Further from the madding crowd

Why Asia's best returns may lie well beyond large-cap growth.

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18 December 2025

It's fair to say that US mega-caps have stolen the show in recent years, dominating headlines and equity indices alike. Investors hitching their wagons to the Magnificent Seven may have been richly rewarded but it's easy to fall into the trap of trying to replicate this strategy in other markets in search of superior returns.

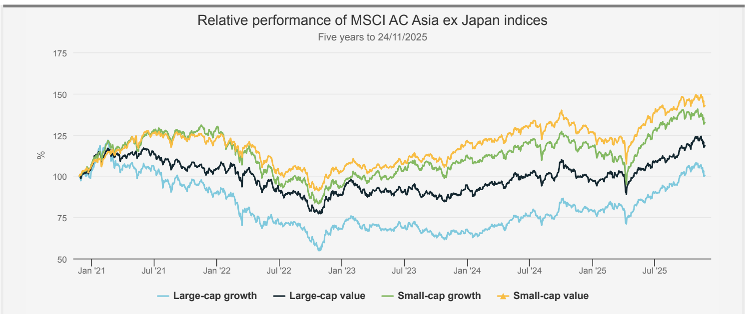
Without wishing to state the obvious, Asia is not the US. It's a politically and economically heterogeneous region, spanning almost 20,000 listed companies across nearly 50 countries. The region may offer its fair share of Magnificent Seven proxies, from Alibaba, China's play on Amazon, to NVIDIA's favoured supplier, TSMC, but is this a winning formula for outperformance?

Not according to Joel Greenblatt, author of the best-selling The Little Book That Beats the Market, who observes that "Mispricings and ignored opportunities [are] the path to outperformance."

And the numbers back up Greenblatt's theory. Over the past five years, small-cap indices have comfortably outperformed their large-cap peers in the MSCI AC Asia ex Japan universe, as shown below.

Digging down by style, large-cap growth has lagged, while small-cap value has led the pack. Yet despite this superior track record, small-cap value stocks are trading at one of the widest valuation spreads to growth peers seen in the past 25 years.

Fig.1: Small-Cap Value Indices Have Outperformed Their Peers



Source: Bloomberg (as at 24/11/2025)
Past performance is not a reliable indicator of future results.

Asia may offer significant growth potential but it's a region best suited to an active approach to navigate its diverse regulatory, economic and political backdrops. **Fidelity Asian Values (FAS)** is one of the few funds offering exposure to the small-cap opportunity within the broader Asia universe.

Managers Nitin Bajaj and Ajinkya Dhavale bring nearly four decades of combined experience in Asian equities, supported by Fidelity's extensive on-the-ground network spanning more than 45 analysts across the region, which includes a team of analysts dedicated to regional small-caps. This depth of insight helps to identify the most attractive opportunities in an inefficient and under-researched universe.

Shutting out the noise

This year has seen plenty of macroeconomic and political turbulence, from tariff disputes to currency swings. Yet legendary investor Peter Lynch famously quipped: "I've always said if you spend 13 minutes a year on economics, you've wasted 10 minutes."

Managers Nitin and Ajinkya follow a similar approach, focusing on the bottom-up fundamentals of "good businesses, good people, at a good price"

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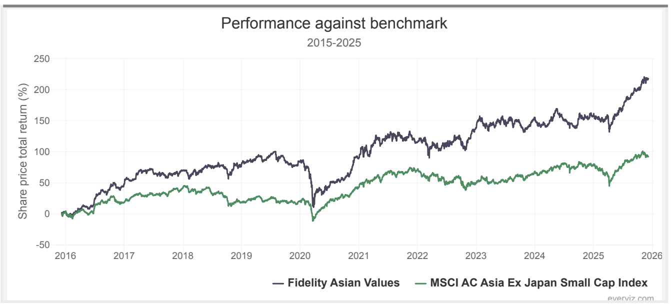
that can thrive regardless of the market cycle, with the aim of doubling their money over a five-year period.

The trust's small-cap value focus offers a clear margin of safety, with the portfolio trading at a 40%-plus discount to the MSCI AC Asia ex Japan Small Cap Index (as at 31/10/2025), alongside a higher return on equity.

Quality remains paramount in the search for value. The team runs a rigorous screening process, assessing value creation over a 10-15-year horizon and interviewing a wide range of stakeholders - from management to vendors, competitors and former employees - to identify the most compelling opportunities.

This dual focus on quality and value underpins the trust's long-term outperformance against its benchmark index, as shown below.

Fig.2: Fas Has A Long-Term Record Of Outperformance



Source: Bloomberg (as at 09/12/2025)
Past performance is not a reliable indicator of future results.

Small-cap stocks are often perceived as higher risk, but FAS has shown resilience in bear markets, including the 2018 Chinese crash and the 2020 pandemic. The managers view risk as overpaying for poor quality businesses, not investing in smaller companies, reflecting their focus on absolute capital preservation.

Finding opportunity among the unloved

The managers' contrarian mindset drives a portfolio that differs markedly from the index, targeting companies in overlooked or unpopular areas of the market, while steering clear of those driven primarily by momentum.

This has resulted in a meaningful overweight in China and Indonesia, focusing on businesses that combine quality with growth potential and strong capital allocation. In contrast, the trust is underweight India and Taiwan due to expensive valuations.

Within China, the trust has exposure to the real estate sector, which remains out of favour following a severe downturn in housing and the broader economy. While a shake-out of weaker players seems likely, the managers have focused on companies with strong balance sheets and financial firepower, positioned not only to survive but to gain market share as the sector recovers.

Similarly, some major dairy and beer producers currently trade around 10-12 time earnings, yet Nitin and Ajinkya see these as resilient, long-term businesses that have been punished by short-term market sentiment. Or put another way, they seem likely to outlast the decade or so implied by their current valuation.

Indonesia also offers attractive valuations and high returns on capital, supported by a youthful population and conservative public finances. Due to Indonesia's unique geography and limited entrepreneurial culture, incumbents often dominate the market.

A notable example is top-ten holding Indofood CBP, the world's largest instant noodle manufacturer. With a 75% market share in Indonesia and leading positions in Saudi Arabia and parts of Africa, strong margins, disciplined management and high returns on capital provide a buffer against geopolitical or economic issues.

The road ahead

Looking ahead, Asia's small-cap value market offers a compelling chance to capitalise on ignored and mispriced opportunities, with high-quality businesses at attractive valuations that can prosper irrespective of the market cycle.

Unlike the headline-grabbing Magnificent Seven, these small-caps may be overlooked today, but FAS has demonstrated how a consistent, research-driven process can turn these businesses into tomorrow's long-term winners.

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