Keep the faith

Why good things come to those who wait.

Update
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Legendary investor Charlie Munger observed that "The big money is not in the buying and selling, but in the waiting." And the recent AI boom is a case in point, serving up some impressive short term gains for investors piling into the tech trade.

But short-term bursts rarely translate into durable returns, with the current gains built on narrow leadership and valuations that leave little margin for error. History shows these cycles inevitably fade as market leadership rotates, and the consistent outperformers are the ones staying anchored to intrinsic value rather than chasing short term sentiment.

Fidelity Asian Values (FAS) has spent three decades doing exactly that. A £1,000 investment on its launch in 1996 would now be worth almost £8,300, three decades years later, compared with £7,300 for the benchmark. This steady compounding has been delivered through every market dislocation from the Asian Financial Crisis to the dot com bubble, reflecting a disciplined value approach built around capital preservation.

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Back to basics

Asia is a vast and heterogeneous hunting ground for stock pickers, with close to 20,000 listed companies. FAS's benchmark agnostic mandate provides managers Nitin Bajaj and Ajinkya Dhavale with the freedom to ignore index weightings and focus purely on bottom up stock selection, supported by one of the largest on-the-ground research teams in the sector.

Their process starts with valuation: the managers carry out extensive due diligence to understand why a company is trading on a low valuation and the potential scope for a re-rating. This value contrarian process targets out-of-favour pockets of the market, while steering clear of those driven solely by momentum, providing a clear margin of safety.

The managers also favour an understandable business model, an established position in a durable market and a strong management team that treats minority shareholders fairly. On the financial side, Nitin and Ajinkya look for strong and repeatable cash generation and avoid companies burdened by high debt, temporary margin uplift or revenue streams overly dependent on a single theme.

This disciplined value framework is anchored in company fundamentals and built to preserve capital and deliver strong returns over the long term, regardless of whichever styles or cycles happen to be in vogue. That doesn't mean avoiding the AI theme altogether but steering clear of companies where expectations already look fully-priced.

It's all about the price tag

Investors seeking Asian equity exposure might naturally gravitate towards a passive strategy, but the broad regional label masks some hefty concentrations. In the MSCI AC Asia ex Japan Index, Korea and Taiwan now account for more than half of the benchmark, thanks to the dominance of technology-related names such as TSMC, SK Hynix and Samsung Electronics.

What looks like diversified regional exposure is, in practice, a concentrated position in a handful of mega caps. And this concentration feeds volatility, with the MSCI Korea Index falling almost 20% in July due to concerns over the durability of AI spending. Putting this in context, a 20% drawdown requires a 25% gain to break even - a clear illustration of the downside risk of chasing momentum driven markets.

This brings us back to the waiting game over short-term trading. Since FAS's inception in 1996, Asian small-cap value stocks have comfortably outperformed both large-cap growth and large-cap value indices. The investment philosophy is simple: low expectations drive low valuations, creating scope for a meaningful rerating if companies deliver better-than-expected results.

Instead, the portfolio is tilted towards value, with almost double the index weighting in value stocks. The result is a portfolio of higher-quality businesses trading at a lower valuation premium, with a lower price-earnings ratio than the benchmark index but a higher return on equity. This balance of quality and value is reflected in the trust's rating, which stands at the lowest discount in its peer group.

The trust currently has a significant weighting to Indonesia: the MSCI Indonesia Index has dropped more than 30% over the past year as capital rotated into Asian tech, leaving the index trading on a forward price-earnings ratio of 9 times, less than half that of Taiwan. Although allocations are not made on a top-down basis, Indonesia offers favourable demographics, a conservative macro backdrop and sound corporate governance. Its geography also makes national expansion more challenging, resulting in oligarchic markets with high barriers to entry.

As a result, Nitin and Ajinkya have identified a number of cash-generative companies trading at valuations that offer a substantial margin of safety. One example is Indofood Sukses Makmur, a noodle producer with dominant market positions across multiple countries. Despite the company delivering a 14% annual increase in EBIT over the past five financial years, weak sentiment towards Indonesian equities has pushed the shares down to a trailing price-earnings ratio of just 6.6 times.

FAS also has a significant exposure to China, where weak sentiment and macro challenges have driven valuations to low levels, with some stocks trading on price-earnings ratios of only five times.

One such holding is ManpowerGroup Greater China, which trades on a trailing price-earnings ratio of just under six. The managers view its scale and geographic reach as a clear advantage in a fragmented market. The business is asset light, cash-generative and offers an attractive dividend yield, with net cash amounting to around 80% of its market capitalisation.

Over the last three decades, the trust has shown that consistency and durability beat short-term exuberance. Looking ahead, its focus on undervalued, cash generative businesses is built to keep compounding returns for investors - whatever the next 30 years may bring.

Fund data as at 30/06/2026, index data as at 31/07/2026, company data as at 06/08/2026, returns based on GBP and share price returns unless stated otherwise. MSCI Asia Pacific Ex Japan Small Cap Index replaced MSCI Asia Pacific Ex Japan as the fund's official benchmark from 1 February 2020.

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