FIDELITY
ANALYST
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2013

Investment thinking for tomorrow's world

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2013

Introduction

Fidelity operates one of the largest investment research teams in the world. Our research analysts are committed to carrying out fundamental, bottom-up research by analysing every angle of the thousands of companies we visit every year. This research relies heavily on the quality and calibre of our analysts. They must have strong and independent thought, show a commitment to unearthing new and exciting investment opportunities, and work as a team with our portfolio managers to buy and sell stocks at the right time, and at the right value.

Whilst analysts may promote their stock recommendations, there is no "house view" and no house-wide "buy" and "sell" lists imposed on our portfolio managers; rather they are afforded flexibility to manage their portfolios in their own individual styles. At Fidelity, we embrace and value a diversity of opinion. Our analysts are in a unique position to gain insights into some of the world's leading companies about their ideas for the future, their insights into current trends, and their plans in terms of capital expenditure, expansion and corporate actions.

This report presents a snapshot of some of the key investment opportunities identified by our equity and fixed income investment teams. Drawing on this fundamental company research, we highlight some of the broader investment themes that will shape the global economy in the years ahead. The survey is not exhaustive by any means; rather it is designed to shine a light on some of the companies, sectors, regions, and secular themes that we believe are the most attractive against a backdrop of weak global growth.

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This survey was compiled by Fidelity's corporate and investment writing teams in Asia Pacific and Europe. For further enquiries, please contact series editors Gareth Nicholson (gareth.nicholson@fil.com) and Nick Armet (nick.armet@fil.com).

Executive Summary

- Although we live in a two-speed world (divided broadly between high-growth emerging economies and lower growth developed markets), investment performance in the short term is not necessarily correlated with gross domestic product (GDP) growth.

- The strength of a bottom-up research team is the capacity to be able to look beyond the short-term fog and identify long-term winners via a robust and repeatable investment process. The winners are likely to be those companies that have a sustainable competitive advantage, enabling them to generate consistent returns over the long-run.

- Companies around the world face a number of economic headwinds. Public and private sector deleveraging is likely to be an extended, multi-year process. However, there is evidence of some re-leveraging as companies take advantage of ultra-low financing costs.

- The winners will be those companies that can: pass on higher input costs because of their strong brands and pricing power; those with strong enough balance sheets to weather adverse conditions; and those which can innovate and create new products and services. Innovation is one way developed markets can fight back against faster emerging market GDP growth and the US is doing this in the energy sector, for example, with shale oil and gas extraction.

- China, the world's fastest-growing economy, is an evolving story as the country makes the transition to more consumption-focused growth and away from export dependence. Despite some short- to medium-term headwinds, we think China remains attractive as a long-term investment proposition due to several secular drivers.

- Consumption growth itself remains an important investment theme amid rising urbanisation and affluence in emerging markets, and domestic players and quality brand names in the West will continue to compete for this new demand.

- Finally, in a low interest rate world with ageing populations in many countries, income-paying assets and capital-preservation strategies remain attractive investment solutions, particularly for investors with longer-term horizons, such as pension funds.

About Fidelity

Fidelity Worldwide Investment is a global leader in asset management, providing investment products and services to individuals and institutions in the UK, continental Europe, the Middle East and Asia Pacific. Established in 1969, the company has over 5,500 staff and manages or administers client assets of US$289.4 billion[1]. We have 7 million customer holdings and manage more than 650 equity, fixed income, property and asset allocation funds. Our portfolio managers receive research from one of the largest proprietary research teams in the industry, based in numerous countries around the world. Fidelity Worldwide Investment is an independent asset management company which is privately owned.

Fundamentals-driven research

Fidelity pursues an active investment style based on the deep and comprehensive fundamental research undertaken by our investment teams. Our objective is to deliver superior investment performance by developing a rich and detailed understanding of the anticipated financial evolution of all of the companies in which we invest. Our global research network comprises over 350 investment professionals based in a range of international locations, including London, Paris, Frankfurt, Milan, Mumbai, Singapore, Hong Kong, Shanghai, Seoul, Sydney, Tokyo, Sao Paulo and Bermuda.

Our portfolio managers are supported by a broad, dedicated team of investment analysts who cover specific sectors and markets. The analysts are responsible for maintaining investment recommendations based on fundamental, proprietary research. We do not impose top-down investment views on our portfolio managers, who are responsible for their own investment decisions. At the same time, they have access to extensive macro-economic analysis and market cycle insight to inform portfolio construction.

Role of research analysts

At Fidelity, we have an integrated business model in which analysts and portfolio managers work together directly on an ongoing basis. Our analysts provide proprietary views on each security within their coverage. Insights are discussed and debated across our global investment team, with portfolio managers ultimately responsible for any decisions made to buy, hold or sell any security.

Equity analysts work in regionally organised industry teams and will typically develop at least three-year financial projections for individual securities. The aim is to build a deep and specialised knowledge of their covered industry by attending company meetings, undertaking industry and stock analysis, building financial models, appraising valuations and undertaking risk assessments and scenario analysis. Analysts within industry teams work closely with counterparts in other parts of the world to build strong insights on global sector trends. Their ideas are communicated to portfolio managers quickly and effectively, and research notes are written regularly, in addition to one-to-one and group discussions. Most of our analysts rotate coverage to a new industry sector on a three-year basis to keep things fresh and challenge established thinking.

1. Data as at 30 September 2012. Assets and resources are those of FIL Limited.

Equity analysts work in regionally organised industry teams and will typically develop at least three-year financial projections for individual securities. The aim is to build a deep and specialised knowledge of their covered industry.

Our fixed income analysts specialise in either credit or quantitative research. Credit analysts are organised as industry specialists and provide the portfolio managers with fundamental analysis on the credit-worthiness of issuers and the relative value of their bonds. Indeed, the credit analysts work very closely with their equity colleagues to improve each other's overall level of understanding of company and industry fundamentals. We believe this gives us a distinct competitive edge. Within the fixed income team, we also have sovereign research specialists who provide invaluable insight into credit risk at the country level. Finally, the research team includes quantitative analysts whose role is three-fold: to use proprietary mathematical models to unearth potentially mis-priced bonds and markets; to continuously improve our portfolio risk management systems; and to assist the portfolio managers in optimising portfolio structures.

Methodology

This report is based on questions given to more than 100 equity and fixed income investment team members at Fidelity, covering a variety of sectors, and designed to extract a selection of their best and most contrarian investment ideas. It was complemented by a number of discussions with heads of research to verify trends and themes across countries, sectors and asset classes.

Note: Any opinions expressed are made at the time of writing and can be subject to change without notification. Reference to specific sectors should not be construed as a recommendation to buy or sell these sectors, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity.

FIDELITY ANALYST SURVEY 2013

Comments from our Heads of Research

Henk-Jan Rikkerink
Head of Equity Research, Europe

One of the principal features that differentiates our investment thinking is our ability to take a longer-term view than increasingly myopic, macro-driven markets. Our research process helps us to identify a range of long-term winners with strong fundamentals, which are likely to be beneficiaries of structural themes that act as a tailwind to earnings growth. These are typically stocks with a sustainable competitive advantage that enables them to deliver returns in excess of their long-run cost of capital, and generate strong cashflow, some of which is returned to investors in the form of dividends. With such stocks, we can have more confidence in buying and holding on our time horizons regardless of occasional periods of short-term volatility.

Leon Tucker
Head of Equity Research, Asia Pacific

Since the start of the global financial crisis in 2008, economic and market cycles have become shorter, volatility has increased dramatically, and correlations between asset classes have shot up. This background makes life challenging for the bottom-up stock picker. One of the best strategies in this environment is to try to identify stocks that are likely long-term winners, stocks that can weather short-term adverse volatility and provide superior long-term investment returns for our clients. Our edge in fielding one of the largest research teams in Asia (over 40 analysts) gives us the ability to develop long-term relationships with key company managements. These relationships allow us to develop confidence in strategic initiatives and updates on execution progress in our portfolio holdings. We firmly believe that challenge drives opportunity, and that our fundamental research process is geared to finding those stocks and investment themes that will likely provide superior long-term returns.

Sabita Prakash
Head of Asian Fixed Income

As Asia's bond markets continue to develop, more opportunities are becoming available. Investors who seek margins of relative safety should consider higher quality investment grade corporate debt, given reasonable yield levels and the predictability that stems from good credit quality. This is an especially important consideration when investing in burgeoning markets, such as Dim Sum (offshore RMB) bonds, where investors would be well-advised to seek better structural protection as market standards are still developing. For investors with a higher risk appetite, Asian high yield bonds still offer attractive levels of regular income, however the asset class is subject to higher volatility based on the market's risk-on risk-off tendencies. Nevertheless, periods of higher volatility generally prove to be attractive entry opportunities into high yield for more seasoned investors. Our fundamental research process is aimed at identifying the best opportunities across the risk/return spectrum.

Olivier Szwarcberg
Head of Credit and Structured Research

Artificially low interest rates have for some years now been conducive to corporate re-leveraging in order to finance M&A activities as well as share buybacks, which could be detrimental to bondholders. So far, however, companies have been playing it safe and hoarding cash owing to a lack of confidence. However, there are some early-stage warning signs emerging that the tide could be turning. While we believe that corporate fundamentals overall are solid and that spreads adequately reward investors for default and liquidity risk, especially in the UK and Europe, this trend towards re-leveraging needs watching closely.

KEY FINDINGS

1

Economic growth and investment returns diverge

Broadly speaking, we live in a two-speed World. While the global economy has slowed generally, emerging markets continue to offer growth rates that significantly outpace the developed world. Emerging markets used to mean high volatility but they increasingly symbolise steady growth based on positive domestic and regional drivers. This trend suggests that the productivity and output gap between Europe and Asia, for example, will gradually narrow. Yet despite the contrast in growth rates, our analysts see plenty of investment opportunities in both Europe and Asia. This is because economic growth alone is not necessarily a good indicator of investment returns, at least in the short- to mid-term.

Non-correlated returns

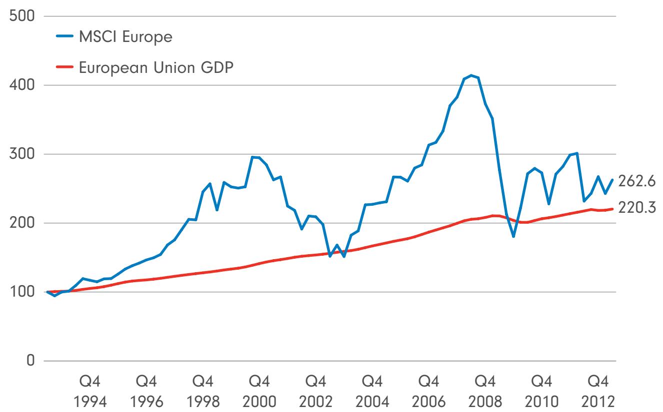
A country enjoying high growth does not imply a boom across every sector. Technology or regulations can turn previously dominant segments into sunset industries. On the other hand, select sectors in "low growth" countries may outperform due to unique factors. In Europe, for example, some multinationals with geographically diversified earnings remain very profitable despite the region's recession. Moreover, a country's stock or bond market may not fully capture and reflect the underlying economy.

Some sectors and companies may choose to finance themselves outside of the stock or bond markets, making them inaccessible to most investors. Certain strategic industries, for example, may benefit from government financing, while some companies may rely on bank borrowing or their retained earnings. Conversely, some sectors may constitute only a small portion of GDP, but they may dominate a stock or bond market index, perhaps because their promising growth commands high valuations, resulting in high market capitalisations.

All of this means that a stock or bond index may not necessarily reflect the true composition of an economy. For instance, many Middle East stock exchanges fail to expose investors to the oil industry growth the region is synonymous with because these industries tend to be under state control. Consequently, investment returns do not mirror the overall underlying economic growth of a country.

Even if a stock or bond market index adequately captures the underlying economy, GDP growth has been shown to be a poor indicator of investment returns. A Morgan Stanley[1] study found no correlation between GDP growth and equity returns in Asia ex-Japan between 1991 and 2011. This was also true over a longer period of 105 years, using either GDP or GDP per capita. Similarly, corporate earnings as a percentage of GDP also failed to explain investment returns.

Europe equity performance beats GDP growth



Source: DataStream, data from Q3 1992 to Q3 2012, rebased to 100.
Note: European Union members are: Austria, Belgium, Bulgaria, Cyprus, Czech, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK

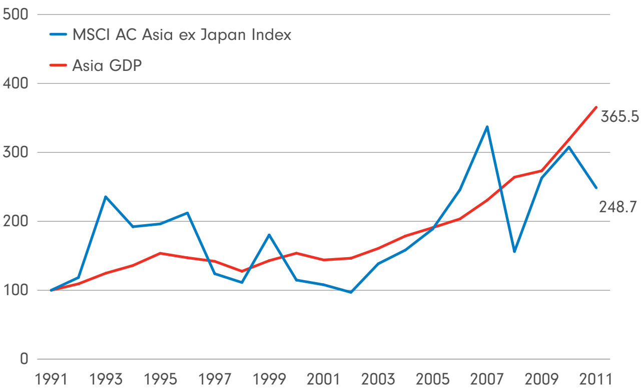
So what drives returns then? In the case of equities, it turns out that reinvested dividends, valuation, and changes in earnings per share (EPS) are crucial. Reinvested dividends drive income returns, while valuation and EPS changes drive capital (price) returns. Valuation follows market cycles rather than economic cycles, contracting during the down cycle and expanding during the up cycle. EPS change, on the other hand, depends not only on total earnings growth but the number of shares outstanding. Some companies enjoying high earnings growth may issue new shares, diluting EPS and negatively affecting their share price. Conversely, companies with declining total earnings may repurchase and retire shares, boosting EPS and share prices.

Strong balance sheets bolster bond returns

In the case of corporate bonds, the amount and quality of corporate cash-flows are just as important as the overall level of economic growth. Companies in mature economies such as the US and in high-growth Asia, for example, have maintained strong balance sheets with healthy cash positions, supporting bond price returns. Management and corporate finance policies are therefore an important element in the total return formula. In recent times, the domicile of a bond's issuer has become an additional factor in determining total returns, with basically sound global companies domiciled in countries with weak sovereign debt positions (for example in peripheral Europe) experiencing underperformance because of their unfavourable "post code".

For these reasons, our analysts continue to identify investment opportunities in both the 'High Speed' and the 'Low Speed' World. Simply investing based on economic growth or total earnings growth ignores the elements that can more accurately determine total returns. These elements are often sector and company specific, requiring thorough bottom-up analysis that differentiates the winners from the losers.

Asia equity performance not perfectly correlated to GDP growth



Source: DataStream, data from 31.12.1991 to 31.12.2011, rebased to 100. Note: Asia members are: Afghanistan, Bangladesh, Brunei, Cambodia, China, East Timor, Hong Kong, India, Indonesia, Japan, Korea, Laos, Macau, Malaysia, Maldives, Mongolia, Myanmar, Nepal, North Korea, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam.

"Simply investing based on economic growth or total earnings growth ignores the elements that can more accurately determine total returns. These elements are often sector and company specific, requiring thorough bottom-up analysis that differentiates the winners from the losers."

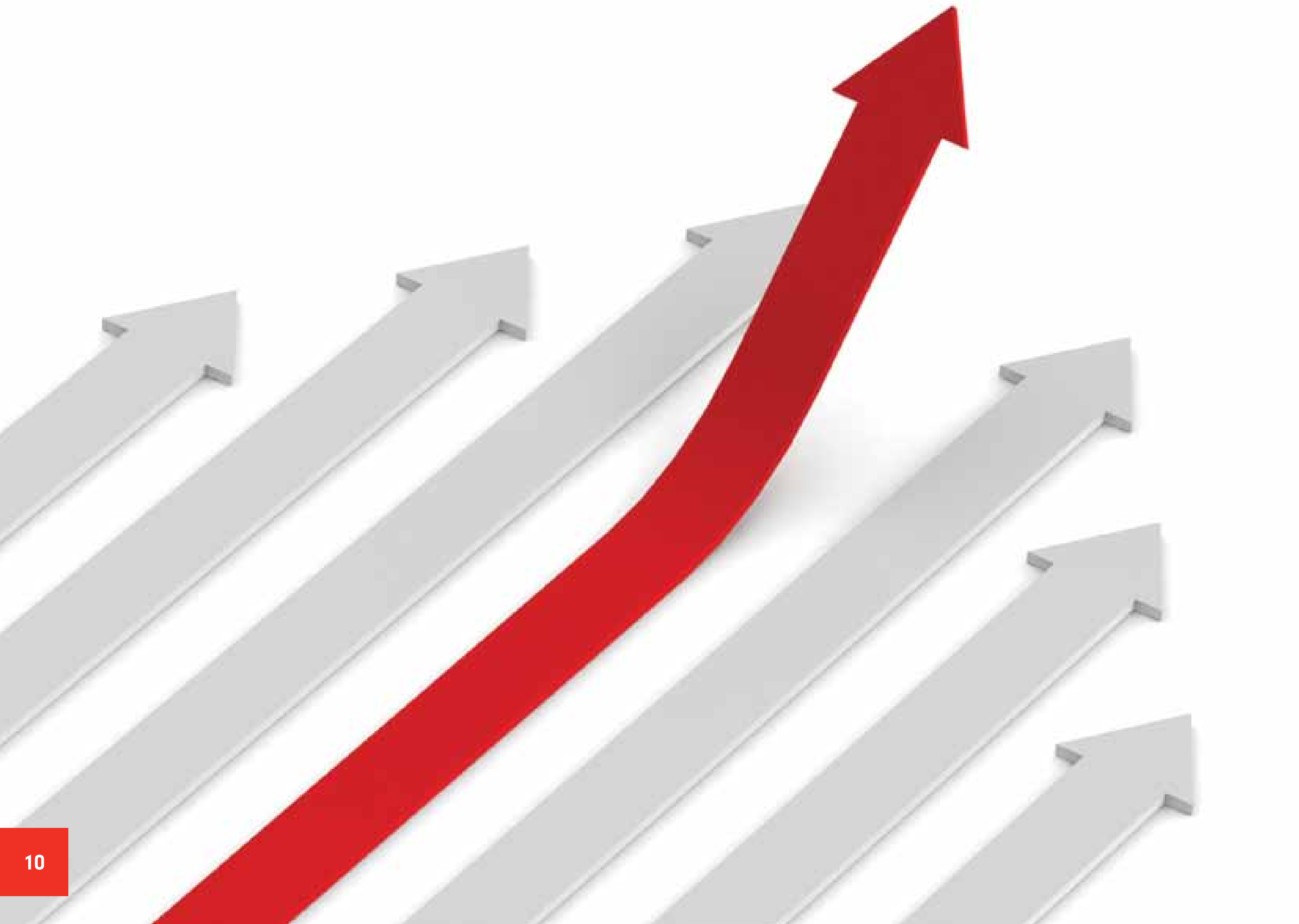
1. Morgan Stanley Research, 15.08.2012

KEY FINDINGS

2

Identifying the long-term winners in a globalised world

Amid continued market volatility it is more important than ever for investors to set their sights on the long-term. We believe that having a fundamental, bottom-up approach to research gives us an edge in identifying likely long-term winners. Given the adverse economic conditions, we believe defensive plays with sufficient balance sheet strength can offer protection, but we also believe investors can benefit from an array of secular investment themes.

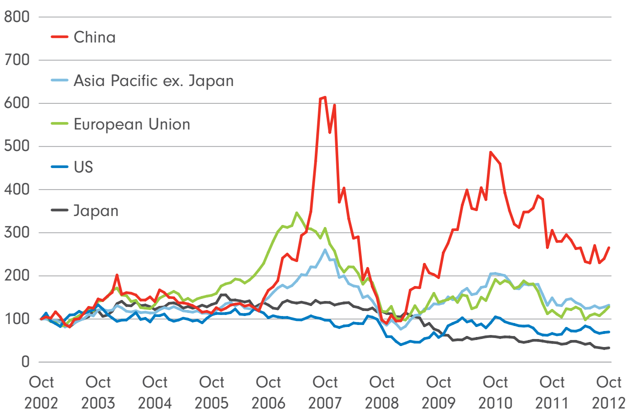


Identifying structural change

Given recent economic headwinds, the winners will be those companies that can pass on higher input costs because of their strong brand and pricing power, those companies that have strong enough balance sheets to weather adverse conditions (and cheap access to capital), and those companies that can innovate and create new products and services, driven by superior management teams. One need only look at a company such as Apple (which has bigger cash reserves than the GDP of some entire countries) to see the benefits of a strong balance sheet amid adverse conditions, in addition to having a reputation for innovation. At a geographical level, innovation is one way developed markets can fight back against faster emerging market GDP (gross domestic product) growth – many of the key technological advances we have seen in social networking, smart-phone design and in big data have originated in developed markets, particularly the US.

When picking stocks, our analysts think more about long-term structural opportunities and less about short-term trading patterns influenced by events like elections and the weather. This was a consistent response from our analysts across different sectors. For example, we think there has been a fundamental change in the regulatory environment for airlines in China (companies such as China Southern) since 2008 and that the competitive environment in this sector is now arguably among the best in the world, paving the way for returns to surprise on the upside.

China airlines outperform global peers



Source: Datastream, based on MSCI indices, data as at 31.10.2012, rebased to 100.

Another example is Asia shipping, where we tend to look past current macro uncertainty and poor fundamentals. If the current depressed sector performance is mainly due to a cyclical downturn and is not structural in nature, then we need to be prepared to sit through current negative news flow and wait for an eventual upturn, provided the downside is limited and the risk-return trade-off is favourable.

Many of our analysts are of the view that the present environment offers opportune times to invest if you are positive on longer-term themes, given relatively low valuations on a historical basis. Generally, we think the macro environment has left many high-quality listed businesses trading considerably below fair value. If the stock market does not address these discrepancies, other providers of capital will. As such, we are likely to see many companies, especially small and mid-sized ones, being acquired by cash rich buyers, such as private equity and larger competitors.

"The present environment offers opportune times to invest if you are positive on longer-term themes, given relatively low valuations."

We believe that less-leveraged economies (generally emerging markets) will have higher growth rates than leveraged OECD economies over time, though clearly there will be cycles within this longer-term trend.

Two-speed world dynamics

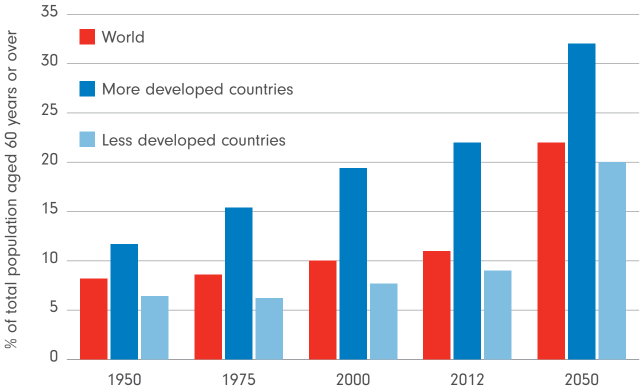
In Europe, we're likely to see a sustained period of low growth with relatively low interest rates. Many developed countries are facing a structural deleveraging process, which is unlikely to reverse for the foreseeable future. This is not just part of the economic cycle, it's a structural and lasting change. As such, we are more negative than consensus on infrastructure and building materials stocks, as construction cycles are very long and linked to long-term credit trends and demographics. Globally, we place more emphasis on companies that can grow volumes, pass on inflation pressures, and minimise balance sheet risk. That explains, for example, why we like select consumer and service sector stocks and are overweight many high-quality, high-dividend companies.

We believe that less-leveraged economies (generally emerging markets) will have higher growth rates than leveraged OECD economies over time, though clearly there will be cycles within this longer-term trend. In terms of stock-picking this means: avoiding highly leveraged companies (or at least avoiding those where leverage is increasing), having a higher exposure to companies selling into less leveraged economies (generally emerging markets), and trying to find companies that are able to grow or at least not shrink in an environment where OECD growth will be low for many years. Another way of playing emerging market growth is to identify well-governed, multi-national companies based in developed markets that have highly-developed brand names and strategic plans to grow their business in these markets.

Within the higher-growth markets such as China, one of the key differentiators will be to identify those companies that can pass on cost-push factors. Commodities companies, for example, have faced increased margin pressures amid a decline in prices and rising costs. This means that productivity gains will be required in China in those industries where the cost of labour has risen significantly, particularly when faced with the supply of potentially lower-cost labour from countries such as Vietnam, the Philippines, India, and Indonesia.

As mentioned, one way for developed companies to progress is via innovation, and there are many micro trends and themes in this area. One of these is within European retail, for example, where we foresee grocery shopping moving almost completely online over the next 20 years – meaning we'll have large online stores and small top-up stores in town. Hypermarkets will essentially become obsolete. Another example is the banking sector in Europe. We think the severity of the current economic cycle obscures the fact that there are some high-quality bank franchises in Europe (such as Barclays in the UK or Sberbank in Russia). The market is not differentiating between structural and cyclical challenges. There are "national champion" strong retail banks that have grown their underlying business through the crisis and have large market shares in profitable businesses. Cyclically-high, loan loss provisions and cyclically-low interest rates have led to low current profitability. As such, the market may have underestimated the potential "normalised" profitability of many banks by placing too much emphasis on near-term profitability.

Ageing of populations, particularly in developed countries



Source: United Nations, 'World Population Ageing 1950-2050'; 'Population Ageing and Development 2012'

Demographics and ageing societies

Finally, perhaps one of the biggest long-term game-changers of all is demographics. A large population bulge in the West, known as the post-war "baby boomers", will soon enter retirement. As people live longer and have longer retirements, we believe the need for investment strategies to preserve capital and to generate income will become dominant. It also has multiple implications for stock-picking.

Perhaps the most obvious implication of the growing global population is that it raises demand for finite resources, most critically food, water and energy. These resources have already seen strong price increases in recent years as emerging economies have grown and begun to consume a growing share of the world's resources. The global population is not only growing, its composition is also changing in some very important ways. In emerging markets, we have seen increased affluence and urbanisation in the past decade, and this expanded middle class has been one of the driving forces behind the consumption theme. The consumption habits of people have also evolved, with the growth and sophistication of internet technologies merely one notable example. This has seen the creation of entirely new markets. Finally, as healthcare improves and people live longer and more active lives, the average life-span of people has increased, meaning rising demand for private healthcare and retirement planning-related services globally.

For instance, ageing populations mean rising demand for corrective vision products, providing a supportive backdrop for companies like Essilor, a leading ophthalmic optics company. Similarly, the growing incidence of diabetes worldwide as people adopt more sedentary lifestyles (and most recently in emerging economies as people adopt diets heavier in protein, dairy and sugar) has provided a growing market for companies such as Novo Nordisk, the world leader in injectable insulin. China and India have the highest rates of diabetes in the world, with 92 million and 63 million sufferers in 2012 respectively[1]. Identifying these secular trends, based upon fundamental bottom-up research, is the essence of detecting long-term winners.

"As people live longer and have longer retirements, the need to preserve capital and to generate income will become dominant."

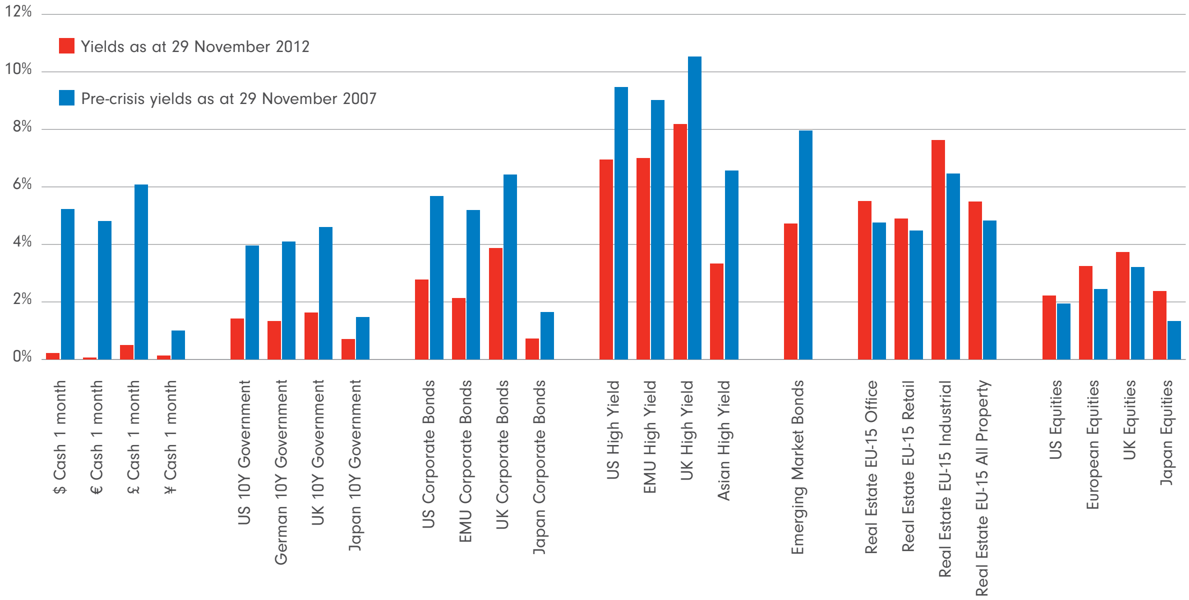
1. IDF Diabetes Atlas, 2012 Update.

KEY FINDINGS
3

Searching for income in a low-interest rate world

The search for income – already a powerful investment theme – is set to grow in importance over the next decade and beyond, particularly in the context of an ageing population[1]. Low interest rates and bond yields have diminished traditional sources of income. This is encouraging investors to look beyond government bonds to income-paying assets with more attractive risk-reward characteristics.

The income available across assets



Source: DataStream, as at 29.11.12. The blue bars show the yields available five years previously. Real estate yields: FIL/CBRE, IPD, end Q2 2007 and 2012.

The drivers supporting income investing

The crisis actions taken by governments and central banks have dramatically increased debt-to-GDP ratios around the world, tipping some economies into an economic tailspin. History suggests such crises require a multi-year workout. Indeed, the combination of debts and deleveraging, challenged growth prospects, low interest rates and deflationary forces we see today could be sustained for a prolonged period.

Income is likely to become a more important driver of total returns as significant debt overhangs impair the growth prospects of many OECD economies. The dynamics of debt and deleveraging are now acting as a drag on growth. Some economists believe debt burdens above 90% are associated with 1% lower average economic growth.[2] Many advanced economies (Japan, Italy, Portugal, Greece, Ireland and the US) already have debt/GDP ratios that exceed this threshold. The experience so far suggests low interest rates and quantitative easing may not be sufficient to reverse the powerful deflationary and deleveraging effects associated with debt overhangs.

At the same time as the supply of income has become challenged, demographic trends are likely to increase overall demand for income-generating assets. A surge in the number of retirees and increased longevity means more people in retirement for longer, needing more income to maintain their living standards. The global retirement population is set to surge from 800 million in 2011 to 2 billion by 2050, (according to the United Nations).[3] Individuals being born in developed nations now can expect to live well into their 80s on average. This is forcing a major reassessment of how much money/income pensioners need in retirement.

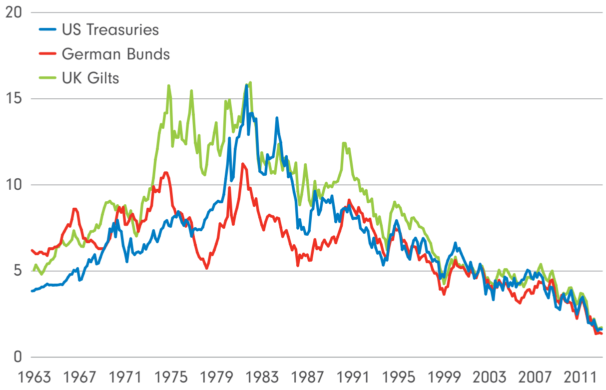
In an environment of high sovereign risk, investors are increasingly considering the income-generating characteristics of investment grade and high yield bonds, equities and real estate. We believe the current market environment offers an opportunity to access attractive yields without necessarily taking on significantly more risk in flexible fixed income portfolios, quality-focused equity dividend portfolios and commercial real estate portfolios.

Fixed income: looking beyond government bonds

Bonds have traditionally provided the first port of call for investors looking for income. However, the sovereign bond market has now become polarised between high-risk issuers (in peripheral Europe) and expensive safe havens. There has been a 70% reduction in the pool of sovereign debt with AAA status – this has shaken the concept of "risk free" and encouraged investors to consider alternative strategies. Meanwhile, demand for assets considered safe has driven US and German bond yields to record lows and increased the price of safety.

There are two strategies which bond investors can consider: 'best issuers' and 'strategic' mandates. Portfolios based on "best issuers" can sensibly broaden the 'safe haven' universe: first by differentiating between government bonds, investing only in fiscally sound sovereigns with strong currencies, such as Canada and Australia; second, by including the highest-quality investment grade corporate bonds of robust multi-nationals, such as Proctor & Gamble and Johnson & Johnson. Indeed, such companies offer better credit risk characteristics than many sovereigns and allow investors to offset sovereign concentration risk.

There are 'safe havens', but at record lows



Source: DataStream, as at 29.11.12. Based on 10-Year Government Bond Yields.

Aggregate bond indices and funds benchmarked against them now entail significant concentration risks within sovereign bonds. For instance, around half the risk in the Bank of America Euro Aggregate Bond Index comes from Mediterranean sovereign bonds. As investors move away from products that expose them to indebted governments and institutions, there will be greater interest in more flexible, 'strategic' bond portfolios that aim to balance risk and return by investing across a range of bond classes.

Equity income: historically attractive yields

In the current environment of lower growth and lower interest rates, the forgotten value of investing in high-quality income-generating stocks reasserts itself. The importance of dividends to total returns is often underestimated. Academic studies show that buying income-generating shares, and reinvesting dividends, is an effective way to invest over the longer-term, given the compounding effect on total returns.

Current dividend yield levels are well ahead of their 15-year averages – especially in Europe where the equities of over 30% of companies are yielding more than their bonds (this figure has averaged c.10% in the past 13 years).[4] The extra returns from dividends can provide a valuable margin of safety against price declines if volatility continues. In the long-run, if dividends are reinvested to augment the capital accumulation rate, equity income is a compelling stable growth strategy for investors who do not require cash distributions. Critically, given the longer-term risks that might be associated with unprecedented monetary easing, dividends provide an income stream that grows in real terms and broadly protects against inflation.

A high yield alone does not necessarily imply value. This was demonstrated in 2008 when bank earnings dropped sharply, meaning dividend payments were no longer sustainable for many US and European banks. At first, the share prices of these banks fell sharply – for a while, they signalled very attractive dividend yields, but any investor buying into this false signal would have been disappointed because the dividends of many banks were subsequently cut. Given such risks, a fundamental approach focused on a company's ability to sustain, or grow, its dividend is key. Such fundamental portfolios that focus on earnings quality and the sustainability of dividends have the capacity to outperform simple, quantitative strategies that screen for high yields.

Our investment teams are finding dividend opportunities at attractive cross cycle valuations, using generalized market volatility where appropriate to take exposure to preferred stocks. While the pharmaceutical and consumer sectors offer good investments, we are also finding good dividend growth opportunities in the US technology sector. Many of these stocks have now matured into high return, cash-generative businesses with strong balance sheets and dominant market positions. A good example is Microsoft – a strong, cash rich company that offers the prospect of attractive dividend growth.

"In the current environment of lower growth and lower interest rates, the forgotten value of investing in high-quality income-generating stocks reasserts itself."

1. The growing importance of income investing is examined in a recent Fidelity White Paper ('The Age of Income: the growing importance of income investing in turbulent times') which includes research carried out among Fidelity's institutional investor base.
2. Carmen M. Reinhart & Kenneth S. Rogoff, May 2010. "Growth in a Time of Debt," American Economic Review, American Economic Association, vol. 100(2), pages 573-78.
3. World Population Ageing' December 2009, United Nations, Dept Economic and Social Affairs.
4. DataStream, current yield vs. 15 year average yield as at 25.06.2012. Indices used MSCI Japan, S&P 500, MSCI AC Asia ex Japan, MSCI World, MSCI Emerging Markets, FTSE All Share Index, MSCI Europe ex UK.

KEY FINDINGS

4

Technological innovation is still a game-changer

In a globally competitive business world, technological differences are becoming increasingly important as sources of performance differentiation between companies. In some extreme cases, the arrival of disruptive, new technologies can render existing technologies and the companies most closely associated with them obsolete, in a phenomenon aptly described as 'creative destruction'. Among the specific areas of interest for our analysts are companies that can provide exposure to the growth of the internet in China, the global penetration of smart-phones and the evolution of "Big data".

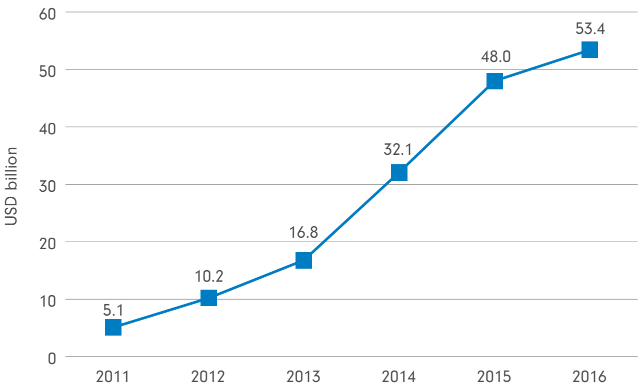
The growth of "big data"

With the modern world effectively programmed to churn out vast and exponentially growing amounts of complex and unstructured data, one of the most exciting areas of interest for our technology analysts is 'Big data'.

With around 90% of the world's current data thought to have been created in just the past two years, it is clear that the amount of data in existence in the modern world is growing at a phenomenal pace. This growth is being driven by the 3 Vs of data: Volume – the quantity of data; Variety – the different types of data (e.g. social media data); and Velocity – the frequency or speed of a particular data type (e.g. real time). As the amount of data being created continues to grow by the second, it naturally becomes ever harder to store, manage, and analyse this data using traditional database management tools. With demand for exploiting this data growing strongly however, our investment teams envisage a favourable outlook for companies that can help with these functions.

In terms of sectors, big data is expected to be an important driver of returns for the multi-billion dollar software and software services industries. Within this, the leading providers of enterprise management software systems that can help companies improve their data-based decision-making in real time (for example, companies such as Germany's SAP) should see demand for their products grow. Although many of the companies in these areas will be established players in their industry segments, the potential for successful new entrants that can provide solutions for niche markets is also significant.

'Big data' market size forecast



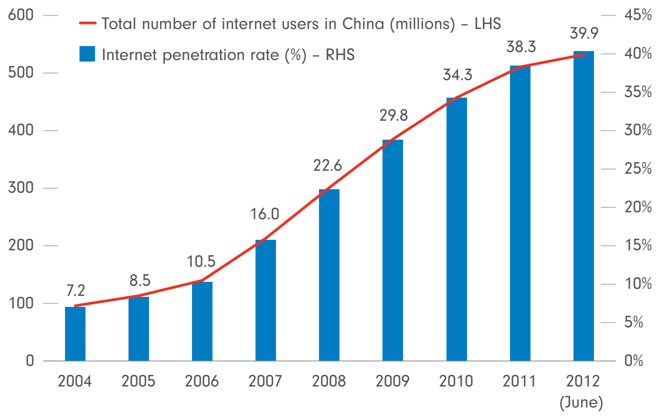
Source: Wikibon, 2012

China internet

Despite recent fast growth (see chart below), the prevalence of the internet in China is still significantly below western levels: the estimated penetration rate of 38.4% is still less than half the 80%[1] penetration rates that are commonplace in countries like the US and UK. However, thanks to China's rapidly improving telecom infrastructure and especially the spread of smart phones, more and more people are gaining access to the internet. Over the next few years, our analysts believe this will serve as a big demand driver for some of the well established Chinese internet names, including those in the online platforms (e.g. Tencent), and search and social networking spaces (e.g. Sina Weibo).

Among the most promising of internet plays in China however will be those companies that can provide good exposure to the country's consumption growth theme, which is independently an important theme for our investment teams. In all countries, efficiency, convenience and potential cost savings are some of the main advantages of consuming via the internet. In China's case however, a key additional advantage of the internet is its ability to provide the 'right information at the right time to the right consumer'. Indeed a notable and distinctive feature of the country's hugely successful networking sites is the amount of discussion that revolves around different products and brands. In the view of our analysts, this reflects both the proclivity of Chinese citizens to communicate in the relatively unconstrained context of the internet and the particularly strong demand in China for 'trusted products', further highlighting the country's internet consumption potential.

Internet Penetration in China



Source: China Internet Network Information Centre (CNNIC), June 2012

> **Our analysts believe that a more interesting way to benefit from the global growth in smart-phones is via companies that provide the various components for these phones.**

Smart-phones

The structural underpinnings for growth in the global smart-phone industry are very good, thanks in large part to the ongoing steady shift away from less sophisticated feature phones. However, the smart-phone market is also complex and fragmented, with many potential losers and relatively few winners, meaning that a highly selective research-driven approach is needed when considering investments in this industry.

The smart-phone penetration rate in the developed world is about 60%, however, in emerging markets it is less than 30%[2] – so this is where our analysts believe most of the incremental growth in sales will come from. In terms of smart handsets, growth in sales is good but the benefits of this are being very unequally divided between those few producers that can either make very desirable handsets and those who can produce very cost effectively; South Korea's Samsung is relatively well positioned on both counts. Given that this bifurcation may be sustained for some time, our analysts believe that a more interesting way to benefit from the global growth in smart-phones is via companies that provide the various components for these phones, particularly the chipmakers with dominant market shares and proven strength in innovation, such as ARM Holdings.

1. www.internetworldstats.com, (figures last updated to end-December 2011)

2. International Data Corporation (IDC), August 2012; Fidelity

KEY FINDINGS

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Shale energy will provide a boost to US economy

The modern world's demand for energy is voracious. In the lead-up to the global financial crisis when oil prices were pushing $150 per barrel, there was much talk about energy scarcity. Today however, the overall global energy balance looks much more promising. The weak global economy (including the ongoing Euro zone crisis) is a clear constraint on demand but the last few years have also seen some positive developments on the supply side. In the long run, these supply-side developments could have a significant impact on the energy market. In the view of our analysts, one of the most exciting recent developments in the energy sector is rapid growth in the production of gas and oil from shale deposits in North America, which is expected to have broader benefits for the US economy.

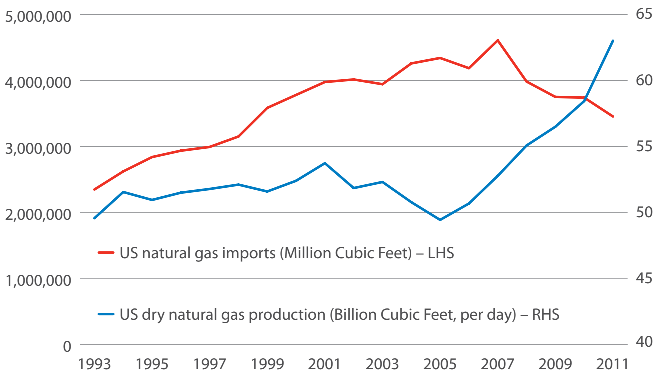
The shale energy revolution

The existence of large amounts of hydrocarbons trapped in layers of sedimentary rock has been known about for many years. However, it has only been in recent years that the application of horizontal drilling and hydraulic fracturing ("fracking") has made these deposits commercially viable to extract. While quite a few countries are known to have significant shale deposits, it has been the US that has been at the forefront of the shale industry, owing to its ideal mix of helpful factors including a sizeable domestic gas market, well developed pipeline infrastructure, requisite technical know-how and, crucially, relaxed regulations.

The statistics for the US speak for themselves: shale gas now accounts for 30% of total US gas consumption compared to just 1% in 2000.[1] The greater availability of gas has helped to push its domestic price lower (recently hitting the lowest level since 1999), leading to a substitution away from other energy sources. Moreover, the increased production and availability of gas has meant less need for imported gas. Indeed, in just four years, the US has gone from being the world's largest importer of gas (in 2007) to being largely self-sufficient.[2] Developments in shale oil, while not quite as impressive, have nevertheless been significant. For example, US net petroleum imports have declined from over 13m b/d in mid 2007 to less than 8m at the end of 2011 and for the first time in 60 years, the US is now a net exporter of refined products.[3] In its recently published 'World Energy Outlook 2012', the International Energy Agency (IEA) made the remarkable prediction that it expected the US to overtake Saudi Arabia as the world's largest global oil producer by 2020.[4]

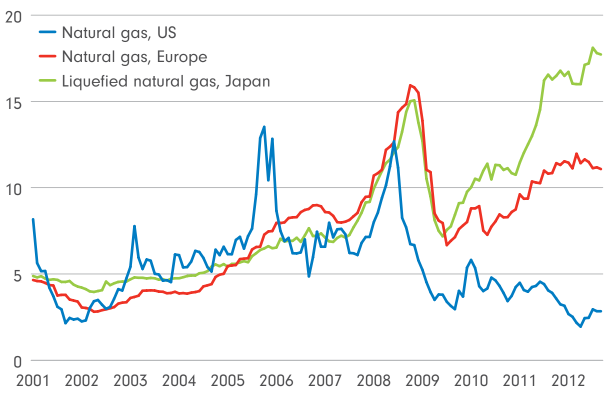
The US shale energy revolution is likely to have significant consequences for the broader economy and beyond. On the domestic front, rising shale energy production is seen boosting most of the major components of aggregate demand: private consumption (owing to cheaper energy bills), rising investment (in drilling technology for example) and improved net exports (i.e. mainly due to lower energy imports). In addition, the positive business impact is hard to overstate with cheaper energy providing a significant competitive boost to a number of energy-intensive industries such as petrochemicals, fertilisers and steel. All this is good news for the US economy, with Citigroup recently estimating a possible (cumulative) 2.0-3.3% increase in US real GDP growth in the period to 2020.[5]

US natural gas production and imports



Source: EIA, as at October 2012

Global natural gas price variations



Source: World Bank 'Pink Sheet', October 2012

US petrochemical firms that use natural gas liquids as feedstock have moved much lower on the global cost curve and are expected to benefit not only from lower raw material costs but also from improved operating rates.

On the external front, some political analysts have argued that rising US energy independence might lessen the risk of global conflict, but a more tangible economic benefit would arise if the US were eventually able to begin exporting its cheap gas supplies to other parts of the world (for example in Europe and Japan) where gas prices are often multiples higher than in the US (see the bottom chart on the previous page). Reports about several US energy companies converting their existing gas importing port facilities into gas exporting facilities suggest that this may not be very far from being realised. As mentioned before, a number of countries benefit from significant shale reserves but few have the broad combination of factors that is likely to keep the US in the forefront of developments in the field. In Europe for example, while shale reserves exist and increased gas supplies would be welcome, there is a much greater level of concern about environmental effects, including the alleged potential for induced seismic activity.

Investor implications

The US could reduce its dependence on foreign oil by 2 million barrels a day (or more) over the next five years. Thanks to its capacity to lower the cost of energy inputs, this will have a significant impact on the broader US economy while reducing the US trade deficit.

The energy sector will benefit most directly with oil companies exploiting new assets, the refining industry benefiting from cheap feedstock (e.g. Valero Energy), and service companies taking advantage of higher activity levels (e.g. Halliburton).

Beyond the energy sector, a key beneficiary will be chemical companies: US petrochemical firms that use natural gas liquids as feedstock have moved much lower on the global cost curve and are expected to benefit not only from lower raw material costs but also from improved operating rates. Indeed, half a dozen large petrochemical plants are expected to be built on the US Gulf Coast by the end of the decade. Eastman Chemical is one example of a company that should get a significant boost from cheaper domestic gas supplies. US nitrogen fertiliser companies are also expected to benefit from lower material costs.

The impact of shale is likely to have broader implications beyond the energy and chemical sectors. The depth of the analysis at Fidelity extends to identifying the third and fourth order beneficiaries of reduced energy costs, higher capital spending and infrastructure build-out in the industrial sector. For example, the build-out in chemical plants will benefit flow control and automation contractors (such as Spectris). Meanwhile, incremental power generation in the US is now anticipated to come entirely from gas-generated power. The build-out of gas fired power stations is likely to bring about benefits for engineering companies such as gas turbine specialists, Alstom and Siemens. In the staffing industry, increased capital spending and demand for specialist roles is likely to hand pricing power to those companies that specialise in providing staff to the energy sector.

1. 'On the shale trail', Goldman Sachs Equity Research, Fortnightly Thoughts, March 2012.

2. Longview Economics, Commodities Monthly No.32, April 2012.

3. BP energy Outlook 2030, Jan 2012; Christof Ruehl, BP Chief Economist, Middle East Petroleum and Gas Conference, Manama, Bahrain, May 2012

4. World Energy Outlook 2012. International Energy Agency, November 2012

5. 'Energy 2020: North America, the New Middle East?', Commodities Research and Strategy, Edward L Morse, Citi, March 2012

KEY FINDINGS

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Deleveraging to be a multi-year process

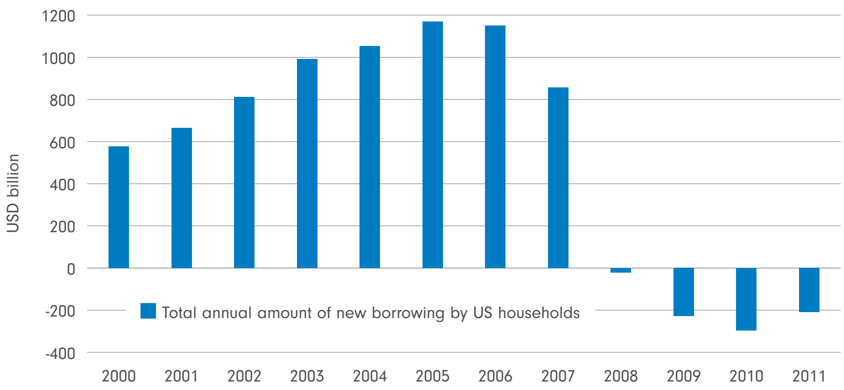
The post-credit crisis world has been called the 'Age of Deleveraging'. Our analysts believe that the ongoing process of deleveraging or debt reduction will continue to be one of the defining characteristics of the developed world for many years to come. For investors, this will have some significant yet foreseeable implications.

Great moderation to great deleveraging

The period from the early 1980s to the mid-2000s, now often described as the 'Great Moderation', was one when a number of disparate factors (such as demographics, monetary policy and deregulation) combined to create a positive environment that facilitated rising asset prices, coupled with generally lower macroeconomic volatility. The same backdrop also led to an unprecedented increase in private sector debt in the developed world. The collapse of the US subprime mortgage market was just the first chapter of a much broader global debt crisis that affected individuals, financial institutions and, ultimately, governments.

From an individual's perspective, excess debt can usually be reduced by belt tightening. From a national perspective, the belt tightening option, via cuts in public sector jobs for example is widely known as 'austerity'. However, this approach has attracted criticism from those who argue it is counterproductive because of its negative impact on economic growth which results in lower tax receipts and potentially deflationary effects (something that effectively increases the real value of debt).

US household deleveraging



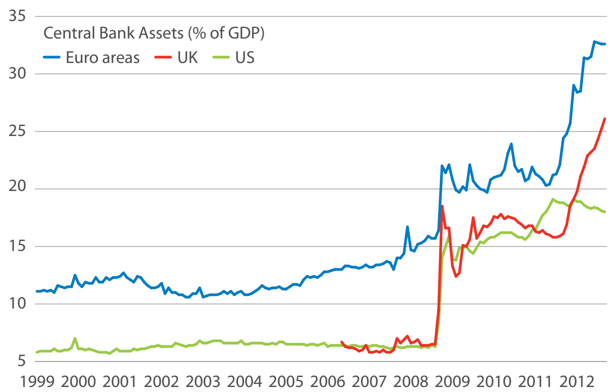
Source: US Federal Reserve, September 2012

Over time and after unsuccessfully trying austerity, many countries usually end up changing course with efforts to boost economic growth via debt monetization/ money printing. This approach has been shown to work more often with stronger economic growth boosting government tax receipts and placing upward pressure on inflation, which effectively lessens the real value of existing debt balances.

US hedge fund manager Ray Dalio provides a useful framework for characterising deleveragings.[1] The painful, austerity method of seeking to reduce government debt is considered an 'ugly deflationary deleveraging', while the pro-growth, money printing method is described as 'beautiful deleveraging'. In terms of how today's world fits into this template, the US is strongly in the 'beautiful deleveraging' camp, with an unprecedented expansion of the Federal Reserve's balance sheet that has helped to deliver relatively good economic growth rates, certainly compared to Europe, which initially favoured austerity (i.e. ugly deleveraging) but has been moving steadily in favour of debt monetization via the ECB's policies.

Whatever the precise path that is taken to deleveraging (the key requirement is to settle on the right pace and combination of debt adjustment, austerity and debt monetisation), a major point of agreement among our analysts is that the deleveraging process will take place over a long, multi-year time frame.

Local central bank balance sheet growth



Source: Goldman Sachs, global central banks, September 2012

"Whatever the precise path that is taken to deleveraging, a major point of agreement among our analysts is that the deleveraging process will take place over a long, multi-year time frame."

Reliability and robust balance sheets

The extended period of deleveraging combined with the associated features of weak economic growth, low inflation and low interest rates, has important implications for investors. From an equity perspective, the current environment greatly adds to the appeal of reliable companies with robust balance sheets (without much debt) and good cashflows that can support healthy and ideally growing dividend payments. If the global investment universe is screened with these criteria, then what we find is that many of the companies that fall into this group tend to be well established, high quality large-caps that often have broad multinational footprints. The reliability of these companies' cash flows is often connected to the fact they operate in traditionally non-cyclical areas, such as the consumer staples and healthcare sectors. One example of this is French drugmaker Sanofi. Further adding to the appeal of high quality, reliable dividend-paying stocks is the evidence suggesting that the portfolios of these types of stocks tend to provide good long-term returns with acceptable levels of volatility. Indeed, there is plenty of evidence to show that over long periods, it is actually dividends that account for the largest part of total returns.

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From a global perspective however, it is important to note that although deleveraging is widespread in the developed world, it is by no means universal, with many less developed and emerging market countries having avoided the kind of debt accumulation that has become so problematic elsewhere. In the view of many of our analysts, the absence of deleveraging constraints and additional supportive themes, such as rising incomes and growing middle classes, are factors that combine to make emerging markets an attractive investment proposition for the long term. In the developed world meanwhile, it is important to recognise that different countries are at different stages of the deleveraging cycle, with the outlook being relatively better for those countries that can make the most progress in this area.

From a fixed income perspective, our analysts believe that the current environment of low inflation and low interest rates calls for a fundamental re-evaluation of the 'risk-free' concept, with the idea of the 'lowest rate of risk' perhaps making a better alternative. With the yield on safe-haven assets such as treasuries and bunds having moved down to historically very low levels, their upside potential now looks more limited while downside risk is heightened. Given this, our fixed income analysts think the current environment calls for more strategic, diversified forms of market exposure and greater consideration of higher yielding (but high quality) investments in the investment grade, high yield and emerging market sovereign debt market spaces.

Finally, an oft-mentioned concern for the long term is the sustainability of low inflation and low interest rates in the context of the unprecedented money creation we are seeing. Investors concerned with such non-negligible tail risks should certainly consider the inclusion of inflation-protected investments in their portfolios.

1. 'An In-Depth look at Deleveragings', Ray Dalio, February 2012

KEY FINDINGS

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China an evolving story amid economic transition

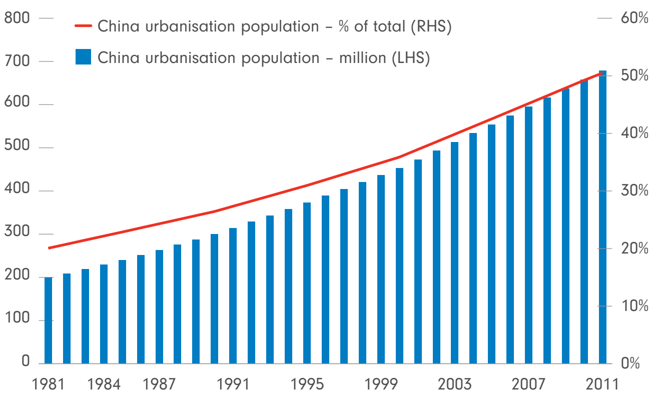
We have already seen that investment growth is not necessarily always correlated with GDP growth and in countries such as China (frequently seen as Asia's growth driver) this certainly rang true in 2012 with Chinese stocks some of the worst performers in Asia over that calendar year, despite one of the strongest GDP growth rates in the world. Nonetheless, we believe that China remains attractive as a long-term investment proposition due to several secular drivers, including: increased urbanisation; a rising middle class; a shift in its export-driven economic model to domestic consumption; and a continued process of gradual economic liberalisation.

Growth stabilisation

Most investors in China will be familiar with the long-term fundamental drivers: one of the highest GDP growth rates in the world, powerful earnings growth, increased urbanisation, a growing middle class, growing domestic consumption, vast infrastructure spending and the potential for dozens of under-penetrated sectors to grow on the back of the biggest population on the planet. In recent times however, investors have had to come to terms with annual growth rates that have slipped from the double-digits to a more prosaic 7-8%. This partly reflects external uncertainties, such as the Euro-zone sovereign debt crisis and concerns over stuttering US growth and the "fiscal cliff", but it's also a reflection of a change in emphasis by China's leadership. After formally reducing their growth target for 2012, it appears that China's leaders are content to settle for more balanced, higher-quality growth and to turn away from the export-led sprint of the past decade. However, after a spate of weaker economic data the authorities also appear ready to support growth and they have far more scope to do this than their counterparts in Europe. But the authorities will be reluctant to launch a massive round of fiscal stimulus, as they did in the wake of the 2008 Lehman bankruptcy, for fear of touching off another inflationary spiral.

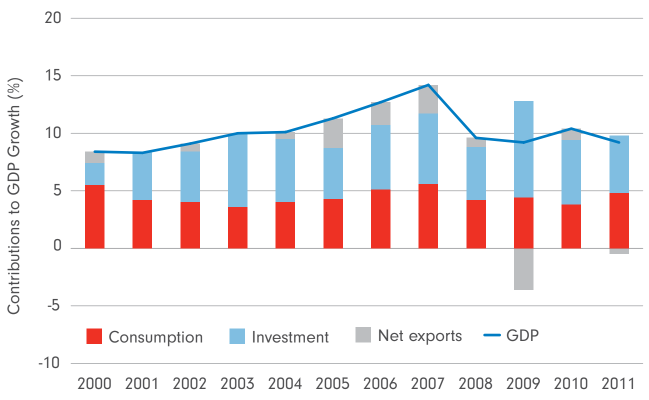
China approved plans for RMB1 trillion (USD158 billion) in infrastructure spending in September 2012. The plans covered roads, sewage-treatment plants, ports, warehouse and waterway upgrades, which aim to support growth and boost confidence.[1] In view of global headwinds and downward pressures on the Chinese economy, China's government has cited the need to upgrade infrastructure to promote stable growth. Many China watchers are expecting fresh stimulus measures to follow the once-in-a-decade leadership change announced at the 18th National Congress of the Communist Party of China in November, to aid the "feel-good" factor and bolster certain industries. However, the country will be wary of repeating past mistakes and controls against speculative housing demand will likely remain a long-term policy. What we are likely to get then are targeted tranches of spending aimed at lifting those sectors of the economy most in need of a boost and continued restraint in other sectors subject to past over-heating.

China urbanisation rate steadily grows



Source: Datastream, data as at 2011

China rebalances towards consumption-led growth



Source: International Monetary Fund, World Economic Outlook, October 2012

Sectors we like

There's no doubt that China stocks have been hit by the recent growth slowdown and past tightening of policy to deal with runaway inflation between 2009 and 2011. However, Chinese equities are currently trading at historically low valuations, presenting a good buying opportunity to investors with a long-term investment horizon. In particular, our analysts like consumer-related sectors such as media and advertising, select internet plays (such as Tencent), food & beverages (particularly strong brand names such as beer-maker Tsingtao) and select transport plays in the wake of regulatory and competition reforms. Insurance stocks are another attractive play on rising affluence as more and more Chinese opt to take up private life insurance policies.

We like select media plays as we envisage that consumer companies will have to spend a great deal more on advertising in future to add customers as markets mature. In terms of food and beverages, we still see average consumption per capita as being quite low relative to levels seen in developed economies and therefore see plenty of room to grow provided companies have strong pricing power, a comprehensive distribution network and quality management. We are still attracted to select internet plays provided their business models are sustainable and corporate governance standards are acceptable.

One of the flip-sides of China's slower growth trajectory has been the negative impact on those companies that have been supplying materials for the previous boom, including miners, metal producers and heavy equipment makers from Europe, the US, Australia and Brazil. China is an important, incremental source of global demand in these markets. The negative impact has been particularly pronounced in Australia, where the Middle Kingdom currently buys around 25% of the country's total exports – meaning slower growth has negatively impacted profits, wages, employment and the Australian dollar.

Dim sum market growth

Our fixed income analysts are also expanding their coverage of so-called Dim Sum bonds amid rapid growth in this market. We believe Dim Sum bonds (denominated in Renminbi and issued in Hong Kong in the offshore market) are attractive because they offer relatively lower volatility and correlation with other Asian currencies with potential returns driven by income and currency components. In recent times, market liquidity has deepened with a greater diversity of issuers coming to market. The RMB is also widely expected to appreciate over time given China's commitment to gradually liberalise its currency and its higher economic growth potential relative to developed markets, although currency appreciation is not guaranteed. Our analysts are committed to a prudent investment approach and that is why we currently retain a focus on investment grade bonds due to frequently opaque credit structures, loose or no covenant packages, and a market that has yet to face a real test in the form of a default. Looking further afield and beyond the Dim Sum market, we believe the "standard of care" in Asian fixed income markets needs more attention (particularly equal treatment of all creditors) in order to be on a par with developed markets.

"Chinese equities are currently trading at historically low valuations, presenting a good buying opportunity to investors with a long-term investment horizon"

1. National Development and Reform Commission website, September 2012

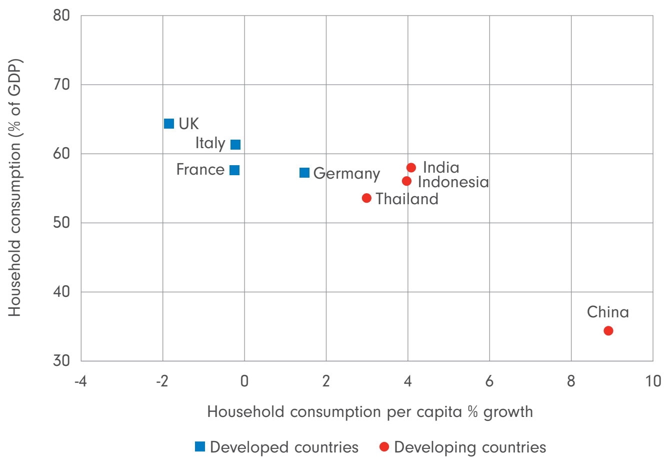
KEY FINDINGS

8

Why consumption remains a winning global theme

Our analysts in both Asia and Europe perceive more investment opportunities in the consumption sector than in infrastructure. Across the two regions, our analysts are more negative than consensus on infrastructure and building materials in countries such as China and India and more bullish than consensus on consumption.

Household consumption



Source: Datastream, data as at 31.12.2011

"Many European countries will likely endure sustained periods of low economic growth despite low interest rates."

Europe and Asia both benefit from consumption

Many European countries will likely endure sustained periods of low economic growth despite low interest rates. This is because with high national debt to GDP, many governments need to go through a deleveraging process that is structural rather than cyclical in nature. This constrains their ability to spend on upgrading their infrastructure, whether it is physical (such as rails, roads, or power grids) or social (such as education and healthcare). While our analysts also expect consumption in Europe to suffer from low economic growth and household deleveraging, the region has the advantage of having many established multinational brands with pricing power, particularly in the luxury sector. Compared to companies that rely on domestic consumption for revenues and profits, these global brands will stay competitive due to continuing strong demand from Asia, the Middle East, and Latin America.

Asian countries are generally in better fiscal shape and many have been building out their physical infrastructure, a major economic growth driver. But after a sustained period of infrastructure development starting from a low base, some of these countries will likely see such capital spending growth moderate. Meanwhile, as the Asian middle class continues to grow, consumption will stay strong, particularly in countries such as China, where the government is committed to rebalancing the economy from exports towards domestic consumption. These structural and policy factors will support more opportunities in the consumption space than the infrastructure space. Our analysts highlight food & beverages (such as beer-maker Tsingtao), media & advertising as some of the segments that will benefit most from this powerful secular trend.

Emerging Asia still an infrastructure play

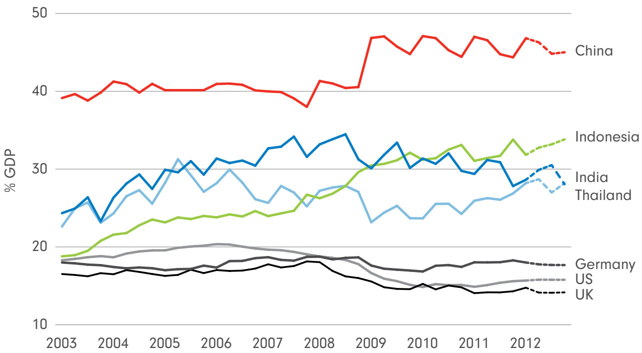
Although our Asian analysts are more bearish than consensus on the region's infrastructure and heavy industry plays, they are still finding some attractive opportunities in those segments. Indonesia and other ASEAN markets, such as Thailand, are enjoying superior growth rates compared to other countries; they are continuing to power ahead with infrastructure projects that will offer return opportunities.

In Indonesia, the passage of the Land Reform Bill has made it easier for the government to buy land for infrastructure development, and this will facilitate investment growth. The government has indicated it wants to spend several billion dollars on such projects, paving the way for sustained earnings growth across a wide mix of companies.

We believe the construction sector, for example, is still in the early stages of a multi-year growth story and some of the largest state-owned contractors are set to be key beneficiaries. We estimate the country has under-invested in infrastructure spending at 4% of GDP, less than half of that seen in China.

We see strong growth in infrastructure projects over the next 12 months to help ease bottlenecks in traffic, ports, and power plants. In addition, financing channels have improved as there is fiscal room to leverage up due to the country's low public debt ratio. Our analysts feel that the market does not fully appreciate the hidden assets that state-owned construction companies have invested in over time, and there are opportunities for unlocking this asset value.

Fixed investment



Source: Datastream, data as at 31.12.2012. Dotted lines represent forecast data.

In Thailand, the government is also committed to long-term infrastructure projects. Following last year's floods the government is building more dams and flood prevention mechanisms, particularly around the capital. Transport investments include rail and highway projects designed to promote Thailand's position as a logistics and distribution hub for Indochina, connecting China to frontier markets such as Cambodia, Myanmar and Laos. In terms of sectors, this has benefited construction companies and cement producers. In China, ongoing aviation reforms that open up the sector are helping to expand the number of airports with private participation, in addition to boosting demand for aircraft and maintenance services. These factors and the surging demand for air travel should create a range of beneficiaries in the corporate sector. Infrastructure plays are therefore still available in many parts of Asia. On balance, however, our analysts expect to find more investment returns in the consumption space.