

Portfolio manager: Polly Kwan

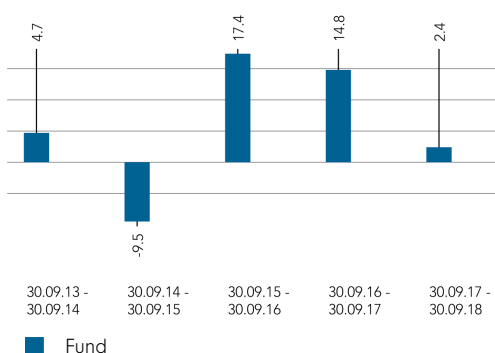
Performance for 12 month periods in USD (%)

Performance over quarter in USD (%)

Fund	-2.5
Market index	-

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.



Market Environment

Asia Pacific ex Japan equities declined over the quarter. News flow surrounding the China-US trade war dominated investor sentiment and weighed on Asia ex Japan equities. Widening current account deficits in other emerging markets such as Turkey and Argentina compounded concerns in this risk-off environment. Chinese equities were negatively impacted by lacklustre economic data releases. However, expectations that the country will intensify stimulus measures to cushion the impact of the trade war with the US helped contain losses. Concerns over rising inflation and a widening trade deficit, and worries over credit issues in the non-banking financial sector, hurt Indian equities. Australian markets were resilient during the first two months of the quarter, against the backdrop of domestic political uncertainty and global trade frictions. Thereafter, profit taking and regulatory headwinds in some sectors weighed on markets in September. On a positive note, the possibility of a second summit between US President Donald Trump and North Korean leader Kim Jong-Un to denuclearise the Korean Peninsula lifted sentiment towards South Korean equities. Thai stocks also advanced, following the approval of two key laws for the upcoming election in 2019. In Taiwan, export orders continued to rise in August, reflecting strong demand for electronic gadgets. At a sector level, energy tracked crude oil price higher.

Fund Performance

The fund delivered negative returns over the quarter. Selected positions in China weighed on performance. Encouragingly, security selection in India added value. From a sector perspective, stock picking in information technology (IT) and communication services sectors detracted from returns.

Positions in China held back returns

Holdings in camera component maker Sunny Optical Technology and Chinese internet major Tencent weighed on performance as the companies posted lacklustre results. The former missed profit forecasts and was negatively impacted by the depreciation of the yuan. Tencent faced a delay in game approval after Chinese regulators blocked the sale of one of its blockbuster titles. Elsewhere, shares in Hangzhou Hikvision Digital declined as the company reported subdued growth in its domestic security and surveillance business.

Selected holdings added value

The position in Indian technology major Tata Consultancy Services contributed to returns amid expectations of high margins due to strong growth, rupee depreciation and productivity enhancements. The holding in Indian conglomerate Reliance Industries also supported performance as the company reported strong results. The operating profits of its traditional petrochemicals business, the biggest contributor to its earnings, rose significantly.

Fund Positioning

I continue to focus on identifying quality growth stocks that can offer good dividend growth potential and long-term secular growth. The fund has an overweight allocation to the technology and health care sectors, driven by my bottom-up stock selection approach. I also added exposure to selected companies with encouraging fundamentals.

Favour high-quality information technology (IT) stocks

I favour Indian technology major Tata Consultancy Services, which benefits from growth in its digital business and the cyclical recovery of its clients' IT service spending. I hold Appen, Australia's leading global data services provider for artificial intelligence, for its strong cash flows, healthy balance sheet and good execution track record of its management team.

Overweight in financials

I prefer HDFC Bank for its excellent management, strong capital position and robust asset quality. Insurer AIA Group is favoured in view of its diversified Asian operations and structural growth in Asia's underpenetrated insurance markets.

Added companies with upbeat prospects

A new position was bought in Taiwan-based iPhone assembler Pegatron. The company is attractively valued and its margins and earnings are expected to rebound amid higher utilisation as iPhone assembly volumes pick up in the second half of the year. I purchased a new holding in high-quality Philippines-based property developer SM Prime Holdings. The company's investments are well managed, and it has a sustainable growth profile and robust expansion plans.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund. This fund invests in emerging markets which can be more volatile than other more developed markets. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell.

ASIA PACIFIC DIVIDEND FUND A-USD

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