

Straightforward INVESTING

I have a very simple investment philosophy which I apply when investing on behalf of shareholders in Fidelity Asian Values PLC: buy good businesses, run by competent and honest people, and buy them at a price which leaves enough margin of safety for mistakes or bad luck.

This process tends to lead me away from big index stocks. I try to buy companies that other people are not looking at. That's where I find bargains and that's where I find enough margin of safety.

As a result, Fidelity Asian Values has the majority of its capital deployed in very small companies (between £100million to £1billion market-cap). Mega-cap stocks, which are roughly 75% of the index, only make up about 20% of the trust's holdings. The investment trust structure gives me a great deal of flexibility to invest in these smaller companies, because I am less concerned about their liquidity as I am not required to meet daily inflows into or out of the trust.

How my philosophy plays out in stocks

BOC Aviation is an aircraft leasing business, which I started buying before most investors were aware of it.

Many airlines don't own their planes but lease them for seven to fifteen years. BOC Aviation is the sixth largest aircraft lessor in the world. Originally spun out of Singapore Airlines and then sold to Bank of China, 25% of the company was listed on the stock exchange in 2016.

I started buying the stock when it was trading 1x price to book, 6x earnings and I was getting a 7% dividend yield at that time. The business has a real competitive advantage because it is owned by a bank and therefore able borrow money at very low rates.

As luck would have it, other people started noticing it in a fairly short span of time and we were able to make a reasonable return on our investment.

Fufeng Group is a Chinese company with a circa 50% global market share in Monosodium Glutamate (MSG), and also produces other corn starches & animal feed additives, which is effectively a consumer staple in Asia. Fufeng Group is a very low cost producer. It is broadening its product offering and importantly, has a clean balance sheet.



Nitin Bajaj

Portfolio Manager
Fidelity Asian Values PLC

Nitin Bajaj has been portfolio manager of Fidelity Asian Values PLC since 1 April 2015 and Fidelity Funds Asian Smaller Companies Fund since 1 September 2013. Nitin joined Fidelity Worldwide Investment in 2003 as a research analyst, following four years working with KPMG in India as a business analyst. In 2007, he was promoted to assistant portfolio manager for the Fidelity Global Special Situations Fund in the UK before moving to Fidelity's Mumbai office to manage two of the company's domestic Indian equity funds, which were available to local Indian investors.

Nitin holds a Bachelor of Commerce degree from the University of Delhi, an MBA from Insead in Singapore and is a member of the Institute of Chartered Accountants of India.

Despite these positive attributes, the stock is cheap for a global leader. It has been misunderstood by many investors, especially those outside Asia, who have missed the consolidation taking place in the market, meaning the company should see better pricing power and margins throughout the next cycle.

LIC Housing Finance is India's second largest housing finance company with a real competitive advantage because of its low cost of borrowing (it has the highest credit rating in the space) and low cost of operations – it shares a distribution network with Life Insurance Corporation which is its parent company and India's largest insurer.

“I try to buy companies that other people are not looking at. That's where I find bargains and that's where I find enough margin of safety.”

Its assets (mortgages) react to interest rates faster than the company's liabilities, so throughout the falling rate environment over recent years, the company saw its Net Interest Margins shrink – putting many potential investors off. With rates now beginning to rise, this trend will reverse, so I have been able to buy a long-term compounding business at just 10x price-earnings.

Each of these companies, though operating in very different markets, has potential for growth, but is protected by a real competitive advantage or barrier to entry – which is key to how I select businesses in which to invest.

Hard work and patience

Finding good businesses is easier said than done. It requires an immense amount of hard work and patience from our analyst team because we look at company after company after company and it could be only one out of every 15 or 20 that meet our strict criteria.

As political, economic and market events may continue to be unpredictable, I believe to be a successful investor you need a constant philosophy to which you stay true. In adopting this approach and combining it with a skilled team of analysts who are willing to work hard, we hope to deliver superior returns for shareholders over the long term. ■

Important information: Past performance is not a reliable indicator of future results. The value of investments can go down as well as up so investors may get back less than they invest.

This fund invests in overseas markets and the value of investments can be affected by changes in currency exchange rates. This fund invests in emerging markets which can be more volatile than other more developed markets. This fund uses financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations. This fund invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a personal recommendation for any investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Investors should note that the views expressed may no longer be current and may have already been acted upon. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

This article is issued by Financial Administration Services Limited, authorised and regulated in the UK by the Financial Conduct Authority. Fidelity, Fidelity International, The Fidelity International logo and F symbol are trademarks of FIL limited. UKIT00008

This is a financial promotion from FIL limited.