Fidelity Asian Values (FAS)

FAS's managers' willingness to be contrarian has delivered a sharp recovery in performance...

Update
28 May 2025

Overview

Fidelity Asian Values (FAS)'s managers, Nitin Bajaj and Ajinkya Dhavale, are willing to be contrarian when building their portfolio of predominantly smaller companies from the bottom up, leading to a trust that often looks and performs very differently to both the index and peer group (see **Performance**).

They has delivered very strong outperformance, with the trust notably ahead over five years, despite periods of volatility, and even more so over ten years, with NAV returns over 50 percentage points higher than the benchmark. The benefit of FAS's contrarian strategy was most evident in late 2024 and early 2025, with the overweight to China, driven by stock selection, gaining from strong performance of Chinese equities over that period. Furthermore, the underweight allocation to India, where the managers struggled to find high-quality companies at attractive valuations, helped relative performance during a period when Indian equities underwent a significant correction.

Further aiding the alpha potential is the trust's **Gearing** facility. The managers use derivatives to enhance exposure to their highest conviction positions. Furthermore, the ability to short stocks offers the potential to benefit from falling share prices.

The trust's share price has also performed well over the past few months. This caused the trust's **Discount** to narrow, with it currently being the narrowest in the three-strong Asia Pacific Smaller Companies sector, although this has moved around following the volatility of the US tariffs announcements.

Another notable feature of FAS is the charging structure. This includes a variable element that is designed to return something to shareholders in the event that the managers should underperform their reference index (see **Charges**).

Analysts:
Ryan Lightfoot-Aminoff
Ryan@keplerpartners.com

Analyst's View

The strong recovery in **Performance** in the six months covering the final quarter of 2024 and into 2025 are a good demonstration of how Nitin and Ajinkya's approach with FAS can provide differentiated returns for investors, in our opinion. The China overweight and Indian underweight had been a headwind in the first half of 2024, but became a considerable tailwind when the market flipped, supporting both a short-term recovery, and long-term outperformance. We believe this is a useful reminder of the portfolio diversification benefits of a strategy such as FAS.

This is particularly evident when looking over the long term. Despite there being numerous periods in the past ten years, even as recently as early 2024, where FAS's contrarian positioning has looked at odds with prevailing market conditions, the trust has still delivered significant long-term outperformance, with c. 20% returns above the benchmark over five years, and nearly 50 percentage points ahead over ten. We believe it is a good demonstration of how a well-defined investment strategy can produce outperformance, despite shorter-term issues. In this context, we believe the trust's philosophy of investing in good businesses, run by good people and available at valuations that offer a considerable margin of safety remains a robust approach in the prevailing environment of tariff-driven uncertainty.

The recent volatility has also improved FAS's **Discount** opportunity in our view. Whilst share price returns had also been strong since September 2024, FAS remains at a discount. The level has moved around in the tariff-induced volatility, and could provide an attractive entry point for long-term investors.

BULL
Contrarian positioning means trust is well placed to capture early part of market rotations
Trust remains at a discount to NAV, which could provide an attractive entry point
Differentiated positioning offers good portfolio diversification benefits

BEAR
Asian smaller companies could be exposed to a potential trade war
Valuation discipline can lead to underperformance when momentum drives markets
Gearing can exacerbate market volatility, on both upside and down.

Portfolio

The managers of Fidelity Asian Values (FAS), Nitin Bajaj and Ajinkya Dhavale have a clear strategy in how they build their portfolio of primarily small- and medium-sized equities from across the Asian region. They look to identify high quality businesses, run by good management teams and then buy these at attractive valuations that offer a margin of safety.

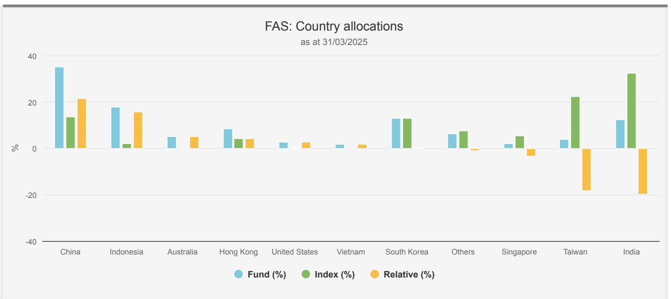
Nitin and Ajinkya take a bottom-up approach to identifying potential holdings, and look for companies with straightforward business models and strong underlying cash flows, that are run by a management team with consideration of minority shareholders, and that are currently trading at attractive valuations, often as a result of weak sentiment, as a company or wider industry may be under pressure that Nitin and Ajinkya believe is temporary. As a result of this latter, more contrarian element, the trust typically has a value bias, which often leads to differentiated positioning to its peers, and to its reference index, the MSCI AC Asia ex Japan Small Cap Index.

This contrarian approach has led to the managers having a bias towards Chinese companies, as they believe valuations were pricing in too much negativity. As we have discussed in **Performance**, this has led to strong absolute returns over the past few months, as Chinese stocks rallied on the announcement of a range of stimulus measures first introduced in September 2024. However, the managers believe that there are industry segments within the stock market in China that have been overlooked by the thematic rallies the market has seen and good businesses in these areas still offer considerable upside potential and are therefore significantly overweight.

This is due to the rally being primarily driven by 'new economy' stocks, such as tech company Xiaomi, whereas Nitin and Ajinkya have mostly identified opportunities in more 'old economy' names such as those focussed on the consumer. The rally hasn't been felt as strongly here, so the managers continue to hold their positioning on the belief that there is considerable upside still to come as the stimulus measures begin to cause a secondary impact in consumer sentiment. That being said, the managers have exercised their valuation discipline where their holdings have done particularly well and resized positions to take profits. One example of this is China Mengniu Dairy, which contributed significantly to performance in the six months to 31/01/2025, including a strong rally of over 40% in September alone.

The valuation discipline has also led to an underweight allocation to India, as the managers were concerned about inadequate margins of safety in the share prices of many companies. However, we note that in the past few months the Indian market has seen a considerable sell-off. This has been beneficial to performance, though has not yet caused Nitin and Ajinkya to add considerably to their holdings here as they don't tend to make big changes over the short term. We understand the managers are investing time in searching for ideas here, and their focus will likely become more acute should the sell-off continue. As a result, India is the largest underweight position in the portfolio on a country basis.

Fig.1: Country Allocations



Source: Morningstar

Another sizeable underweight is Taiwan. This is primarily a result of the managers' 'anti-tech' positioning, which we discussed in **our previous note**. They continue to believe the sector remains very driven by momentum, rather than fundamentals, and this is not a factor they are interested in. The Taiwanese market is dominated by tech companies – the MSCI Taiwan Index is over 77% information technology – and this has manifested in an underweight allocation in the country. The underweight to tech stocks is also apparent in other geographies too, with only one tech company held in China, for example.

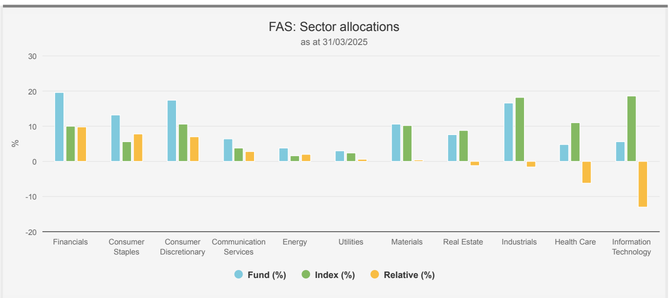
This has meant the headline sector allocations have remained broadly similar to how they were at the trust's financial year end on 31/07/2024, although there has been some rotation within sectors, trimming those that have performed well and adding where they see better value. The managers remain overweight the consumer though, with close to a combined third of the portfolio in the staples and discretionary sectors. Chinese companies make up a significant contribution to this, as the managers have identified a number of businesses with good fundamentals at attractive valuations. Indonesian consumer companies have also contributed to this overweight.

The managers believe the Indonesian market offers strong growth drivers, driven by attractive demographics that have led to a number of high-quality companies with good management teams and attractive growth prospects. However, as the country is off the radar of most investors, Nitin and Ajinkya can invest in these under-researched companies at attractive valuations. One example is Surya Pertiwi, a consumer staples company specialising in sanitary products. They are the only local distributor of top-end Japanese brands, and therefore have a high market share in a sector that is expected to benefit from an increase in demand as the country's middle class expands.

Elsewhere in Indonesia, the managers hold a number of banking stocks, which have contributed to a portfolio overweight to financials. They believe these companies offer exceptional value as a result of the country's strong demographics supporting growth. The broader allocation to banks, which includes a number of Indian companies, has mostly been taken via larger companies. The approach to analysing these companies follows the same process as for smaller companies, with valuation still a crucial factor. By having the flexibility to invest in a select number of larger-cap companies, it not only helps with the portfolio's liquidity management, but also allows the managers to gain access to some unique businesses they wouldn't otherwise access in their market. We believe this approach arguably helps differentiate the trust to its direct peers and offers a wider range of potential performance drivers.

Whilst slightly underweight versus the reference index, the real estate sector remains a notable allocation. This is primarily a result of Chinese property management services, as well as some high-quality names in Indonesia and India. Nitin and Ajinkya believe these offer steady income generation and good cash generation, as demand for managing existing occupied property blocks and public areas remains steady even in a property market downturn. They also have a small allocation to some property developers. Whilst these have been under significant pressure over the past few years following the slowdown in construction, the managers have been selective and identified some very attractively valued names with solid balance sheets and cash on hand. They point to the industry showing signs of stability, which could offer upside from the current low valuations.

Fig.2: Sector Allocations



Source: Morningstar

Gearing

Nitin and Ajinkya have the ability to use their gearing facilities in two ways in order to help generate long-term alpha for the trust. To do this, they use contracts for difference (CFDs), which are financial instruments that allow the managers to take more exposure to names they like than the amount invested, hence acting as gearing without the traditional borrowing facilities . They also allow them to take short positions and therefore benefit from stocks where they think share prices could fall back. This allows the managers to generate additional alpha from their long positions, as well as from companies they are negative on, offering considerable potential to contribute to outperformance over the long term.

The decision as to whether to utilise gearing will depend on the opportunity set the managers identify in the market. If they find a large number of quality stocks at attractive valuations, the level of net gearing will increase and vice versa. Net exposure was 108% as at 31/03/2025. This is up on the 106.2% figure at the financial year end on 31/07/2024. The level of gross exposure, which includes the allocation to c. 12 short positions, is currently 117.2%, again up slightly on the 113% at the year end. We understand the changes in net and gross exposure have broadly been driven by market movements rather than any deliberate actions by the managers.

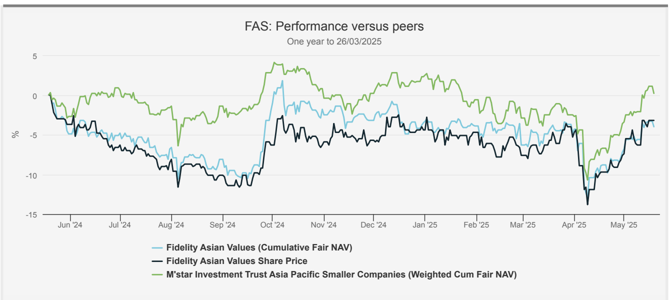
The managers increased their gearing in early 2024 as a response to what they believed were very attractive valuations, most notably in China, where they felt the market was pricing in no recovery. As we have discussed in **Performance**, the rally in China has had a positive impact on returns, although the managers believe there is more to come.

Performance

The managers' contrarian positioning led to FAS capturing much of the stimulus-led rally in late 2024 and early 2025 to deliver strong returns over both the short and long term. To put this into context, FAS outperformed its benchmark, the MSCI AC Asia ex Japan Small Cap Index, by over seven percentage points in the six months to the end of February 2025, which is the main period of the rally, including by over five points in the first two months of 2025 alone, although both the trust and index have since fallen back in the wake of the tariff-induced market volatility in early April. Despite this, long-term performance remains very strong, with FAS outperforming its benchmark significantly over five years, and even more so over ten, where FAS's NAV return is close to double that of the benchmark.

Much of this performance came as a result of the trust's China allocation. Nitin and Ajinkya had found a large number of high-quality companies trading at compelling valuations, leading to a significant overweight. This had been a headwind in the first part of 2024, but following the announcement of a range of stimulus measures designed to address several of the country's problems, including the weakness in the property sector and employment market, which had had depressed consumer spending and from September 2024 onwards, this reversed. The subsequent rally had reversed all of the underperformance and put the trust ahead of the benchmark over 12 months. However, the recent volatility in the light of US tariff policy has led to a sell-off in recent weeks, and so in the year to 19/05/2025, FAS returned -4.0% compared to the benchmark return of -3.1%.

Fig.3: One-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

The portfolio's underweight allocation to India was a notable contributor in the six months to 28/02/2025. During this period the managers were on average 16% underweight to the country, as they believed that valuations were excessive. Following a mix of factors, including interventions from regulators, and a number of firms missing admittedly lofty earnings expectations, the Sensex fell c. 15% from its peak in September 2024 to early March 2025. Smaller companies were particularly heavily affected in this sell-off, leading to positive relative attribution from the underweight stance. In the trust, the managers' Indian allocations are primarily in the banks, which performed in line with the market in the sell-off and therefore were the largest detractor to performance in the six months to 31/01/2025. Despite the broader downturn, an Indian company, outsourcing business Genpact, was the largest contributor to performance in the first half of the financial year. Whilst most of the company's revenues are derived in India, the stock is actually US-listed. The shares have had a good run throughout 2024 and into 2025 after demonstrating that AI would not have the detrimental effect on its key businesses that the market had expected, which had previously weighed on the share price in 2023.

Beyond this, the Chinese holdings were some of the largest contributors to performance, following the strong rally in the second half of 2024 and into 2025, prior to the tariff-induced sell-off. One example has been Full Truck Alliance, which added 60bps to performance in the half-year to 31/01/2025. This digital platform, often referred to as 'Uber for trucks', offers logistics services for goods vehicles in China. The company has benefitted from strong operational execution, as well as improved sentiment in the region, with shares up over 70% since September 2023 (to 31/03/2025). The managers' 1.1% overweight has delivered positive stock selection attribution.

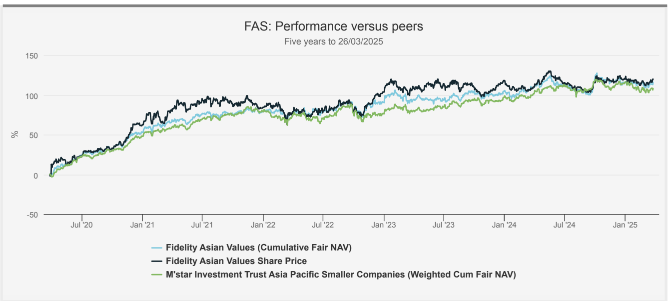
Whilst China initially rallied hard in September 2024, it faded as further measures didn't quite meet the high expectations of investors. However, the Chinese equity market performed well in the first quarter of 2025 due to the thematic trends of DeepSeek and AI, and this provided further support to FAS's absolute performance. However, whilst the China overweight was positive, their holdings slightly underperformed the Chinese market in relative terms. This is because the rally was largely been driven by 'new economy' stocks, such as tech manufacturer Xiaomi, and related businesses. Nitin and Ajinkya have found the best value opportunities in more 'old economy' stocks such as consumer discretionary names, which did not quite keep up in the rally, though these have still contributed in absolute terms.

For their holdings to outperform, the managers believe there needs to be a sustained recovery in company earnings. They argue that the impact of the stimulus measures has begun to trickle through to the earnings of the consumer facing stocks and should this become more consistent, it would persuade other investors back to the market and cause a second rally. This would have a particular impact on the trust's real estate holdings. The managers have identified a number of attractively valued companies here, especially in the property servicing providers, and whilst these are offering good defensive, recurring revenues that have provided stability, the change in sentiment could lead to a considerable uplift in share prices.

Outside of these two key markets, the managers saw positive contribution from Japfa Comfeed Indonesia, which performed well despite weakness in the wider Indonesian market, although the overweight in the country as a whole has been a detractor. The managers have since taken some profits from Japfa, though continue to hold the stock. The trust also benefitted from off-benchmark positions in two Australian gold miners, which rose on the back of the strong gold price.

Overall, the strong periods of recent performance have contributed to significant outperformance of the benchmark over the long term, with FAS having delivered a NAV TR of 87.7% in the five years to 19/05/2025, versus the benchmark of 71%. We believe this recent performance is a good demonstration of the benefits of the trust's approach of willing to be contrarian in identifying undervalued opportunities. Over the past year, the managers note that their positioning did not change, but the market did, and whilst the initial positioning was a headwind, the trust was well placed to capture the market recovery and over the full period this had led to notable outperformance. As such, it demonstrates how this approach can offer a differentiated performance profile, which may appeal as part of a wider portfolio.

Fig.4: Five-Year Performance

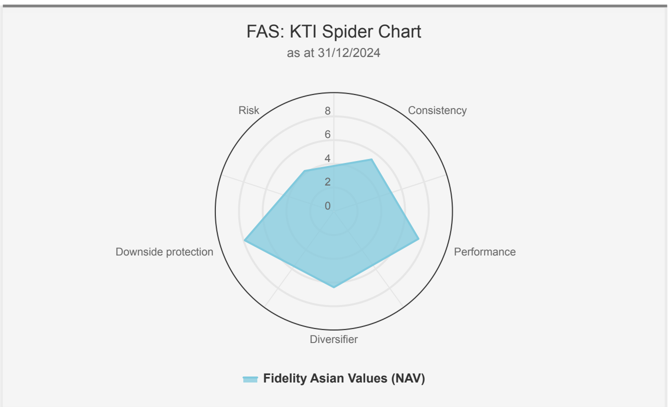


Source: Morningstar

Past performance is not a reliable indicator of future results.

Our proprietary KTI Spider Chart is shown below. This shows how FAS has performed versus a wider peer group of 12 Asia Pacific investment trusts over the past five years, in some key categories. Each category is scored out of ten and scores are normalised to the peer group, with a higher score indicating a superior characteristic. FAS has scored considerably above average for performance as a result of its good alpha generation, especially versus the wider peer group. The score for downside protection is also above average as a result of the underlying score for the trust's worst five-month period being above average relative to the peer group. FAS also scores above average as a diversifier, which we would attribute to the differentiated positioning, with the portfolio of smaller companies offering something very different to the normal portfolio of stocks seen in an Asian equity portfolio. The trust does score below average for risk, although we believe this is to be expected for a smaller companies trust.

Fig.5: KTI Spider Chart



Source: Morningstar

Past performance is not a reliable indicator of future results.

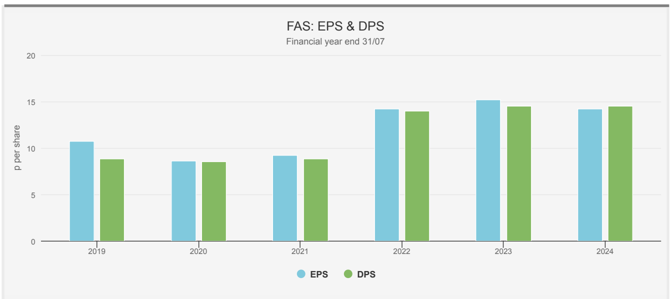
Dividend

FAS paid an annual dividend of 14.5p in the 2024 financial year, ending 31/07/2024, to match the amount paid in the previous year. Based on the current share price (as at 19/05/2025) this offers a historic yield of 2.8%, which compares to c. 2.5% for the benchmark.

Despite yielding in excess of the benchmark, this is not an explicit policy of Nitin and Ajinkya. Instead, it is an output of their investment approach, with three factors contributing to this. Firstly, by investing in high quality businesses, they typically identify firms with strong underlying cash flows, which can often translate into good dividends. Secondly, looking for good management teams, with one factor behind this being the consideration of minority shareholders, often typified by a dividend payment and thirdly, buying these at good valuations that offer a margin of safety, with the dividend one element of this. Therefore, whilst the dividend is not a target for the managers, we believe it can be a not insignificant part of the overall investment proposition of the trust.

The latest dividend was slightly below the revenue generated in the financial year, meaning that a small contribution came from the trust's revenue reserves. As at the year end, these were equivalent to 1.4× the year's dividend amount, which we believe is considerable and can help support the dividend going forward.

Fig.6: EPS & DPS



Source: Fidelity

Management

Nitin Bajaj is the portfolio manager of FAS, having taken over management in April 2015. Nitin has been at Fidelity since 2003, where he started out in the London office as a research analyst before becoming assistant portfolio manager for the Fidelity Global Special Situations fund, one of the most well-known open-ended funds in the UK. In 2009, he moved to Mumbai to take over management of Fidelity's domestic Indian equity funds, before moving to Singapore in 2013 to assume management of FAS, as well as the open-ended version, Fidelity Asian Smaller Companies. Nitin is a chartered accountant, as well as a holder of a Bachelor of Commerce degree from the University of Delhi and an MBA from INSEAD.

He is joined on the trust by co-portfolio manager Ajinkya Dhavale, who is also based in Singapore. Ajinkya has been working on the trust since June 2020 and was promoted to co-manager in February 2024. Prior to this, he was an analyst covering small-cap equities, with a particular focus on Korea and Taiwan, as well as the technology sector. Ajinkya is a chartered accountant as well as a CFA charterholder and holds a Bachelor of Commerce degree from the University of Pune.

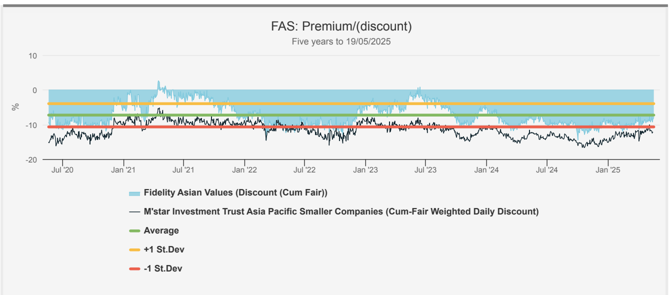
The managers have access to the wider Fidelity research teams across Asia, including offices in Hong Kong, Shanghai and Singapore. This is one of the largest on-the-ground research teams in the sector and includes specialist teams for IPOs and shorting, of which Nitin is one of the analysts. Despite this wide shared resource, each portfolio manager is allowed to undertake their own investment style. Nitin has a bias towards value investing, although he still has a strong focus on quality.

Discount

FAS trades at a discount of 8% at the time of writing, slightly wider than its five-year average of 7.3%, although narrower than the average of the three-strong peer group of 12.2%. FAS's discount has narrowed over the past c. eight months following the impact of the stimulus-driven rally in China. This is arguably a sign that investors are aware of the trust's exposure to this market, and have responded to the news accordingly. However, FAS's discount, along with the peer group, widened in the tariff induced sell-off in April 2025. Despite this, we believe the discount could narrow should the market stabilise, or if China's stimulus measures either begin to have an effect on consumer sentiment, or are expanded further.

The board has been active with share buybacks to help narrow the discount over the past couple of years. In the period covered by the most recent interim results, to 31/01/2025, just over 1.5m shares were bought back, equivalent to c. 2% of the opening share capital. In just the short period since, a further c. 1.5m have been bought back, with the most recent purchase being on 19/05/2025.

Fig.7: Discount



Source: Morningstar

Charges

FAS's fee structure has a performance-related component designed to increase the alignment of interests between manager and shareholders and reduce the fee burden if the trust underperforms. The management fee has two elements to it. There is a fixed charge of 0.7% of net assets, then a variable element that will add or remove up to 0.2%, based on the performance of the NAV relative to the trust's benchmark. This is calculated daily and based on three-year rolling performance. For each percentage of outperformance, 0.033% is added to the management fee, to a maximum of 0.2%, akin to a performance fee, although also with the inverse for any underperformance. We believe this approach provides a strong incentive to the managers to outperform. In the most recent month (March 2025) the full 0.2% was added to the AMC as a result of the strong relative performance.

FAS's latest OCF is 0.95%, which compares to a weighted average of 0.93% for the AIC Asia Pacific Smaller Companies peer group, according to figures by JPMorgan Cazenove. Following regulatory changes to cost disclosure rules, **discussed here**, FAS has not declared a KID RIY in its most recent publication of the document dated 31/07/2024. We note that there are further changes expected that mean the methodology behind this figure could change.

ESG

The consideration of environmental, social and governance (ESG) risks is integrated into the stock analysis across the Fidelity business. They are considered alongside the fundamental analysis performed on each company by the analyst within each investment team and given a proprietary score called the Fidelity Proprietary Sustainability Rating, which has been in place since 2019. This incorporates factors from 99 individual and unique subsectors.

Nitin has a firm view that good management teams are characterised by their all-round approach to sustainability as part of their DNA. Whilst all factors are considered, governance is paramount. They believe that the quality and conviction of management teams is vital to the investment case and this analysis has been part of the process for a considerable time.

Morningstar rate the trust as below average for ESG, scoring the trust as only one out of five globes on their sustainability rating. We note though that only c. 83% of the portfolio is covered, meaning a notable percentage will be given no score.

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.