



TRANSFORMATION OF ASIAN MARKETS MEANS GROWTH SUSTAINABLE, CLAIMS FIDELITY INTERNATIONAL

- **Region now driving force of global growth and confidence**

London, 23 October 2007 – Ten years on from the Asian Crisis, many still view Asia as a high risk investment. However, widespread corporate restructuring and economic improvements have helped make Asia the resilient, fast-growing economic region that it is today and have given rise to a new generation of world-class companies that are increasingly capable of delivering superior returns for investors.

At a conference recently, **John Ford, CIO of Fidelity Japan and Allan Liu, manager of the Fidelity South East Asia Fund**, discussed the changes that have occurred since the Asian Crisis of 1997 and whether the volatility developed markets have seen in recent weeks will halt the growth of Asian economies.

John Ford commented: “10 years ago the world watched as the Asian crisis unfolded. Currencies were devalued and markets fell – the Tigers lost their roar. The transformation has been remarkable and today, the economies of Asia are now the driving forces of both global growth and global confidence. It has taken a number of years for the turnaround to complete but the issues have now been sorted and new world-class companies have been formed.”

Explaining this transformation **Allan Liu continued:** “In the lead up to the Asian Crisis, growth was financed by debt, companies were inwardly facing, stock markets were not fully opened to foreign investors, capital markets were not efficient and there was a lack of diversification.”

Many Asian companies now operate across the entire region, rather than just in their domestic market. Intra-regional trade is a rising trend driving growth from a wider base than the traditional US-led demand. An increasing number of companies also operate outside their domestic country. Corporate transparency has improved and management is more focused on profit margins, cash flow and achieving the optimal capital structure rather than the ‘growth at any cost’ approach that contributed to the Asian Crisis.



“Both GDP and corporate earnings growth in Asia today is financed by equity, capital markets are more open and there is more foreign participation.” **continued Liu.** “There is M&A activity across borders and generally more depth and breadth to the markets. Companies are more capable and can compete on a global scale which is a big change.”

Commenting on the concerns about what effect a US slowdown may have on the region, **Mr Liu said:** “The Asia ex-Japan market has risen by more than 30% in the first three quarters of this year* so I believe we need to be cautious in the short term. However, the underlying themes driving growth are unchanged and long term the region is still a good investment.

“The impact from the sub-prime issues was minimal. Some countries in the region were affected more than others, for example, Taiwanese banks and insurance companies were hit but given the strength of their balance sheets were able to solve the problems themselves. In countries like Korea, China, Hong Kong and Singapore, the impact was very marginal. So far the effect on markets has been limited but if the US consumer starts to slow, exports and growth in Asia could also slow so this is something to watch out for.”

John Ford added: “The potential impact of a US slowdown needs to be closely monitored but Asia is becoming increasingly important as a driver for world growth. Dependency on the US is falling as intra-regional trade increases and growth in Asia is coming from diversified sources: rising capital spending with strong infrastructure development across the region, increasing domestic consumption and new display technologies and digital consumer electronic trends to name but a few. All of these are long term trends. The diverse growth translates into diverse market opportunities.

“It is still unclear if the bull market has peaked or if there will be another short term correction but valuations are still reasonable and many Asia markets are expected to deliver double digit earnings growth next year. Their contribution to the world economy is increasing and accelerating rapidly. Clearly there are risks – if the US goes into deep recession, Asia wouldn’t escape, but it is more insulated today than it was 10 years ago.”



The FIF South East Asia Fund aims to provide long-term capital growth from a portfolio primarily comprised of equities listed on the stock exchanges throughout the Asian region, excluding Japan. Year to date the fund has returned 54% in Sterling terms compared with a benchmark return of 33%*. Over ten years the fund has returned 184% while the benchmark returned 69%.

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Notes to editors:

*The index is the South East Asia Composite Index (NUK). Source: Morningstar. Basis: nav-nav with gross income reinvested to 30.09.07. Annualised growth rates, total return, sector median performance and ranks – Data Source: © 2007 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

**Source: Fidelity as at 30.09.07

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