



# Fidelity Funds - Taiwan Fund

## Taiwan Equities - A Strait Opportunity

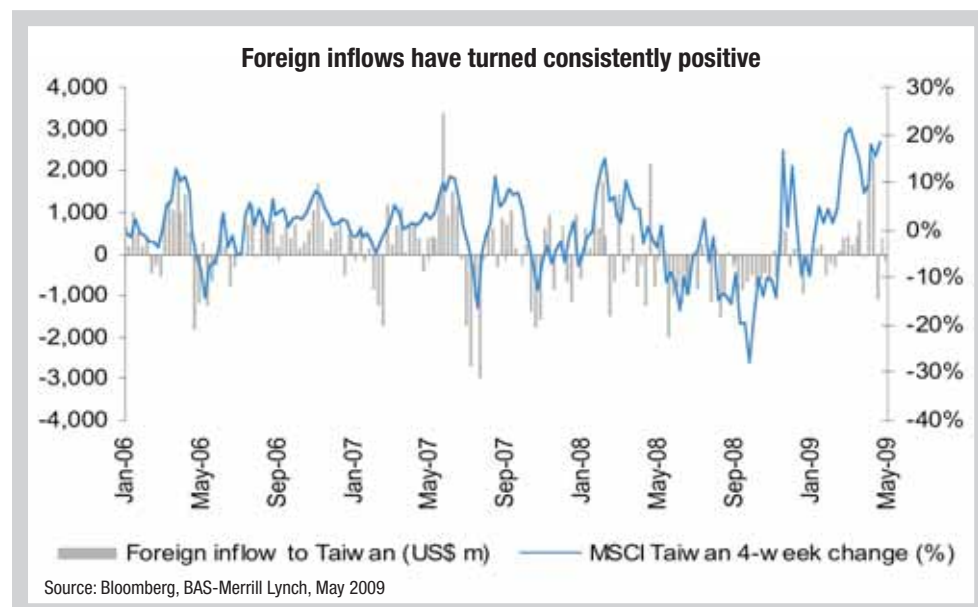
Stephen Ma joined Fidelity in 1997 as an Investment Analyst. He was promoted to Portfolio Manager in 2006. Prior to joining Fidelity, Stephen worked with EK Investment Management Ltd as an Investment Analyst, from 1996 to 1997. He also worked with Hambro Pacific Fund Management Ltd (1994 to 1996) and Banque Paribas (1993 to 1994).

Stephen graduated from Cambridge University and went on to earn his MA from there. He is a qualified CFA.

Taiwan's cross-strait ties with mainland China continue to improve with the removal of previous restrictions that have limited the island's economy and stock market. Marking the one year anniversary of President Ma Yingjeou's pro-China government, Portfolio Manager of Fidelity Funds - Taiwan Fund, Stephen Ma, shares his views on recent developments in the Taiwan economy and stock market.

### Q: What's behind the strong rally in Taiwan equity markets?

**Stephen Ma:** The Taiwanese stock market has posted a stellar performance on a year-to-date basis. On the global front we have seen an inventory rebuild after many months of unprecedented liquidation of stock as well as record fiscal and monetary easing. It is this widespread improvement in macroeconomic data and financial conditions that make this upswing since March feel more sustainable. In Taiwan, the government introduced shopping vouchers and an infrastructure stimulus package to counter the effects of the global recession. The positive developments in economic relations between Taiwan and China and in particular China Mobile's decision to buy a stake in Taiwan's Far EasTone have also stoked investor optimism regarding increased investment opportunities in the region. Moreover, Taiwan's stock market has enjoyed healthy liquidity resulting from large foreign institutional investment inflows, amounting to around US\$3.5 billion year-to-date. At a sectoral level, we have seen rapid sector rotation as investors chased sectors that were previously oversold.



**Q: How has the improved relationship with China been beneficial for Taiwan?**

**Stephen Ma: Improved Market Sentiment** - The recent move by China Mobile to buy a 12% stake in Far EasTone was a game changer. It marked the official start of qualified institutional investor funds flow, which bolstered investor expectations that closer links with China are materialising. The improved market sentiment after the announcement of the China Mobile deal has pushed the Taiwanese stock market higher.

**More Chinese Investment in Taiwan** - The liberalisation of Chinese investments in Taiwan is expected to create more business opportunities and more direct and portfolio investment from China. This will in turn, increase Taiwan's potential GDP in coming years. For example, from the beginning of last month Chinese companies have been allowed to invest in the island. The Taiwan Financial Supervisory Commission has also released related measures allowing China Qualified Domestic Institutional Investors (a scheme under which Chinese investors can invest in foreign securities markets via certain approved financial institutions) to invest directly in shares and futures listed in Taiwan. This has profound implications for the financials sector. I believe big players in the sector with better asset quality, strong regional platforms and solid infrastructure are likely to benefit the most.

We are already seeing change. Fubon Financial announced a fund-raising plan in April and welcomed Chinese investors to take up to a 20% stake in the company. More financial firms are expected to follow suit and to raise capital in late 2009 or 2010 to strengthen their balance sheet, to prepare for mergers and acquisitions, or to attract strategic Chinese investors who will assist them capitalise on future opportunities.

More reforms are expected. It is expected that officials could sign a memorandum of understanding for the banking industry as early as next month, allowing Taiwanese and mainland banks to set up operations in each other's territory.

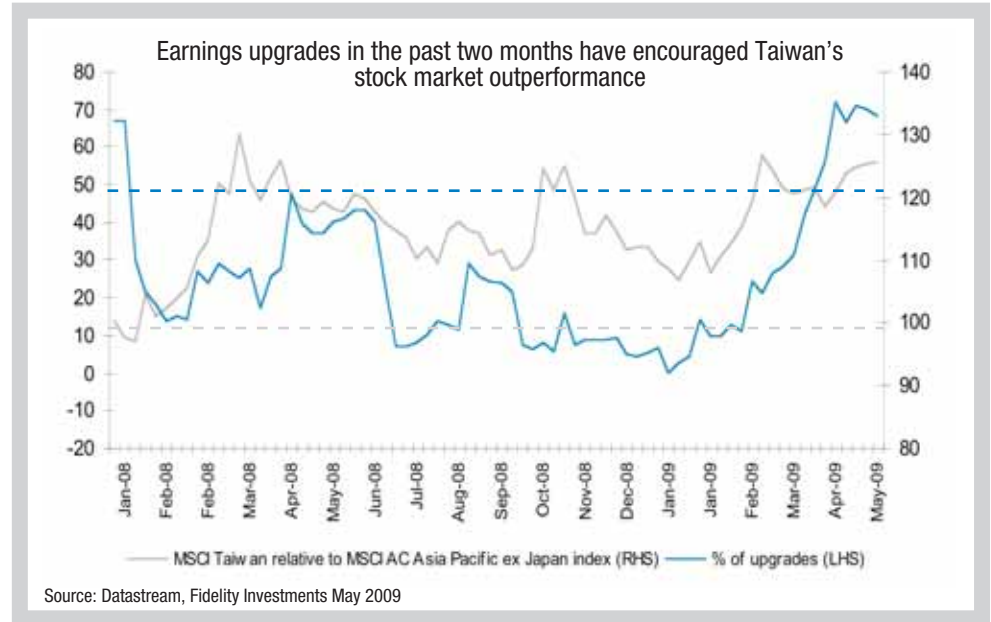
**Positive Spill-over Effect to Boost Private Investment Growth** - The power of capital inflows from China would first underpin asset prices but will eventually support fundamental growth in the domestic economy through the wealth effect. The wealth effect from appreciation of asset prices will likely lead to a virtuous cycle between growth and asset prices in the future.

**Implications for the Property Market** - Helped by liquidity and the wealth effect from the stock market, Taiwan's property market stands to benefit from the deregulation of Chinese investment and better connectivity. Chinese corporates might be allowed to buy real estate in Taiwan; the allowed residency period of Chinese employees in Taiwan may be extended; and mainland firms could be allowed to finance property transactions in Taiwan with bank loans comprising up to 50% of the transaction's value. This is already encouraging price gains among construction stocks.

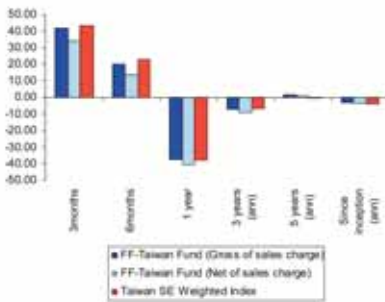
**Opening of the Taiwanese Tourism Market** - One of the most evident and immediate economic benefits of the warming political relationships has been a massive influx of mainland tourists. The opening of the Taiwanese tourism market has prompted unexpected enthusiasm from the mainland. The increased tourism from mainland China is likely to contribute positively to future economic growth.

**Q: Are you seeing any changes in the earnings outlook for Taiwanese companies?**

**Stephen Ma:** There are signs that the operating environment is becoming less challenging, although the earnings outlook remains weak given Taiwan's exposure to the global economy through technology products. Nonetheless, driven by re-stocking demand, Taiwan saw upward revisions to earnings in April and May - the first time this has occurred since the end of 2007. In the past two months the number of companies with earnings upgrades far exceeded those that have been downgraded.



## ANNUALISED PERFORMANCE as at 30 April 2009



Benchmark: Taiwan SE Weighted Index; Performance figures are in USD terms NAV to NAV with dividends reinvested. Past Performance is not indicative of future performance.

Since inception date: 24 March 1997

## TOP TEN HOLDINGS (%) as at 30 April 2009

	Fund	Benchmark
TSMC	7.2	9.8
Hon Hai Precision Industry	6.6	4.9
Far Eastern Textile	3.9	1.0
Asustek Computer	3.4	1.3
Taiwan Fertilizer	3.1	0.5
Cathay Financial	2.9	2.5
Cheng Shin Rubber	2.8	0.5
MediaTek	2.7	2.6
HTC	2.6	2.3
China Trust Financial	2.6	1.0

Source: Fidelity Investments  
Benchmark: Taiwan Stock Exchange Weighted Index

**Q: How has the fund performed against this background?**

**Stephen Ma:** The fund outperformed its benchmark over the 12-month period to the end of April 2009. Exposure to semiconductor and semiconductor equipment companies including Taiwan Semiconductor and MediaTek contributed on account of earning upgrades. Sentiment in the sector improved after demand recovered in light of the global inventory re-stocking. Within the real estate sector, Farglory Land Development added value with its share price rising on expectations of increasing demand for property projects after news that mainland China companies will be allowed to invest in projects on the island.

In April, holdings in the information technology and financial sectors, which comprise the majority of the portfolio, enhanced returns. Of note, technology hardware and equipment companies, such as Hon Hai Precision and Simplo Technology, contributed due to their stronger than expected results in the first quarter of 2009. Conversely, selected stocks in the consumer staples sector detracted. An above-benchmark holding in President Chain Store undermined returns as its first-quarter net profits and sales declined.

**Q: What is your current strategy and portfolio positioning?**

**Stephen Ma:** I have increased the fund's exposure to companies which will benefit from higher domestic consumption as local sentiment improves. I favour the names that were oversold previously and have recently regained attention from the market via attractive valuations and improved consumer sentiment. Of note, I have raised the fund's exposure to Far Eastern Department Store as I expect the decline in department stores' sales to stabilise and profits to grow this year due to a growing number of stores in mainland China. I have also enhanced my allocation to financials to an above benchmark level as the sector has underperformed the broad market and I view it as a good proxy for improving cross-strait ties. For instance, I hold overweight positions in names like Chinatrust and Cathay Financial. Similarly, real estate firms should benefit from deregulation in Chinese investment so I have increased the allocation to this segment to overweight. Apart from property firms like Huaku Development, I also hold certain other stocks due to their large and attractive land holdings, namely Taiwan Fertilizer. Meanwhile, the fund maintains its underexposure to the materials and energy sectors due to a lack of growth catalysts.

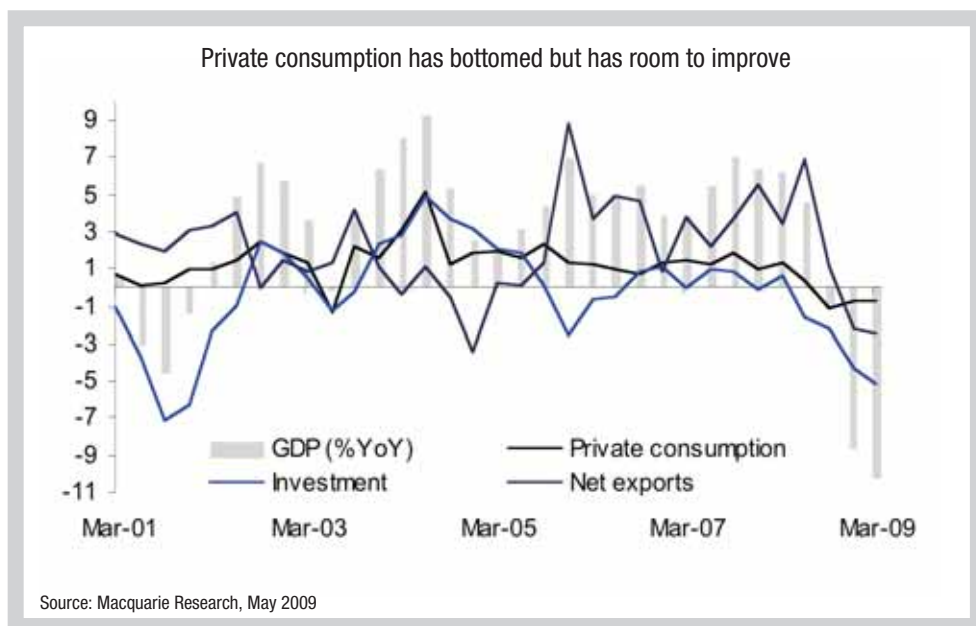
**Q: What's your outlook on the market?**

**Stephen Ma:** Taiwan's political environment has made an important and probably permanent shift in terms of advocating more pragmatic policies toward mainland China. I hold the view that the administration's more business-friendly China policy has the potential to structurally lift Taiwanese companies' earnings outlook, and improving ties with the mainland should continue to help reduce the political risk premium. This bodes well for Taiwanese equities.

While earnings of companies that are exposed to consumer spending in the US and Europe could take time to recover, we are already seeing some very positive news in the form of less-than-expected declines in exports and industrial production. Ample liquidity and government efforts to revive the economy should continue to support stock prices.

On the economic front, a sharp fall in fixed investment and export growth were responsible for GDP contraction over the first three months of 2009 – its third consecutive quarterly decline. Private consumption was a positive surprise as its rate of contraction slowed. Domestic consumption, making up over half of GDP, has the greatest untapped potential as a sustainable long-term growth driver; something that Taipei has promoted more actively than other regional governments through initiatives such as shopping vouchers. Both exports and industrial activity also turned out better than expected in April.

The improving financial conditions are providing a tailwind to economic activities. Given the better outlook for G-3 (the US, the Eurozone and Japan) and China, I share the view that growth should improve by the end of this year.





---

#### Disclaimer

This document is prepared by FIL Investment Management (Singapore) Limited ["FILS"] (Co. Reg. No.: 199006300E), a responsible entity for the fund(s) in Singapore. All views expressed cannot be construed as an offer or recommendation.

Prospectus for the fund(s) is available from FILS or its distributors upon request. Potential investors should read the prospectus before deciding whether to invest in the fund(s). Reference to specific securities or fund(s) is included for illustration only, and should not be construed as a recommendation to buy or sell the same. This document is for information only and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive it. Potential investors should seek advice from a financial adviser before deciding to invest in the fund(s). If that potential investor chooses not to seek advice from a financial adviser, he should consider whether the fund(s) in question is suitable for him.

Past performance of the manager and the fund(s), and any forecasts on the economy, stock or bond market, or economic trends of the markets that are targeted by the fund(s), are not indicative of the future performance. Prices can go up and down. The value of the shares of the fund(s) and the income accruing to the shares, if any, may fall or rise. Investors investing in fund(s) denominated in a non-local currency should be aware of the risk of exchange rate fluctuation that may cause a loss of principal when foreign currency is converted back to the investors' home currency. Exchange controls may be applicable from time to time to certain foreign currencies.

Fidelity, Fidelity International and Fidelity International and Pyramid Logo are trademarks of FIL Limited. SG09/231.