

## Fidelity Connects

### The Silk Road: Asia-Pacific Equity Opportunities

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**Voiceover:** Hello and welcome to Fidelity Connects – the Fidelity Investments Canada podcast - connecting you to the world of investing and helping you stay ahead.

While plenty has happened in the western markets last year and in the first six weeks of this year, there are many growth opportunities presenting themselves overseas in Asia.

Portfolio manager, Eileen Dibb joins us to discuss her two mandates, Fidelity Japan Fund and Fidelity AsiaStar Fund, and how she continues to find growth through the pandemic.

Eileen notes that with the new Biden administration steps could be taken in normalizing the relationship between the U.S. and China. Sha also tells host Pamela Ritchie, that from an environmental standpoint China has become strong producers of solar and wind energy in recent years and have made significant progress in their push to purify their air.

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[01:41]

**Pamela Ritchie:** Geographic allocation is an important factor in building portfolios. Sometimes a home bias can get in the way of opportunities to seek better risk-adjusted returns elsewhere and achieve better diversification. In 2021, as different economies around the world recover at different rates, this topic could have an even bigger impact. To explain why the Asia-Pacific region is en vogue and getting a bigger share of assets for some investors we're joined by portfolio manager, Eileen Dibb. Welcome back, Eileen, great to see you.

**Eileen Dibb:** Hi Pamela, great to see you too.

**Pamela Ritchie:** Eileen. I'm going to begin with the headlines. We saw that President Joe Biden of the U.S. was speaking with President Xi of China, and a few messages from the phone call have been released. I actually took that Joe Biden would like to do some infrastructure spending in the U.S. as the message from the overall call. What did you take that's perhaps more investible on the Asian front?

**Eileen Dibb:** I think there are always lines walked in these calls. I think President Biden has a slightly different platform than former President Trump. He needs to do a nice dance between cooperation on things like possibly climate change but also take a hard line on the economics, and that's what he seemed to be saying yesterday. He needs to refocus at home and try to make sure that manufacturing here in the states is as robust as possible, also to deal with the trade issues that have been put out by previous administrations and figure out where he stands on that. At the moment I think all of the trade tariffs are staying in place, and I think the phone call was really a first step to normalizing relations on the global front for the U.S.

[03:45]

**Pamela Ritchie:** The Lunar New Year is going on right now. It's going to be a different holiday. It's been a different holiday for many people around the world, all different types of holidays, but at this moment is there a bit of a reflection on the global push towards environmental standards that every country is reviewing how they come out of this moment and a refocus, hitting certain environmental standards. To what extent really is that investible in China, but also across the region?

**Eileen Dibb:** The region in general has a mixture of focus on climate. China has put a big push on climate over the past decade in particular. There was a time when steel manufacturing was highly pollutive in China and they've really had to focus on air quality and things like that. Now they're looking at carbon emissions and there is a new focus on zero, zero net carbon emissions, and across the region a number of countries have put in place plans to take their emission standards down to zero. China has a big presence in solar. It is a big producer of solar wafers and modules really across the spectrum. They have big manufacturing capacity there so that's an important technology. They also have focused on wind, and our focus internally, part of our research focus is currently on hydrogen and where does hydrogen fit into the spectrum of renewables and energy. Across the region there is definitely a range of outcomes that the countries are looking at, but within that a big focus in China is really important going forward and will give us investment opportunities over time.

[05:56]

**Pamela Ritchie:** Let's go into the funds themselves, and we'll take a look at some of the sectors and themes that you're working into the funds, but go first with AsiaStar and then to the Japan Fund. Tell us a bit about the mandate of each.

**Eileen Dibb:** Japan only, and we'll start with that, it tends to be a lot of factors across the region, but played through Japanese stocks. It's one country, it's generally a much more refined mandate than AsiaStar. AsiaStar, which is benchmarked to the MSCI AC Asia-Pacific Index, has countries and exposure to everything across the region. It has everything from India, to China, to Australia to Japan. It is a good mixture of everything in the region, and I tend to focus a lot on secular growth, a lot on themes within the region, a lot on individual stocks that have great opportunities for growth. AsiaStar brings that all together in one package. You get exposure to all kinds of different things. Really, I look at it as sort of a best-of-Asia portfolio for the most part, where it's really about what is going to succeed over the next 5 to 10 years, and how do we look at that at Fidelity. What are our research analysts telling us about these stocks, about these countries and about these industries?

So it's a really wide exposure and encompasses almost everything in Asia outside of ... we don't do frontier markets, which are some of the smallest, most recently opened markets, but pretty much everything else there's some sort of exposure there.

[08:03]

**Pamela Ritchie:** When we look at some of the themes that you've been invested for some time, we've actually spoken about EVs and the focus on electric vehicles for some time. There are some EV makers that have made headlines and seem to be competing with EV manufacturers here, but there are also just plays on that theme generally. Do you want to sketch that out for us if whether it's the makers or perhaps the themes and associated pieces of the EV trend?

**Eileen Dibb:** EV in China has been pushed by the government. They have put on new standards for cars on one hand that have full EV, and that expands also to hybrids. In the region there is a number of ways to play the EV trend. We have Japanese auto makers who are exposed to it, and Japanese component makers. There are also Chinese auto makers, there are battery makers, and I think we've talked about batteries before. That is a big production base in Asia not only for China and Japan but also for the U.S. So really there's a big range of ways to play EV in the region, and it's really getting pushed forward. It's one of China's initiatives really to have a good percentage of cars electrified by a certain year. Here in the U.S., we've also had a push to have the gas fleet turned into EV going forward. I tend to play this through components makers who go into the vehicles, and I think we've talked about this before maybe, but when you look at components versus cars, each electric vehicle has so many more components of certain types than past generations. That's what I like to focus on, where that growth comes from, and there's a lot of different ways to play that in Asia.

[10:17]

**Pamela Ritchie:** Tell us a little bit about the commodities. Along with the transition to different types of energy and how we're going to energize ourselves in every facet of humanity, the commodities discussion does come up. Is there a way to play what we're seeing in commodities right now through your funds?

**Eileen Dibb:** Yes, absolutely. I look a lot at the base commodities. What's happening in iron ore, what's happening in mills and mining, but also there are other ways to play that as well. Inflation, right? If we look at inflation, it is often driven by the prices of commodity going up, and you look at oil, we have just seen the price of oil rebound. We have just seen the price of iron ore rebound. All of those commodities are potential places for us to invest. But then we can also invest in things that take advantage of inflation. Financials, for example. If we see inflation across the board, I would also expect interest rates might rise. If interest rates rise, maybe banks' earnings do better 'cause we see an improvement in net interest margins. Maybe we don't see as many NPLs, so the overall income can rise at some of the banks.

Really, I look at it across the whole spectrum trying to find those companies that have the most leverage to some of these factors, like commodity price increases, whether it be the commodities itself, or a financial holding or something like that. We do have several holdings across AsiaStar and the Japan Fund that do take advantage of commodity prices rising at the moment.

[12:15]

**Pamela Ritchie:** Let's go to Japan right now. You've talked about investing in structural change and structural themes, they are changing the make-up of how their exchanges work, is that right? Can you talk a little bit about that in Japan?

**Eileen Dibb:** Yes. This is a big shift that is coming in Japan. There are currently about five different exchanges in Japan, from the TSE1 which is about 2,100 stocks, has a very large-cap component. Then you have something like the Mothers Growth Index, which — or JASDAQ, sorry. Mothers, which is a growth index, and then the JASDAQ Growth Index, which are smaller, growthier companies. That range of indices is going to be put into three. They have tentatively put names on those, but it will be Prime, Standard and Growth are the tentative names right now. What that does is potentially increases value for shareholders as it makes things simpler. One of the important things that might be coming in Japan is the most recent revision to the Corporate Governance Code. What the

Corporate Governance Code did back in 2013, 2014, when it was first introduced, was really find ways to increase value for shareholders in Japan and make companies more accountable; make their balance sheets more efficient; make sure that they were really doing things in the correct way for investors and all stakeholders. That is coming this year as well.

The changes to the index will be important because it does streamline things, it makes it a little cleaner, and there's some different things that go with that, some changes to free float and other things that we're looking at actually as investment opportunities, as supply and demand changes for some of the stocks that are involved in these indices, as corporate governance changes for some of the companies. If you want to be listed on the Prime board, it's a little bit different from having been listed on the TSE1. All of these things are big changes coming in the next year, and really it should be good for shareholders over the next few years and decades, and hopefully we'll find some investment opportunity in that as well as we're looking at things changing and really getting up to speed on who will be doing what, and how shareholding has changed because of free float? changes and things like that.

[15:05]

**Pamela Ritchie:** So it's something not just to be aware of but actually to invest in. I want to ask a little bit about the vaccine rollout, which is quite different in certain pockets of Asia as it is to other parts of the world. The world is expected to bounce back in different ways depending on vaccine rollout basically and containing the virus. Can you give us a broad view, and then let's drill down into a couple of countries that specifically may affect the companies that are housed within them? But let's begin with your broad thoughts on the vaccine across Asia.

**Eileen Dibb:** The vaccine across Asia has been rolled out to, I would say, some extent. It really depends on the country, and it depends on the type of vaccine. Japan is just starting its rollout now in February, so it's definitely not there yet. They have also done a relatively good job of controlling the virus, so they are working on their rollout process. China is a little bit ahead. They actually have, I believe it's three, might be more at this point, but three vaccines that were created in China. They are working to vaccinate as much as possible. It's a huge country, and by the time they get everyone vaccinated, it takes a lot of doses to do that, billions of doses to get everyone vaccinated in China. Then across the rest of the region they're really looking to obtain vaccine. There are several different kinds of vaccine. Then it comes down to which kind do they get because you have the mRNA, and then you have the vaccine vectors, and you also have inactive virus vaccines, which is what we think of it as a normal flu virus vaccine where you get an inactive portion of the vaccine or something else, and that is ... actually two of the vaccines in China is that type of vaccine that they are making in China.

The rollout is coming. A lot of Asia has done relatively well controlling the virus, and some of the countries have quite large populations, so as it's rolled out a couple other things that I am looking for is cross-border tourism. Japan in particular has seen a very large boost over the past many years from Chinese tourists in to Japan. And when does that come back? Really, regional tourism is going to be important. You've got countries like Australia; Australia depends on tourism and also on immigration for growth. And when does that restart again? You get places like Thailand where people have been moving from cities in some cases back home. Trucking, trucking in Thailand is doing quite well. Maybe the vaccine changes that equation. Maybe people switch homes again and you see further movement in population. The vaccination is amazing that it's all coming, and we're all looking forward to it, and Asia, it's the same way. They have controlled as much as possible COVID, but everybody is looking for things to open up again. Even some of the travel programs, I think we may have talked about before, they have to pull back on those if the virus is not being controlled.

It does affect my investment thesis on a short-term basis, but longer term there are ways to, post-vaccine, when people are vaccinated, to really look across the region and find opportunities for interesting things to invest in.

[19:10]

**Pamela Ritchie:** Within the mandate of the AsiaStar you were mentioning that India is also within that. Opportunities that you see either now or down the road for India.

**Eileen Dibb:** India has, for me, been a very good place to invest over the past several years. One of the sectors that I have liked for a very long time is banks. We have gone through a period of changes to the banking system where NPLs were being dealt with; where they change some of the money supply dynamics, and now it's really getting to a point where hopefully it's normalized. Looking at India there are some really interesting opportunities across the region in different sectors. In energy; in infrastructure; sometimes in consumer staples although I think that recently consumer staples in India, the valuations have probably grown a little bit as they have in China. It's a place where I like to look for a lot of growth at a reasonable valuation, but something I'm certainly focused on at this point.

[20:33]

**Pamela Ritchie:** We spoke a little bit in a prep situation about the scarcity of semiconductors. It's a bit of a global issue, but I'm wondering where China and other countries fit in to this for opportunities having exposure to that. Can you give us your thoughts on the semiconductor industry?

**Eileen Dibb:** Semiconductors have been a great place to be. One of the largest holdings in AsiaStar has exposure to semiconductors, obviously on the foundry side. A lot of what's going on is infrastructure based, where as in the past it might have been more PC based. You're really looking at digitization across the globe, a switch in networks to 5G, and all of that drives demand for semiconductors. One thing that is being seen at this point is a shortage of semiconductors in autos, and so you are seeing some movement in the auto sector in terms of people looking for companies that are not as affected by the shortage, sometimes people who have stockpiled, and how long that lasts. But that's all good for the semiconductor industry in general. In Asia there are a number of countries that participate in the semiconductor chain. China has had their own semiconductor program for several years now, where they have been trying to get their industry really moving and continuing to go forward. Taiwan is a super power, Korea and Japan.

So you really have a North Asian focus on semiconductors that have served the stocks there very well, and it continues to be a positive place and honestly, much less cyclical than it has been in the past. There was a time when you really looked at the semiconductor cycle, and a few years ago we might have gone into more of a super cycle, and the question is does that end someday, which is we're constantly thinking about, obviously, but semiconductors have been a great place to be and despite the shortage in some segments of the market, it continues to be a very healthy place for demand. Companies that are exposed to that have been doing very well. Sometimes they even can pick their customers, depends on what part of the supply chain they're in.

[23:23]

**Pamela Ritchie:** It's very interesting. You mentioned Korea, South Korea, a bit of a powerhouse. Also questions coming in on ... also a bit more information on Korea, but also Singapore and Philippines. Are there opportunities that you look at within those countries?

**Eileen Dibb:** Absolutely. I think across the board in Asia, COVID aside, and obviously COVID is going to be with us, and it's going to be still a factor for a while I would think, Korea has been really trying to improve their governance, help their companies to advance in the global context. You have seen out of Hyundai some really impressive automobiles. You have seen Samsung come out with fantastic products, and the government is really backing that. The government is saying let's deal with any problems in corporate governance that have not necessarily been dealt with in the past and is really helping this situation. So that has really helped, I think, the Korean stock market do well over the past 6, 12 months.

Singapore and the Philippines are very different dynamics in terms of markets. I tend to look at Singapore as a developed market, as a place to pick stocks and really say, okay, this stock versus this one. Maybe it's a real estate stock that is doing well because we're seeing an uptake in energy services. Energy services is a big base for income and revenues in Singapore. In looking at Philippines, for me at least, it tends to be a little bit more of a country call. There are times when Philippines in the long term is a great growth story, but sometimes I look at the companies in the context of where the Philippine economy is going right now. So there're two very different markets, developed versus emerging and different growth opportunities. I like both countries, and I tend to time both depending on the situation that's happening in the country right now. So looking at all those factors.

[26:11]

**Pamela Ritchie:** Let's swing back to concentrate on China broadly. There's a question coming in about the Silk Road and the buildout of infrastructure essentially across many corners of the earth in fact. How important is the political push, and obviously the beneficiaries of that? How important is that to look at or just keep in mind?

**Eileen Dibb:** It is very important. China has really tried to focus investment in countries where it feels it can benefit economically from trade, and there's the One Belt One Road program which is meant to deliver infrastructure to other countries in the region. At the end of the day that will benefit China as trade continues to improve. I also look at it as what those relationships mean for not only China but the country where it is being built, and what are the agreements there because that's important to look at as well. What is behind each agreement between the countries, and what do those dynamics mean for development in the countries going forward, and also the geopolitical relationships with China and the rest of the world. It is all interconnected and really trying to figure out does it affect currency, does it affect trade and tariffs, what do those agreements mean for both sides?

[27:53]

**Pamela Ritchie:** What does having exposure to Asia mean for a Canadian investor? I know that you're in the U.S., but there's the similarity of most people have been very exposed to U.S. growth for a long, long time, so the switch it's big if you're going to make the switch. Where does this fit?

**Eileen Dibb:** Asia in general is a high-growth area. When you look at a fund like AsiaStar in particular, you really have a lot of diverse growth drivers. So for example, income in Asia has long been a growth driver. At the moment it might have a little bit of a dip. We saw some numbers out today from China where births last year

were down substantially, but yet over time you have the stocks in Asia, the companies in Asia have a very good platform to jump off into growth. What I mean by that is China has billions of people, India has billions, there's a big population there that is up and coming, and really investing in Asia means that you have product proliferation in ways that you wouldn't think. I go back to a conference I attended in India two years ago in Mumbai, and it was all consumer, and we had an international, multinational company that was presenting to us, and they gave us the roadmap. They said, "Well, there was a time when in India you didn't really drink coffee. You might have drunk tea, but you didn't ...," so the introduction of coffee into a market like that was a substantial product launch. And branded products and the switch from non-branded to branded products. The opportunity set is huge when you have a region that has so much of an income-expansion case behind it.

[30:10]

Pamela Ritchie: That's brilliant. Just the numbers on some level kind of tell that story of consumerism and what's to come. Eileen Dibb, so great to speak to you, enjoy it every time. Thank you and have a good weekend ahead. We'll see you again soon.

Ending: [30:26]

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