve long-term capital growth from a diversified portfolio of Asia ex-Japan equities. They are supported by the broad resources of Fidelity's Asia Pacific ex-Japan investment team, which includes five dedicated small-cap analysts.

Bajaj invests across the market cap spectrum, although he generally favours smaller companies. There are no set limits on geographic and sector exposure, although single country and sector weightings are restricted to 25% and 15% of the fund respectively. FAS's investment guidelines state that, at the time of investment, up to 10% of gross assets may be invested in a single company, a maximum of 5% may be in companies listed or domiciled outside the Asian region (if they have a high economic exposure to the area) and up to 5% may be unlisted securities (if they are expected to list in the foreseeable future). Derivatives are permitted as a cheaper alternative form of gearing to bank loans (contracts for difference) and to hedge equity market risks. The manager seeks to improve returns by taking short positions. Total derivative exposure is limited to 40% of NAV based on gross assets and 30% of NAV based on net market exposure. In the medium to long term, the board expects net market exposure to be 90–115%. At end-December 2020, net market gearing was 0.0%. FAS's currency exposure is generally unhedged.

The trust's index changed to the MSCI All Countries Asia ex-Japan Small Cap from the MSCI All Countries Asia ex-Japan index on 1 February 2020. This change reflects the fact that the manager finds more investment opportunities at the smaller end of the market cap spectrum.

The fund manager: Nitin Bajaj

The manager's view: Starting 2021 in 'a good place'

FAS's portfolio manager, Nitin Bajaj sees two key factors at play in equity markets. Firstly, market sentiment towards the value stocks that comprise 90% of the portfolio has been very unfavourable for many years. At the same time, the stocks of small and medium-sized companies, which comprise the bulk of FAS's holdings, have also underperformed in a market dominated by mega-cap names. While there has been a recent improvement in the performance of value stocks, including in the Asian region, and smaller-cap stocks have participated in this bounce back, as discussed above, they remain broadly unloved.

However, these adverse influences have not reduced Bajaj's confidence in the fundamental logic of his value-driven investment approach. 'Over time, Asian value companies normally grow earnings faster than growth companies', he says. Bajaj believes that history and probabilities both suggest that value investing will eventually return to favour, rewarding patient investors with a long-term perspective. In the meantime, the current extreme disparity in the valuations of value and growth stocks has created an unprecedented opportunity to invest in good companies at competitive prices. 'We have taken advantage of market apathy towards value stocks to acquire a lot of interesting businesses', he says.

Contemplating the year ahead, Bajaj reiterates his conviction that diversification into Asian countries other than China, and into a variety of good businesses across the region, continues to make good investment sense. 'And on average, the trust owns better businesses than the market, bought at better prices, so the portfolio is superior to the market in quality, at a cheaper price', he argues. 'FAS is in a good place. The trust's shareholders are set to reap the rewards as and when its smaller-cap, value stocks come back into vogue', Bajaj concludes.

Asset allocation

Investment process: Seeking good businesses, at good prices

FAS's manager seeks to invest in good businesses with robust balance sheets, run by competent managers. Bajaj's criteria for judging good managers include a capacity to allocate capital wisely, and a willingness to treat their employees, customers and shareholders honestly and fairly, and he will only invest in businesses whose managers he feels he can trust.

Bajaj favours undervalued smaller-cap companies that have the capacity to grow into 'the winners of tomorrow' but have not been recognised by the wider market. Purchasing companies at a discount to their intrinsic value provides the manager with a margin of safety that assists him in his aim to avoid large losses. There are c 18,000 listed companies in Asia, providing a deep pool of investment opportunities.

The manager highlights three elements of the investment process:

- **The business:** this is the first and most critical step. Bajaj and his team take the view that they buy 'businesses' rather than 'stocks' and they aim to understand the key drivers of each business, its industry structure, management team, history, a firm's competitive advantage and durability. The team analyses the last 15–20 years of a company's financial statements to understand its returns on capital over an economic cycle. This analysis is followed by meetings with a firm's management team and other interested parties, including its customers and competitors. This process has not been materially disrupted by the coronavirus crisis, as visits to stakeholders continue, virtually.

- **Valuation:** the entry point for a new position is important, as it sets the base price for compounding capital and determines a margin of safety. Valuation metrics employed by the team vary, depending on which are the most logical for each company.
- **Downside protection:** to help mitigate the risk of big losses in FAS's portfolio, the manager avoids companies with untested business models, or those with high levels of debt. He does not overpay for a good business and is not prepared to buy a bad business even if it is cheap. He will not initiate a position during an industry down cycle.

The principles of responsible, sustainable (ie ESG) investing are embedded into Fidelity's research and investment process. Fidelity believes that companies which flout laws or do not respect their employees, customers or communities will not be able to sustain high returns over time. Fidelity is encouraged that the investment community and consumers in general are paying more attention to ESG-related issues and believes that adherence by companies to the principles of sustainability will have an increasing impact on demand for their goods and services, so behaving responsibly makes good sense for companies and thus their investors.

Fidelity's analysts and managers monitor the actions of corporates and, where necessary, engage with them with the aim of improving their behaviour. This process does not rely on external ratings. Fidelity is building up its internal sustainable ratings capability. FAS's manager notes that this capability is especially valuable in assessing small and medium-sized companies, as external ratings agencies do not cover around 50% of the stocks held by the trust. If Bajaj is unhappy with a company's response to his engagement efforts, he will sell his holding.

Current portfolio positioning

At the onset of the coronavirus crisis, as the economic implications of the crisis became clear, FAS's manager sold or materially reduced exposure to a number of businesses which were well-financed for a normal recession, but not prepared for the unusually extreme challenges posed by severe and protracted lockdowns. More recently, Bajaj has made some further sales, mainly due to profit taking on holdings that have performed well despite the pandemic. One such example is Tianneng Power, which controls 85% of the market in batteries for e-bikes. The manager bought this stock at 4x earnings, well below its intrinsic value, and has since seen significant growth in earnings and margins. Demand for e-bikes has soared as people seek alternative modes of transport to avoid crowded buses and trains. Bajaj took profits in the summer when Tianneng Power's price rose to 12x earnings, but when its price subsequently slumped, he reopened the position at 6x earnings.

The manager has also taken advantage of the market's sharp sell-off to acquire other severely sold-down businesses, which he expects will not only survive the pandemic, but emerge from it in a stronger competitive position. One such company is an Indian company, Shriram Transport Finance, which finances second-hand truck purchases by disadvantaged individuals without bank accounts or credit records. Bajaj believes this is a 'great' business, with no competition, which has provided a 15% return on equity each year over the past 10 years. Yet this company was trading very cheaply, at only 7x earnings – so he has added to FAS's existing position. Shriram Transport Finance is now one of the trust's top 10 holdings. The manager has also acquired a position in a sportswear manufacturer that produces clothing for several big companies, including Uniqlo and Target. This company should benefit from its decision to move its production base from China to Vietnam to reduce costs, and it is increasing its market share.

Exhibit 3: Portfolio exposure by market cap (% unless stated)

	Portfolio end-Dec 2020	Portfolio end-Dec 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
>£10bn	16.7	12.4	4.3	0.0	16.7	0.7
£5-10bn	3.7	4.8	(1.0)	0.4	3.3	1.4
£1-5bn	20.5	14.9	5.6	49.7	(29.2)	(0.5)
£0-1bn	57.3	63.3	(6.1)	45.8	11.5	5.5
Other index/unclassified*	1.9	4.7	(2.8)	4.1	(2.2)	(2.1)
	100.0	**100.0**		**100.0**		

Source: Fidelity Asian Values, Edison Investment Research. Note: Adjusted for cash. *Includes short positions.

FAS's bias towards small- and medium-cap companies is illustrated in Exhibit 3. At end-December 2020, over half of the portfolio was invested in stocks with a market cap under £1.0bn and a further 20.5%of the portfolio was held in companies with market caps between £1.0 and 5.0bn. The remainder of the portfolio was invested mostly in large-cap companies, which tend to be in the top three in their sector. There has been some upward drift in the average cap size of the portfolio over the year to end December 2020. This is not a top-down or asset allocation decision on the part of the manager but rather the result of his bottom-up stock selection, including acquisitions of or increased exposures to some larger companies such as HDFC Bank and Axis Bank, SK Hynix and Taiwan Semiconductor Manufacturing, which the manager believes were particularly attractively priced. Market movements have also had an impact on average cap size – recent gains by several FAS holdings, discussed below, have pushed these holdings from lower market cap buckets into higher buckets.

Exhibit 4: Portfolio geographical exposure vs benchmark (% unless stated)

	Portfolio end-December 2020	Portfolio end-December 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
India	22.2	22.3	(0.2)	17.6	4.6	1.3
China	20.7	21.4	(0.7)	13.1	7.6	1.6
South Korea	11.7	11.0	0.7	21.2	(9.6)	0.5
Indonesia	8.7	10.1	(1.4)	2.3	6.4	3.8
Taiwan	8.6	6.2	2.3	24.2	(15.6)	0.4
Hong Kong	7.5	5.3	2.3	6.4	1.1	1.2
Australia	7.2	2.5	4.7	0.0	7.2	N/A
Other	5.6	7.1	(1.5)	8.6	(2.9)	0.7
USA	3.0	5.8	N/A	0.0	3.0	N/A
Singapore	2.5	3.8	(1.3)	5.6	(3.1)	0.4
Philippines	2.4	4.5	(2.1)	1.0	1.4	2.4
	100.0	**100.0**		**100.0**		

Source: Fidelity Asia Values, Edison Investment Research

FAS's manager does not focus on the geographical or sectoral spread of the portfolio. Rather, as with market cap weightings, allocations across countries and sectors are the result of individual stock selection. However, as can be seen from Exhibits 4 and 5, the portfolio is well-diversified across countries and sectors. At the end of December 2020, its largest geographical allocation was in India, which comprised 22.2% of the portfolio (an overweight of 4.6pp). In addition to Shriram Transport Finance, mentioned above, four other Indian companies occupy places in FAS's top 10 holdings, including the top three rankings. In addition to Indian banks Axis Bank and HDFC Bank, Granules India is the country's largest producer of a limited range of high-volume, low-value generic drugs, a business model which results in a low cost of production. Power Grid Corporation, the sixth largest holding, is a high-quality regulated electricity transmission monopoly with impressive growth. China is FAS's second largest geographical allocation (20.7%) and its largest overweight (7.6pp). Positions in Chinese companies include top 10 holdings in China Yongda Auto Services, a leading premium auto dealer benefiting from strong demand from China's burgeoning middle class, and Fufeng Group, a food additives producer with a leading market share in the supply of food additive monosodium glutamate (MSG). The trust also held a notable out-of-index position in Australia (+7.2pp) due to the acquisition of several gold and nickel miners whose valuations reached very attractive levels, and an overweight to Indonesia (+6.4pp). FAS's heaviest underweights are to Taiwan (-15.6pp) and South Korea (-9.6pp), where high-quality, attractively priced businesses are more difficult to identify. Nonetheless, Taiwan Semiconductor Manufacturing Company, the world's largest semiconductor foundry and South Korean company SK Hynix, the world's second largest maker of DRAM memory, are both in FAS's top 10 holdings.

On a sectoral basis, at the end of December 2020, the trust's most significant positions were overweight allocations to consumer discretionary (with an overweight of 11.0pp compared to the index) and financials (7.3pp overweight), and underweights in real estate (7.4pp) and IT (5.4pp).

FAS's portfolio is not highly concentrated. It currently holds around 130 stocks, with 20.7% in the top 10 holdings as at end-December 2020, and a long tail of small holdings. It is the manager's intention to reduce the number of holdings to 115–120 over time. Under normal market circumstances, he usually makes acquisitions with a three- to four-year time horizon, suggesting annual turnover of 25–35%. However, turnover was greater in 2020, as the manager made precautionary disposals and also sought to take advantage of opportunities presented by the market sell-off. Turnover reached 50% earlier in the year, but has since settled at around 30–40%. The portfolio's recent higher turnover is reflected in the fact that seven of the portfolio's top 10 holdings at end December 2020 were not among its top 10 list in December 2019.

The portfolio is presently ungeared on a net market basis. While the manager sees many more investment opportunities that he could exploit with the use of gearing, for the moment he prefers to adopt a more cautious than usual stance, given the unusual and potentially highly volatile nature of the current market environment. However, he has indicated that he may increase gearing slightly when circumstances allow. The portfolio currently has short positions comprising 1.0–1.5% of the portfolio.

Exhibit 5: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-December 2020	Portfolio end-December 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Consumer discretionary	23.0	20.9	2.1	12.0	11.0	1.9
Information technology	15.5	11.6	3.9	20.8	(5.4)	0.7
Financials	15.3	17.0	(1.7)	8.0	7.3	1.9
Industrials	12.1	13.4	(1.3)	15.0	(2.9)	0.8
Materials	9.6	5.4	4.2	10.4	(0.8)	0.9
Healthcare	7.3	7.1	0.2	10.1	(2.8)	0.7
Consumer staples	6.5	7.8	(1.3)	4.7	1.8	1.4
Utilities	4.3	6.3	(2.0)	2.4	1.9	1.8
Real estate	3.2	3.7	(0.5)	10.6	(7.4)	0.3
Energy	1.9	4.4	(2.6)	1.7	0.2	1.1
Communication services	1.3	2.3	(1.0)	4.2	(2.9)	0.3
	100.0	**100.0**		**100.0**		

Source: Fidelity Asian Values, Edison Investment Research

Performance: Improving recently as headwinds ease

Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Blended Benchmark (%)	MSCI AC Asia Ex-Japan (%)	CBOE UK All Cos (%)
31/01/17	54.3	42.1	37.1	37.1	20.9
31/01/18	7.4	8.7	27.3	27.3	11.3
31/01/19	10.8	(0.4)	(7.4)	(7.4)	(3.9)
31/01/20	(7.6)	(3.4)	5.3	5.3	10.5
31/01/21	12.9	17.6	29.3	31.1	(8.6)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

The trust has delivered positive absolute returns over both the short and longer terms (Exhibits 7 and 8). Performance has been particularly strong over the six months to end-January 2021, when the trust returned 27.7% on a share price basis and 22.6% in NAV terms. This compares to a rise of 20.2% in the trust's blended benchmark. However, performance has lagged the blended benchmark over longer periods. This longer-term underperformance is due in part to the fact that until recently, the trust has faced the dual headwinds created by its value style and smaller-cap bias at a time when investors have been focused on large-cap technology and other growth stocks, which have been the major driver of Asian equity markets, but which the trust does not hold. Noteworthy for UK investors is the fact that FAS's performance has outpaced the UK market over all periods except three months, on a NAV basis – a reminder of the diversification benefits of investment beyond the home market.

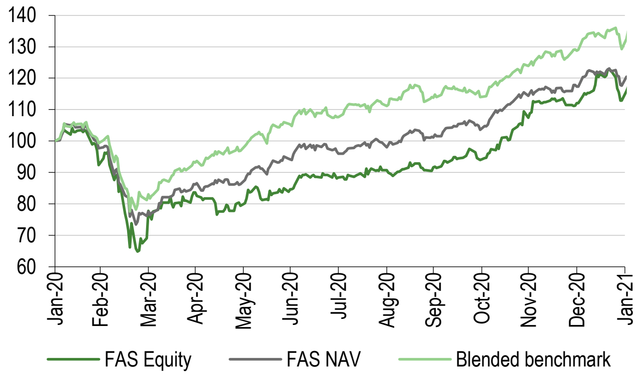
The recent improvement in the trust's performance suggests that some of the headwinds it has faced may be beginning to ease, thanks to the Q420 recovery in investor sentiment towards value stocks in general and the smaller-cap companies that FAS favours in particular. Some of FAS's Indian and ASEAN smaller-cap holdings, which have been lagging the market, benefited from this. In the six months to end-December 2020, Indian pharmaceutical company Granules was the top contributor to performance, followed by Indonesian ceramics manufacturer Arwana Citramulia. Demand for its products was boosted by the trend for home renovations as people are forced to spend more time at home. Taiwan Semiconductor Manufacturing also added to returns, as did the Indian private sector lenders, Axis Bank and HDFC Bank, second-hand commercial vehicles financier Shriram Transport Finance and Korean lead acid battery maker Sebang Global, all of which recovered and outperformed the index in Q420. Chip maker SK Hynix benefited from a rebound in memory chip prices as well as an improvement in the outlook for 2021.

The main detractor from performance over the six months to end-December 2020 was China Overseas Land and Investment, which fell out of favour after its parent company, China State Construction Group, was adversely affected by a change in US regulation. Utility companies Chaowei Power Holdings and Power Grid Corporation of India also hurt performance.

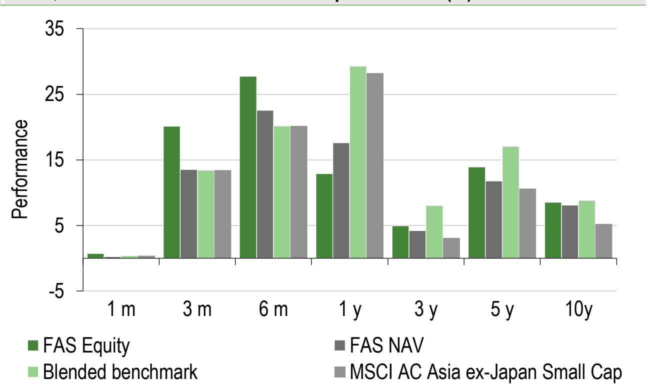
On a geographical basis, FAS's significant overweight to India was by far the most significant positive contributor to performance in H220. Its underweights to Taiwan and Singapore made lesser contributions, as did its overweight to Hong Kong, while its underweight to South Korea's tech and biotech-dominated market was the main detractor. On a sectoral basis, FAS's overweight exposure to financials contributed most to performance over the six months to end-December 2020, followed by its underweight positions in real estate and information technology. The trust's underweights to materials and healthcare had the largest adverse impact on performance on a sectoral basis.

Exhibit 7: Investment trust performance to 31 January 2021

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Blended benchmark	0.3	5.9	6.3	(12.7)	(8.3)	(12.9)	(2.5)
NAV relative to Blended benchmark	(0.1)	0.1	2.0	(9.0)	(10.2)	(20.6)	(6.6)
Price relative to MSCI AC Asia ex-Japan	(2.8)	6.2	6.0	(13.9)	(9.6)	(14.1)	(3.9)
NAV relative to MSCI AC Asia ex-Japan	(3.3)	0.3	1.7	(10.3)	(11.5)	(21.7)	(7.9)
Price relative to MSCI AC Asia ex-Japan Small Cap	0.3	5.9	6.3	(12.0)	5.5	15.8	36.6
NAV relative to MSCI AC Asia ex-Japan Small Cap	(0.1)	0.1	2.0	(8.3)	3.3	5.6	30.9
Price relative to CBOE UK All Companies	1.8	3.1	14.3	23.5	19.2	46.9	33.3
NAV relative to CBOE UK All Companies	1.3	(2.6)	9.7	28.7	16.7	33.9	27.7

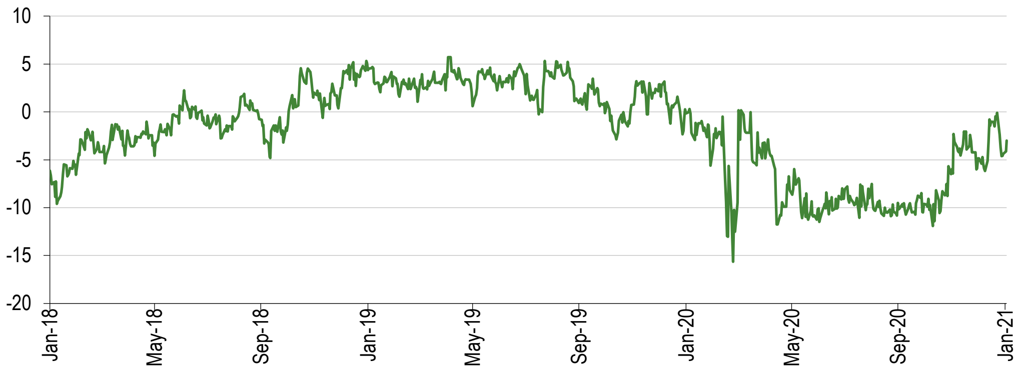
Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2021. Geometric calculation.

Discount: Improved performance sees discount narrow

FAS's share price was trading close to NAV at the onset of the coronavirus crisis. After widening to a discount of 15.7% in late March 2020, the share price traded at a discount of around 10% for several months over the summer and autumn, before narrowing to its current level of 3.0% as FAS's performance benefited from an improvement in investment sentiment towards smaller-cap value stocks. This compares with average discounts of 6.9%, 1.9%, 4.3% and 7.4% over the last one, three, five and 10 years respectively. The discount has scope to narrow further if this improvement in investment sentiment towards Asian value stocks is sustained.

The board has authority, renewed annually, to allot up to 10% in issue and to repurchase up to 14.99% of shares in issue. The board uses this authority to actively manage the discount. In the first half of the last fiscal year ending 31 July 2020, the trust's shares mostly traded at a premium and the board issued 266,000 shares. Between late March 2020 and the end of the last financial year, it repurchased a total of 1.6m shares. During the current fiscal year, the board has repurchased 0.7m shares.

Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

FAS has 73.2m ordinary shares in issue. It has a variable management fee (effective since 1 August 2018) based on the trust's performance versus the benchmark. The base fee is 0.7% of net assets per year, with a maximum of 0.9% and a minimum of 0.5%. This arrangement helps to compensate investors during periods of underperformance. In FY20, the variable management fee was 0.59%, 19bp lower than 0.78% in FY19. The FY20 ongoing charge was 0.98%, unchanged from FY19 and lower than the FY18 figure of 1.17%.

FAS is subject to a five-yearly continuation vote, with the next vote due at the 2021 AGM.

Dividend policy and record

FAS pays an annual dividend in December, from revenue reserves. In FY20, the trust paid a dividend of 8.5p per share, a 3.4% decline from the 8.8p per share paid in FY19, but significantly higher than the 5.5p per share paid in FY18. Over the long term, it is the board's intention to pay out what the trust receives in income. However, at end-FY20, revenue reserves stood at £9.8m (amounting to 13.2p per share), up slightly from £9.7m at end-FY19 (13.5p per share). The board views this retention of a small portion of FY20 income as a precautionary measure, given the unusual nature of the current market environment. Based on the current share price and the FY20 dividend, FAS offers a dividend yield of 2.0%.

Peer group comparison

FAS is a member of the AIC Asia Pacific Smaller Companies sector, due to its focus on smaller-cap stocks. As can be seen in Exhibit 10, the trust's NAV total returns ranked first among peers over one and five years and second over three and 10 years. Its discount is the narrowest in its peer group and its ongoing charge is competitive. No performance fee is payable and its gearing is average for the sector. The trust pays the highest dividend in the sector, 0.8pp above the average.

Exhibit 10: AIC Asia Pacific Smaller Companies sector as at 2 February 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Fidelity Asian Values	317.6	20.5	16.4	80.2	121.8	(3.0)	1.0	No	100	2.0
Aberdeen Standard Asia Focus	386.3	16.4	19.3	73.6	150.6	(9.7)	1.1	No	102	1.6
Scottish Oriental Smaller Cos	276.4	5.3	1.7	45.6	108.3	(14.3)	1.0	Yes	100	0.1
Average (3 funds)	**326.8**	**14.1**	**12.5**	**66.5**	**126.9**	**(9.0)**	**1.0**		**101**	**1.2**
Trust rank in sector	**2**	**1**	**2**	**1**	**2**	**1**	**3**		**2**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 1 February 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

FAS has five independent non-executive directors. Chairman Kate Bolsover joined the board in January 2010 and assumed her current role in December 2014. Grahame Stott was appointed as a director in September 2013, Michael Warren in September 2014 and Timothy Scholefield in September 2015. Clare Brady joined the board in August 2019. Between them, the board members have experience and skills in investment management, banking, financial services and consulting.

In the 2020 Annual Report, the board detailed its succession plan for the next four years. Graeme Stott will complete his nine-year tenure on the board in 2022 and will step down at the 2022 AGM. He will be replaced as Audit Committee chair by Clare Brady. Kate Bolsover will step down at the AGM in 2023, completing a nine-year tenure as chair.

General disclaimer and copyright

This report has been commissioned by Fidelity Asian Values and prepared and issued by Edison, in consideration of a fee payable by Fidelity Asian Values. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	1185 Avenue of the Americas	Level 4, Office 1205
60325 Frankfurt	London, WC1V 7EE	3rd Floor, New York, NY 10036	95 Pitt Street, Sydney
Germany	United Kingdom	United States of America	NSW 2000, Australia