

PENNY HIGHLIGHTS THE STRENGTH OF THE ASIA PACIFIC EX JAPAN (APEJ) REGION

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ECONOMIC OVERVIEW

The latest East Asia Update by the World Bank forecasts that economic growth in the East Emerging Asian region will grow by 8.4% in 2007 and 8.2% in 2008, as shown in Exhibit 1. The projections for regional growth in 2007 and 2008 have been significantly increased due to the large domestic demand led expansion in China. Growth also picked up speed in other larger economies within the region, owing to strong domestic consumption and huge investment inflows. However, there are concerns over the impact of the US subprime crisis and a spike in oil prices. According to a research report issued by Citi, a 1% slowdown in US GDP growth may reduce Asia Pacific growth by 1.1%, suggesting that the region remains dependent on the US for future growth. Exhibit 2 shows the GDP growth forecast of various APEJ economies.

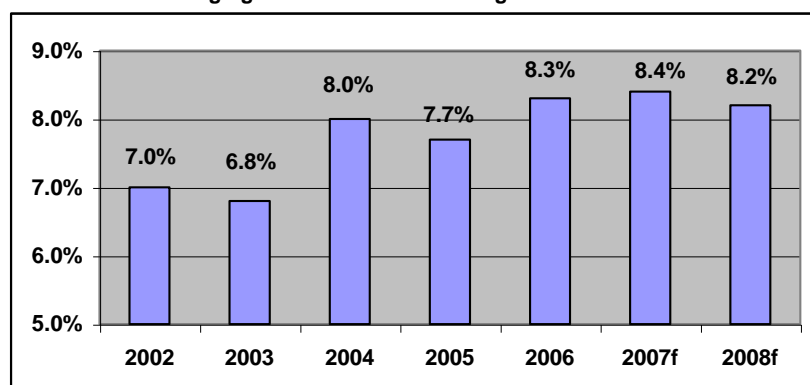
Are Asian economies decoupling from the US?

Following the subprime crisis, there have been arguments between various investment houses on whether Asian economies are decoupling from the US economy. Many analysts and investors have started to take sides and positioned their portfolios according to their convictions. Over the past few months, the Dow

Jones Industrial Average has often made three-digits swings downwards due to fears among market participants that the US may be falling into a recession. In stark contrast, stock markets in the APEJ region staged a strong rebound from their initial drop in the month of August, while the European and the US markets were left reeling from the fallout of the subprime woes.

Some investment houses such as HSBC and Merrill Lynch believe that the Asian economies are becoming less dependent on the developed markets for growth. These banks pointed out that since the last Asian financial crisis in 1996, Asian economies have built up strong current account surpluses via robust export growth and these surpluses can be used to cushion any slowdown in US consumption. Furthermore, in India and China, there is a growing middle class of households to support the regional economies with their rising level of domestic demand via intra-regional trade. It is widely tipped that demand from these two giant economies is sufficient to prop up neighbouring countries even if the US goes into a slow down. Some economists even estimated that Asian exports to non-US destinations are growing at a double-digit pace, confirming the theory of decoupling. Rising incomes, strong savings rate and underleveraged corporate balance sheets also suggest that the Asian economies may withstand any negative externality.

Exhibit 1: East Emerging Asian annual real GDP growth



Source: World Bank's East Asia Update Nov 2007

Note: The East Emerging Asian region comprises East Asia (China, Indonesia, Malaysia, the Philippines, Thailand, Vietnam and some smaller economies) and four Newly Industrialised Economies or NIEs (HK, Singapore, Korea and Taiwan, China)

Exhibit 2: Real GDP growth of the key APEJ countries

	2005	2006	2007f	2008f
Emerging East Asia	7.7	8.3	8.4	8.2
China	10.4	11.1	11.3	10.8
Hong Kong*	7.5	6.9	5.7	4.7
Korea	4.2	5.0	4.8	5.1
India*	9.0	9.7	8.9	8.4
Indonesia	5.7	5.5	6.3	6.4
Malaysia	5.0	5.9	5.7	5.9
Singapore	6.6	7.9	7.4	6.4
Taiwan	4.1	4.7	4.6	4.6
Thailand	4.5	5.0	4.3	4.6

Source: World Bank forecast dated Nov 2007 * - IMF forecast dated Oct 2007

On the other end of the spectrum, Citi argued that as the world globalises, trade linkages among nations become more inter-twined. Citi estimated that the stock market correlation between Asian bourses and US equity markets stood at a high of 0.6, hardly an evidence of decoupling. In support of Citi's view, the Asian Development Bank approximated that the G3 economies (the US, EU and Japan) consumed over 60% of APEJ exports. It also explained that about 50% of all APEJ exports to China are semi-finished goods, which are ultimately re-exported to the G3 nations.

In reality, no one has a definitive answer to the issue of decoupling and it is too early to look for winners in this debate. Within the US, the impact of housing woes on domestic consumption remains fairly muted and this has probably stirred up overconfidence among the proponents of the decoupling debate. It may be too

premature to conclude as to whether Asian economies can still roar when Uncle Sam sneezes.

STOCK MARKET OVERVIEW

In the second half of 2007, stock markets in the APEJ region experienced extreme volatility due to concerns over the US subprime crisis, spike in oil prices and tightening monetary policies in China and India. However, according to the World Bank, 'preliminary assessments suggest that direct exposures of East Asian financial institutions to subprime risks remain relatively limited'. It also believes that the impact of the subprime crisis on the region via slower import growth in the developed countries should be relatively limited.

Valuations of the stock markets are tabulated in Exhibit 3, 4 and 5.

Exhibit 3: Price-to-Earnings ratio of regional stock markets

Index	17-Nov-07	EPS			P/E			Earnings Yield			
	Index Close	2006E	2007E	2008E	2006E	2007E	2008E	2007E	Ranking	2008E	Ranking
HK	27,614.43	1407.6	1900.3	1434.2	19.6	14.5	19.3	6.9%	4	5.2%	8
China (HSCEI)	16,737.73	561.7	685.9	814.5	29.8	24.4	20.5	4.1%	10	4.9%	10
India	19,698.36	702.3	836.7	976.8	28.0	23.5	20.2	4.2%	9	5.0%	9
Indonesia	2,668.70	104.1	152.6	171.5	25.6	17.5	15.6	5.7%	7	6.4%	6
Korea	1,926.20	131.7	141.8	163.6	14.6	13.6	11.8	7.4%	2	8.5%	2
Malaysia	1,386.64	67.6	85.3	91.4	20.5	16.3	15.2	6.1%	6	6.6%	5
Philippines	3,598.96	190.2	194.1	221.3	18.9	18.5	16.3	5.4%	8	6.2%	7
Singapore	3,440.96	197.5	218.0	234.3	17.4	15.8	14.7	6.3%	5	6.8%	4
Taiwan	8,764.82	474.5	621.4	724.2	18.5	14.1	12.1	7.1%	3	8.3%	3
Thailand	849.07	64.8	64.8	74.5	13.1	13.1	11.4	7.6%	1	8.8%	1

Exhibit 4: Dividend yield of regional stock markets

Dividend Yield	17-Nov-07	DPS	Dividend Yield		10-year
Index	Index Close	2007E	2007E	Ranking	Bond yield
China (HSCEI)	16,737.73	273.7	1.64%	9	7.29%
HK	27,614.43	881.8	3.19%	5	3.59%
Malaysia	1,386.64	50.3	3.63%	3	4.04%
Indonesia	2,668.70	68.2	2.56%	6	10.00%
Korea	1,926.20	32.4	1.68%	8	5.53%
India	19,698.36	192.4	0.98%	10	7.89%
Philippines	3,598.96	87.1	2.42%	7	7.04%
Thailand	849.07	31.3	3.69%	2	5.08%
Singapore	3,440.96	113.1	3.29%	4	2.81%
Taiwan	8,764.82	356.4	4.07%	1	2.61%

Exhibit 5: Price-to-Book ratio of regional stock markets

Price-to-Book	23-Nov-07	P/B	
Index	Index Closing	Book Value	Ranking
HK	26,541.09	12064.13	2.200
China (HSCEI)	15,691.71	3736.12	4.200
India	18,852.87	3427.79	5.500
Indonesia	2,584.35	496.99	5.200
Korea	1,772.88	984.93	1.800
Malaysia	1,353.55	588.50	2.300
Philippines	3,494.44	1344.02	2.600
Singapore	3,325.89	1511.77	2.200
Taiwan	8,342.20	3972.48	2.100
Thailand	824.25	374.66	2.200

Based on Price-to-Earnings (P/E) multiple, the most attractive market is Thailand. Based on dividend yield, the most attractive is Taiwan's stock market. Based on Price-to-Book (P/B) multiple, the most attractive market is that of South Korea.

In general, we remain positive on the stock markets of the APEJ region and we believe that the stock markets of South Korea and Taiwan offer the best risk-adjusted returns in the next 12 months.

For South Korea, the presidential election to be held is expected to be won by the ex-mayor of Seoul, Myung-bak Lee, as he has consistently maintained a big lead over other presidential candidates in pre-election polls. His victory will herald a wave of prosperity for the Korean economy as he is likely to focus on job creation and boost economic competitiveness via deregulation during his term of administration. In addition, the relationship with North Korea is improving and this should bode well for the prospects of both countries. Steel and industrial companies in South Korea are poised to benefit from the improving relations as Pyongyang is expected to develop its infrastructure. The stock market valuation looks attractive with low P/E multiple at 11.8 times while P/B multiple stands at 1.8 times.

For Taiwan, investors' attention has lately been focused on political developments. Many investment houses have expressed concern over the upcoming presidential elections during which voters will vote on the UN referendum. However, both competing presidential candidates, Frank Hsieh from the DPP and Ma Ying-jeou from the KMT, have signaled intentions to improve the cross-straits relations with

China, calming the nerves of most investors. Both candidates also pledged to rejuvenate economic growth which is likely to underpin the stock market. In terms of valuation, the stock market is trading attractively at a low P/E multiple of 12.1 times and a P/B multiple at 2.1 times.

We think that the South Korea KOSPI will reach 2,080 and the Taiwan TWI will reach 10,200 over the next 12 months.

FUNDS SELECTION

We recommend investors to tap into the APEJ region by investing into Fidelity Asian Special Situations and Fidelity Asean funds. Exhibit 6 shows the comparative performances of the two funds with other APEJ funds.

Fidelity Asian Special Situations fund provides exposure to the Asian stockmarkets with an emphasis on China, HK, Korea and Taiwan. Fidelity Asean fund invests in the ASEAN region, with its main exposure in Singapore, Malaysia and Thailand.

Exhibits 7 and 8 show the geographical and sector breakdown of the two funds.

As we are particularly positive on South Korea and Taiwan, we also recommend investors to gain exposure to these stock markets via the Fidelity Korea fund and Fidelity Taiwan fund. Being attractively valued, these markets are expected to yield good risk-adjusted returns. Exhibits 9 and 10 show the geographical and sector breakdown of the funds respectively.

Exhibit 6: Comparative performance of Asia Pacific ex Japan funds

	Bid-to-bid Returns (in SGD)				Annualised Std Dev
	1 Mth	6 Mth	1 Yr	3 Yrs	
Aberdeen Pacific Equity	-3.24%	8.91%	28.0%	26.7%	14.89%
First State Asian Growth	-3.43%	13.73%	45.5%	20.58%	11.71%
Franklin Templeton Asian Equity	-8.93%	25.03%	73.0%	23.50%	22.15%
Schroder Asian Growth Fund	-6.58%	10.91%	39.7%	19.74%	19.31%
UOB United Asia Fund	-8.64%	17.15%	61.3%	24.25%	23.56%
APS Alpha Fund	-7.03%	2.59%	11.5%	5.36%	17.65%
DBS Shenton Asia Pacific	-11.37%	11.52%	49.9%	19.17%	20.83%
Henderson Pacific Dragon	-2.27%	13.16%	41.6%	19.84%	17.84%
Legg Mason Asian Enterprise	-11.27%	17.44%	69.7%	24.73%	23.58%
Lion Capital Asia Pacific	-5.74%	14.77%	47.2%	25.33%	19.91%
UOB United Asia Growth Opportunities	-7.65%	6.5%	68.4%	NA	25.77%
Fidelity South East Asia	-10.69%	23.88%	79.4%	43.0%	24.43%
Fidelity Asia Pacific Growth & Income	-4.74%	3.25%	26.5%	NA	8.66%
Fidelity Asian special situations	-8.25%	15.13%	57.2%	35.5%	20.85%
Fidelity Asean	-4.26%	3.37%	41.7%	16.90%	11.04%

Source: Fundsupermart.com Returns and prices are as at 21 Nov 2007

Exhibit 7: Geographical and sector breakdown of Fidelity Asian Special Situations

Fidelity Asian Special Situations					
Geographical Breakdown			Sector Breakdown		
1	China	26.90%	1	Financials	24.80%
2	Korea	25.90%	2	IT	15.30%
3	HK	12.50%	3	Industrials	14.30%
4	Taiwan	11.40%	4	Materials	12.60%
5	Singapore	4.40%	5	Energy	8.30%
6	Australia	2.90%	6	Telecommunication	8.20%
7	Grand Cayman (UK)	2.70%	7	Consumer Discretionary	7.90%
8	India	2.10%	8	Consumer Staples	4.00%
9	Other	8.30%	9	Other	1.70%
10	Cash	2.90%	10	Cash	2.90%
	Total	100.00%		Total	100.00%

Source: Latest Fidelity Asian Special Situation factsheet

Exhibit 8: Geographical and sector breakdown of Fidelity Asean fund

Fidelity ASEAN					
Geographical Breakdown			Sector Breakdown		
1	Singapore	39.10%	1	Financials	34.60%
2	Malaysia	30.80%	2	Industrials	27.60%
3	Thailand	14.10%	3	Energy	12.60%
4	Indonesia	11.40%	4	Consumer Discretionary	6.60%
5	Philippines	1.30%	5	Consumer Staples	5.90%
6	Other	1.30%	6	Telecommunication	5.80%
7	Cash	2.00%	7	IT	3.20%
			8	Healthcare	1.10%
			9	Other	0.60%
			10	Cash	2.00%
	Total	100.00%		Total	100.00%

Source: Latest Fidelity Asean factsheet

Exhibit 9: Geographical and sector breakdown of Fidelity Korea fund

Fidelity Korea					
Geographical Breakdown			Sector Breakdown		
1	Korea	99.90%	1	Industrials	35.10%
2	Cash	0.10%	2	IT	16.70%
			3	Financials	14.90%
			4	Materials	13.60%
			5	Consumer Discretionary	10.30%
			6	Consumer Staples	5.40%
			7	Energy	2.20%
			8	Telecommunication	1.70%
			9	Cash	0.10%
	Total	100.00%		Total	100.00%

Source: Latest Fidelity Korea factsheet

Exhibit 10: Geographical and sector breakdown of Fidelity Taiwan fund

Fidelity Taiwan					
Geographical Breakdown			Sector Breakdown		
1	Taiwan	98.20%	1	IT	38.80%
2	Other	0.70%	2	Materials	28.20%
3	Cash	1.10%	3	Industrials	10.30%
			4	Financials	7.10%
			5	Consumer Discretionary	5.30%
			6	Energy	4.60%
			7	Consumer Staples	3.50%
			8	Telecommunication	1.10%
			9	Cash	1.10%
	Total	100.00%		Total	100.00%

Source: Latest Fidelity Taiwan factsheet