



APRIL 2008

## Teera Chanpongsang

### Portfolio Manager

*Teera joined Fidelity in 1994 as a research analyst, initially covering Thailand, regional banks and regional telecommunication stocks, based in Hong Kong. In 1998, he was made country portfolio manager of FF Thailand Fund which he managed successfully through September 2004. He also managed the FF Global Telecommunication Fund from 2001 through 2007. During this time he moved to London in 2004, working within the global equity team. He relocated back to Hong Kong in July 2007, managing a segregated emerging Asia mandate which covers the same investment universe as the FF-Emerging Asia Fund.*

*Prior to joining Fidelity, Teera was general manager at Chi Cha group, Bangkok from 1988 to 1992 and staff auditor at Coopers & Lybrand, Bangkok from 1987 to 1988*

*He graduated from University of Chulalongkorn University, Thailand, with a Bachelor of Art (Accounting). He also holds a M.B.A. degree from University of California, Berkeley, in the United States*

***“Emerging Asia markets are transforming rapidly. With higher economic growth and strong earnings outlook, emerging Asia provides potentially higher and undiluted returns with relatively higher risk than developed markets.”***

## FIDELITY INVESTMENT FUNDS EMERGING ASIA FUND

# THE FUTURE GROWTH MARKETS OF THE WORLD

Fidelity Funds Emerging Asia Fund is a new, unconstrained Asia Pacific ex Japan equity fund. In addition to the emerging markets of the Asia Pacific region, portfolio manager Teera Chanpongsang will have the flexibility to invest in Asia's 'frontier markets', such as Bangladesh, Sri Lanka, Vietnam and Cambodia. Here, Teera sets out what makes this a unique product offering and discusses the fundamentals which he believes will support a long-term growth story. He gives further insight into the themes that he will look to generate returns and how he will incorporate them in the new fund.

### WHAT MAKES THIS FUND DIFFERENT FROM OTHER EMERGING ASIA FUNDS?

This is an innovative product that aims to access the opportunities arising from the growth in Asia's emerging markets. As Asia continues to develop it opens up increasing diversity within the region; we now see distinct differences between the developed countries and the emerging and frontier markets: strong growth rates, young and growing populations and huge growth potential.

The fund excludes the developed markets, for example, avoiding Taiwan and South Korea which are developed in every sense except their benchmark definition but remain in the broad MSCI Emerging Asia index. To keep the fund truly emerging, we only look at developing and emerging frontier markets and have devised a composite benchmark (in conjunction with MSCI) to reflect this. The fund will focus on the emerging countries of China, India, Malaysia, Indonesia, Thailand and the Philippines and the 'frontier' markets of Pakistan, Vietnam, Bangladesh and Sri Lanka. It is likely that Vietnam, Bangladesh, Sri Lanka, and Cambodia will be part of the MSCI Emerging Asia Index in three to five years.

Collectively, these countries contain the largest population in the world and have the world's strongest GDP growth rates<sup>1</sup>. The emerging Asia economies are the future growth markets of the world.

### WHAT ARE THE ATTRACTIVE FUNDAMENTALS SUPPORTING EMERGING ASIA?

Emerging Asian economic growth (as measured by gross domestic product, GDP) is forecast to be more than 8% over the next two years which is the strongest in the world and more than double the rate of global GDP growth<sup>1</sup>. Though the increasing threat of recession in the US has clouded the growth outlook for the Asia Pacific region this year, China is still expected to achieve double-digit GDP growth in 2008, while India is forecast above 7%<sup>2</sup>.

Favourable demographics are another of the opportunities presented by emerging and frontier markets in Asia. In Pakistan, Bangladesh, the Philippines, Malaysia and India, have more than 50% of their populations aged below the age of 25. There are 1.5 billion people in Emerging Asia that are young and aged below 25. This is an important statistic because the majority population in these markets will become their labour force in the coming years and will be the ones supporting consumer growth in the future<sup>3</sup>.

The robust GDP growth is feeding through at the corporate level. Emerging Asia earnings growth is stronger than in the more developed parts of Asia. Earnings per share (EPS) in China, India, and Vietnam are forecast to grow at more than 20% in 2008 according to research done by JP Morgan<sup>4</sup>. It is the strength of corporate earnings that has underpinned the attractive returns investors have enjoyed in the last five years.

Looking at the composition of performance across the region reveals that it is not just China that has been delivering robust returns. There have been very strong performances in Indonesia, Pakistan, India, the Philippines and Vietnam. Although China gets a lot of focus, there are certainly other Asia markets that are performing very strongly.

At a portfolio level, the region provides diversification benefits through low correlation to the Western developed world and low inter-regional correlation. This is a truly exciting opportunity to access the potential for undiluted alpha and risk adjusted returns.

### WHAT ARE THE KEY INVESTMENT THEMES?

The fund will be looking for stocks that fit four investment themes: domestic consumption, exposure to China and India growth, infrastructure spending, and new frontier markets.

TALKING POINT

A PERSONAL PERSPECTIVE FROM FIDELITY

KEY INVESTMENT THEMES

- **STRONG DOMESTIC CONSUMPTION**
- **EXPOSURE TO CHINA AND INDIA GROWTH**
- **INCREASED INFRASTRUCTURE SPENDING**
- **NEW FRONTIER MARKETS**

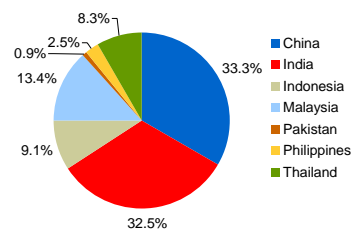
STRONG DOMESTIC CONSUMPTION

With growing labor force and strong economy, consumption is one of key growth driver of emerging asset economy. In Pakistan, Bangladesh, the Philippines, Sri Lanka, Vietnam, and Indonesia, more than 60% of GDP is driven by domestic consumption and this is a trend that is expected to continue<sup>5</sup>. An example of sectors that will benefit from strong domestic consumption is the mobile phone market, which is one of the major consumer products and a necessity for people nowadays. The mobile phone business in emerging and frontier Asian markets presents a huge opportunity with very low mobile penetration when compared to developed countries. Based on research done by Morgan Stanley, there are around 1.1 billion mobile phone subscribers in emerging and frontier markets in Asia, a figure expected to double in five years. In addition, 6 in every 10 new subscriptions worldwide come from emerging Asia<sup>6</sup>. The emerging Asia region has a big consumer market and the number of new consumers will continue to grow over the next decade as urbanisation and infrastructure developments increase productivity and wage generation.

An example of a stock that fits the domestic consumption theme is Parkson Holdings, a Malaysian-listed company that operates 41 stores in China, 30 stores in Malaysia and 3 stores in Vietnam. Department store growth in the region is expected to stay strong. The group is on track to achieve its expansion strategy this year – having added two retail stores in China and one each in Malaysia and Vietnam. Same store sales growth in China was at 18% in 2007<sup>7</sup>. I like this company because it has been a first mover in China and Vietnam; it generates huge cash flow and has a management team with a good track record<sup>7</sup>.

INDEX COUNTRY WEIGHTINGS (%)

As at 31.03.08



Index: MSCI Emerging Asia Composite

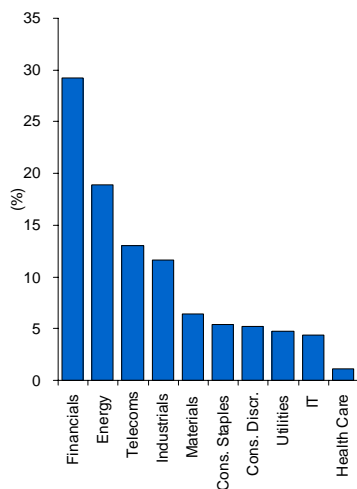
EXPOSURE TO CHINA AND INDIA GROWTH

The upsurge in economic activity in Asia's developing countries has been a key driver to increasing demand for energy and related natural resources. China and India are major customers of key commodities such as thermal coal and finished steel. The fund will look to invest in those companies that can benefit from the ongoing industrial development of emerging Asia.

Bumi Resources, the largest thermal coal producer in Indonesia is a good example of a regional company that can leverage the China and India growth story. Against the background of rapid economic growth in China and India, the demand for thermal coal has risen sharply in recent years. China has long been a huge supplier of coal to itself and the rest of the world. Given the strong internal demand on coal, China cut down on exports and has further exacerbated the global supply/demand imbalance. The size of the export cut in China is insignificant to the overall 2.6 billion tones Chinese coal market but is very significant to the 625 million tones international seaborne coal trade<sup>8</sup>. This has led to a stronger price increase in thermal coal in the international market than the domestic price increase in China. As a result, buying Bumi Resources has a better leverage to China and India growth story as reflected in Bumi's significant outperformance to Chinese coal miner Yanzhou Coal.

INDEX SECTOR WEIGHTINGS (%)

As at 31.03.08



Index: MSCI Emerging Asia Composite

INCREASED INFRASTRUCTURE SPENDING

The region's economic development and growth has seen urbanisation at an unprecedented rate. This has placed huge demands on infrastructure and to an increasing demand for housing, transportation, communications and other services. In Asia's emerging markets, the public sector can tap large current account surpluses; China will double its infrastructure spending to \$710 billion in the five years leading up to 2010 and India will triple its spending in the next five years<sup>9</sup>. An example of a stock that fits the infrastructure spending theme is Larsen & Toubro, the largest engineering and Construction Company in India. It's a play on infrastructure construction and industrial capital expenditure on resources such as oil and gas and metals. The company holds pricing power as it is the only one that is able to accept very large-scale projects. The company is also benefiting from strong infrastructure and industrial capex growth in India, plus it is also expanding into new areas such as defence and power for future growth.

NEW FRONTIER MARKETS

The fund is unique in that in addition to investing in China, India and the ASEAN countries (ex Singapore); the fund has the flexibility to invest in the frontier markets of Bangladesh, Vietnam, Sri Lanka and Cambodia. Investment in these markets will either be directly through local exchanges or through companies listed on the region's more established markets such as Malaysia. These markets represent the future of growth and offer the prospects for higher returns for investors.

Vietnam is one of the fastest growing economies in Asia over the past ten years. The country's long term rate of growth is likely to be sustainable, partly because of strong inflow of foreign direct investment after the joining of the WTO, and also because of the young and expanding population, which will drive domestic consumption growth in the country. Direct exposure to Vietnam companies through the local exchange is currently unattractive as valuations have been high. For the time being, it is preferable to invest in companies - such as Parkson Holdings - elsewhere in the region that have economic exposure to Vietnam.

Pakistan is a more established frontier market with a greater choice of listed companies in which to invest. The country has strong GDP growth of 5-6% (forecast estimates for 2008 and 2009<sup>10</sup>) which is driven by strong consumption and increasing foreign investment; benign demographics - 40% of the total population are below the age of 14 and the sixth largest population in the world. Pakistan has attractive valuations at 10-11 times PE, discounted more than other Asian markets<sup>11</sup>.

Stock example in the new frontier markets is MCB Bank, one of the largest banks in Pakistan. I like the bank because it is the most profitable bank in Pakistan with 33% ROE estimate in 2008<sup>12</sup> and Pakistan has very low banking penetration versus the other Asian countries or developed countries. The bank will directly benefit from the strong economic growth in Pakistan.

TALKING POINT	A PERSONAL PERSPECTIVE FROM FIDELITY
<p><b>INVESTMENT STYLE</b></p> <ul style="list-style-type: none"> <li>• <b>BOTTOM-UP, STOCK BY STOCK</b></li> <li>• <b>NO STYLE, INDUSTRY OR CAP BIAS</b></li> <li>• <b>80 TO 120 STOCKS</b></li> <li>• <b>MAXIMISE FIDELITY'S BREADTH AND DEPTH OF FUNDAMENTAL RESEARCH</b></li> <li>• <b>MANAGED RISK</b></li> </ul>	<p><b>DESCRIBE YOUR INVESTMENT STYLE?</b></p> <p>First and foremost, I take a fundamental, bottom-up approach to stock selection, constructing the portfolio on a stock by stock basis. I do not manage the portfolio on any predetermined style, industry or market cap bias. I run an actively managed portfolio of typically 80 to 120 best ideas. From an investment universe of around 17,000 stocks in emerging and frontier markets in Asia, the fund will focus on approximately 980 stocks that have a market capitalisation of at least \$500 million. The fund will use a customised MSCI Emerging Asia Composite Index, with a weighting of 33% China, 33% India &amp; Pakistan, 33% ASEAN ex Singapore. I am looking to buy good businesses at reasonable prices.</p> <p>Idea generation is bottom up. The emphasis is very much on proprietary fundamental research. I am supported by 102 equity investment professionals based across the Asia Pacific ex Japan region; 25 analysts whom are dedicated to emerging Asia. In addition, I make use of Fidelity's extensive global network of more than 495 research professionals*. The research process is further augmented by regular dialogue with other regional and country portfolio managers, qualitative and quantitative screening and brokerage research. Company visits play a key part in the investment process to assess profitability, attractiveness of a business, the track record and suitability of management structure and the level of returns given to shareholders.</p> <p>Managing risk is critical when investing for growth in regions such as emerging Asia. That is why frequent company visit is an integral part of my risk control process. In addition to be physically in these markets and talk to the local companies and government officials, I also turn to external consultants for their research and findings on various types of risk such as political risk. Another important aspect in risk management is a good understanding of local accounting policy and to be able to adjust profit numbers based on international standard for true and fair comparison. Furthermore, I also visit and crosscheck with global multinational companies in local markets to understand industry dynamic.</p> <p>*These figures reflect the resources of FIL Limited and its subsidiaries, and FMR LLC an affiliate and its subsidiaries. Source: FIL and FMR LLC. As at 31.03.08. Data is unaudited. Research professionals include associates, analysts, country and sector managers who retain research responsibility and technical &amp; quantitative analysts who are part of the research groups.</p> <p><b>WHAT IS YOUR OUTLOOK?</b></p> <p>The outlook for Asia is positive as the region continues to experience healthy growth. In particular, emerging Asian markets are transforming rapidly. With higher economic growth and strong earnings outlook, emerging Asia provides potentially higher and undiluted returns.</p>

<sup>1</sup> Source: Morgan Stanley Research, YOY% growth as of 26 October 2007  
<sup>2</sup> Source: Asia Pacific Consensus Forecasts, Consensus Economics, Feb 2008  
<sup>3</sup> Source: U.S. Census Bureau, Internet Database, December 2007  
<sup>4</sup> Source: JP Morgan, February 2008  
<sup>5</sup> Source: Morgan Stanley, data for calendar year 2006  
<sup>6</sup> Source: Merrill Lynch Global Wireless Matrix - Q2-2007, Morgan Stanley, 5-yr forecast  
<sup>7</sup> Source: DBS Group Research, 3 April 2008.  
<sup>8</sup> Source: GEMs Equity Strategy, Morgan Stanley Research, 27 March 2008  
<sup>9</sup> Source: U.S. Census Bureau, Internet Database, December 2007. CLSA, December 2007, Ministry of Railway, China, Ministry of Transport, China, December 2007. % growth in spending compared to last 5 years  
<sup>10</sup> Source: Asia Pacific Consensus Forecasts, Consensus Economics, Feb 2008  
<sup>11</sup> Source: I/B/E/S, MSCI, PXP Vietnam Asset Management Ltd, JPMorgan. 28 March 2008.  
<sup>12</sup> Source: Asia Pacific Equity Research, JP Morgan, 11 February 2008



This document is for Investment Professionals only and should not be relied upon by private investors. It must not be reproduced or circulated without prior permission. This communication is not directed at, and must not be acted upon by persons inside the United Kingdom or the United States and is otherwise only directed at persons residing in jurisdictions where the relevant funds are authorised for distribution or where no such authorisation is required. Fidelity/Fidelity International means FIL Limited, established in Bermuda, and its subsidiary companies. Unless otherwise stated, all views are those of the Fidelity organisation. Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purpose of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. The research and analysis used in this documentation is gathered by Fidelity for its use as an investment manager and may have already been acted upon for its own purposes. Fidelity only offers information on its own products and services and does not provide investment advice based on individual circumstances. Fidelity, Fidelity International and the Pyramid Logo are trademarks of FIL Limited. Fidelity Funds is an open-ended investment company established in Luxembourg with different classes of shares. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus, which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg: from your financial advisor or from the branch of your bank in Finland, Norway and Sweden. For the purposes of distribution in Spain, Fidelity Funds is registered, with the CNMV Register of Foreign Collective Investment Schemes under registration number 124, where complete information is available from Fidelity Funds' authorised distributors. The purchase of or subscription for shares in Fidelity Funds shall be made on the basis of the Simplified Prospectus that investors shall receive in advance. The Simplified Prospectus is available free of charge and for inspection at the offices of locally authorised distributors as well as at the CNMV, from Fidelity Investments International, Netherlands Branch, World Trade Center, Tower H, 6th Floor, Zuidplein 52, 1077 XV Amsterdam (tel. 0031 20 79 77 100). Fidelity Funds is authorised to offer participation rights in The Netherlands pursuant to article 17 of the Act on the Supervision of Investment Institutions. Past performance is not a reliable indicator of future results. The value of investments can go down as well as up and investors may not get back the amount invested. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of an investment. Foreign exchange transactions may be effected on an arms length basis by or through Fidelity companies from which a benefit may be derived by such companies. Investments in small and emerging markets can be more volatile than other more developed markets. Due to the lack of liquidity in many smaller stock markets, certain Country Select Funds may be volatile and redemption rights may be restricted in extreme circumstances. In certain countries, and for certain types of investments, transaction costs are higher and liquidity is lower than elsewhere. There may also be limited opportunities to find alternative ways of managing cash flows especially where the focus of investment is on small and medium sized firms. For funds specializing in such countries and investment types, transactions, particularly those large in size, are likely to have a greater impact on the costs of running a fund than similar transactions in larger funds. Prospective investors should bear this in mind in selecting funds. Issued by Fidelity Investments International (registered in England and Wales), authorised and regulated in the UK by the Financial Services Authority. CO17065/1008