



FIDELITY'S INTERNATIONAL PROPERTY PORTFOLIOS

Polly Kwan

I'm Polly Kwan, Fund Manager of Fidelity Funds - Asia Pacific Property Fund.

I joined Fidelity back in 2000 in Tokyo as an investment analyst.

Since 2004 I have been a member of the Global Property team. Prior to joining to Fidelity I was an engineer with Mitsubishi Motors.

When it comes to investments, I believe one should consider diversification and correlation. One interesting thing about property is that it is a very local sector. Meaning the geographical correlation is very, very low.

We have developed market and also emerging market. With developed market we have Japan and Australia. Emerging market examples are China, India and other Asian countries. This means that this is a region that offers growth and also maturity, which offers different types of opportunities.

Also, study has demonstrated that Asia Pacific property securities have a very low correlation with global bond and global equities. Hence, adding Asia Pacific property securities to one's portfolio will enhance the diversification and improve risk-adjusted return.

Why Asia Pacific Property?

There are a few factors benefiting the Asia Pacific property sector. For example, there is a high growth in terms of population in Asia Pacific region. High population growth and also increase in income benefiting the residential market in Asia Pacific. China and India are the examples.

Also there is an increasing trend of urbanisation and also industrialisation, which means that there will be a higher demand for industrial and also logistic properties. Examples are China, Thailand, Vietnam, Malaysia and Indonesia.

There is an increasing white-collar class in Asia Pacific, which means that there will be a high demand for good quality office space. Countries like Hong Kong, Singapore, Tokyo and also Sydney are the key beneficiaries.

We are also having a growing younger population, who set a very high standard for lifestyle. Which means that, for example, when they go shopping they are not only buying the product; they are treasuring the whole purchasing experience. This means that there will be a high demand for good quality retail properties

And also, for example, when they want to spend their vacation, they want to stay in good hotels, which means that a high demand for good hotels in my region as well.



With regard to residential property, actually affordability is still very good in Asia Pacific region. And with the growing population, demand for residential property will definitely go up.

On commercial properties, one increasing trend is that we are seeing more and more international investments into properties in Asia. One reason is because of the increasing pricing transparency and also transparency in investments, which is helped by local government regulation and improved corporate governance. We are at the beginning of developing the restructure. With the restructure maturing in my region, we will see that it will offer much more opportunities in property investments.

FF Asia Pacific Property Fund

I intend to run a very concentrated portfolio holding around sixty names. Stock selection comes from a combination of top/down and bottom/up approach.

The benchmark of this fund is the GPR General Quote Asia. My goal, of course, is to outperform my index. Performance will be generated through a combination of income and also capital appreciation.

It is important to notice that the fund is primarily exposed to commercial properties. Driver for commercial properties is very different from that for residential properties. Majority of the return is coming from income, which means that it is less likely to experience a capital bubble.

When I look at the fundamentals of a company, there are a few factors that I will especially pay attention to. For example, asset quality, management quality, financial health and also market positioning.

Some of the valuation method that I will be using include price to net asset value, dividend yield, price to fund from operations, EBITDA multiples. I will also look at some of the micro-drivers that may impacts the return. For example, wage increase, unemployment rate, mortgage rate, vacancy.

Fidelity's Property Research in Asia

We have a Global Property Security team of eighteen people. And in Asia we have analysts based out of Hong Kong, Tokyo, Sydney, Mumbai and also Singapore.

Analysts based out of different locations help me to put things into global context. This means that that will help me to gain much higher conviction in the stocks that I'm investing.

Also, Fidelity's wider research team play a role in helping me to understand my property companies. Analysts covering different sectors give me insights into key tendencies, industry trends and also economics trends on different countries, which further help me to build conviction in different property cycle.



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