Fidelity Global Equities Fund

Monthly report

As at 31/01/2023

Fund description

Designed to be a core international holding, this diversified portfolio of 80-120 of some of the best ideas globally drawn from Fidelity's 400 global experts. Stock selection favours mis-valued businesses and structural growth stories.

Fund facts

Portfolio manager: Ashish Kochar
Benchmark: MSCI All Country World Index NR
Inception date: 15/04/1998
Fund size: AU$433.76M
Number of stocks: 80 to 120
Management cost: 0.99% p.a.
Buy/sell spread: 0.20%/0.20%

Portfolio guidelines

Stocks: +/-5% from benchmark
Sector: +/- 10% from benchmark
Region: +/- 20% from benchmark
Country: Unconstrained
Emerging markets: maximum 20% of the portfolio (typically less than 10%)
Cash: Target range between 0% and 10%

Top 10 holdings (%)

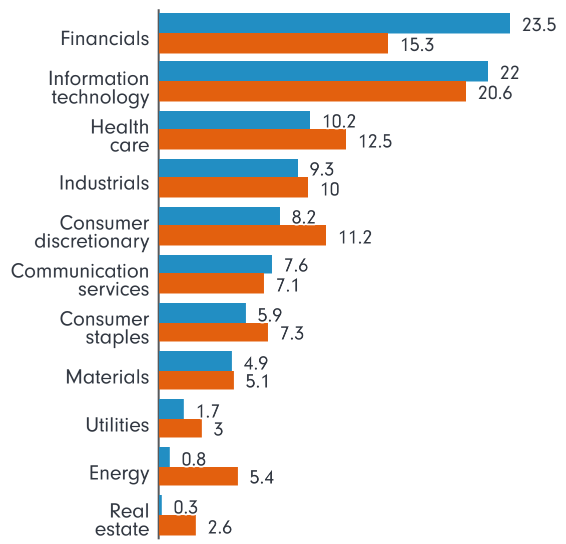
	Fund	B'mark
Alphabet Inc	5.8	1.9
Microsoft Corp	4.4	2.9
Berkshire Hathaway Inc Del	4.2	0.7
Gallagher (Arthur J.) & Co	3.0	0.1
Alibaba Group Holding Ltd	2.8	0.3
S&p Global Inc	2.7	0.2
Unitedhealth Group Inc	2.6	0.8
Canadian Pacific Railway Ltd	2.4	0.1
Nestle S.A.	2.2	0.6
Danaher Corp	1.9	0.3

Performance %

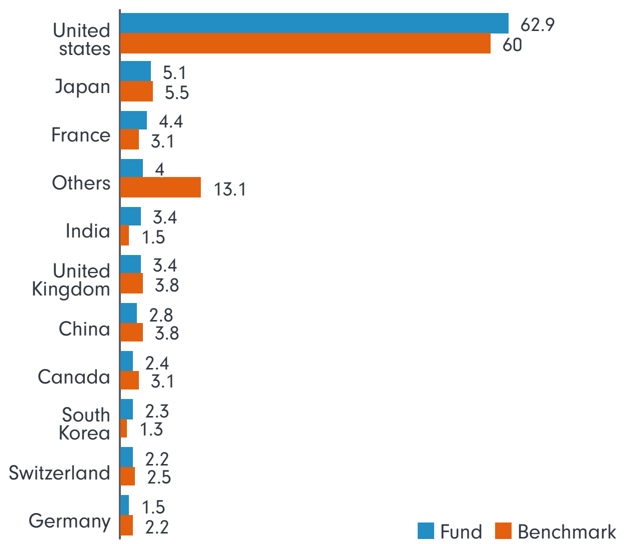
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	20 yrs p.a.	Since Inception p.a (15/04/1998)
Fidelity Global Equities Fund	3.99	1.98	1.70	-7.70	5.83	9.55	10.98	13.41	8.70	8.68	6.52
MSCI All Country World Index NR	3.14	0.67	1.46	-8.01	5.02	8.50	10.21	12.57	7.53	7.23	4.94
Excess return	**0.85**	**1.31**	**0.24**	**0.31**	**0.81**	**1.05**	**0.77**	**0.84**	**1.17**	**1.45**	**1.58**

Total net returns represent past performance only. **Past performance is not a reliable indicator of future performance.** Total returns (net) have been calculated using exit prices and take into account the applicable buy/sell spread and are net of Fidelity's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for taxation or for any fees charged by operators of master trusts or wrap accounts through which the products are offered. Returns of more than one year are annualised. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. **The benchmark is the MSCI All Country World Index NR (effective 1 November 2011). The benchmark before 1 November 2011 was the MSCI World Index. The major difference between the two indices is the inclusion of 21 emerging market country indices in the MSCI ACWI Index. Prior to December 2006, the benchmark was MSCI World Index ex Australia.

Industry breakdown %



Geographic breakdown %



Fidelity funds are available on platforms and mastertrusts via financial advisers. Investors who wish to place at least $25,000 in a single fund can invest with us directly. For further information, please visit www.fidelity.com.au or call Client Services on 1800 044 922.

This Fund is unhedged and is subject to the risk of fluctuations in international stock markets and currencies. Management costs and the buy/sell spread are current as at the date shown above but may be subject to change in the future. Management costs include GST but exclude abnormal expenses and transactional and operational costs. Investors accessing the Fund through a master trust or wrap account will also bear any fees charged by the operator of such master trust or wrap account. Any apparent discrepancies in the numbers are due to rounding.

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Market performance

Global equities had a strong start to the year as upbeat economic data and improving corporate earnings boosted investor sentiment. The prospects of a less restrictive monetary policy underpinned by signs of cooling inflation provided additional support. At a regional level, US equities advanced as markets priced in expectations that US Federal Reserve (Fed) will raise interest rates albeit at a slower pace at the conclusion of its two-day policy meeting with the European Central Bank following suit. European equities performed well as a relatively mild winter and an increase in gas storage in the European Union (EU) helped defuse the ongoing energy crisis and reduced the risk of a deep winter recession. Japanese equities lagged the rally in comparison, as inflation accelerated and the Bank of Japan (BoJ) loosened its yield curve control, widening the band for 10-year government bonds from 0.25% to 0.50%. Emerging market equities outperformed their developed market counterparts. China's relaxation of Covid restrictions and pent-up consumer demand raised expectations that the Chinese economy will experience a strong recovery in the first half of 2023. Against this backdrop, consumer discretionary emerged as the best performing sector. The relatively defensive sectors such as healthcare, utilities and consumer staples were amongst the notable laggards, while falling energy prices dampened momentum in the energy sector. From a style perspective, growth stocks fared better than value, while small cap gains surpassed their large cap counterparts.

Fund performance

The Fund generated a return of 4.0% compared to the index which returned 3.1% during the month. At a sector level, while certain financials sector names held back gains, exposure to the consumer discretionary sector proved rewarding. At a stock level, shares in Chinese e-commerce major Alibaba Group Holding rebounded amid increased investor optimism surrounding the reopening of China's economy given pent up demand and an improving regulatory backdrop. The company's ecosystem has superior breadth and depth and is the foundation of the highly sticky merchants and consumers, which ultimately supports its pricing power. Certain quality growth compounders such as Google's parent company Alphabet and technology conglomerate Amazon.com outperformed following a rebound in growth stocks on anticipation that the Fed may slow its tightening activity. These businesses demonstrate solid long-term fundamentals along with a coveted brand loyalty. An attractive growth runway and margin potential buoyed by structural behavioural shifts, new growth initiatives and a keen focus on profitability also bodes well in the long term. Elsewhere, the holding in General Electric reported stronger than expected quarterly earnings and spun off its medical technology unit. The company is a self-help story with a pathway to higher margins and organic growth in the aviation, renewable and power segments. Its corporate simplification efforts are expected to release value.

In contrast, the conviction holding in UnitedHealth Group fell despite reporting upbeat quarterly earnings. The company offers best in class services in comparison to peers, while the continued shift from traditional Medicare fee-for-service to Medicare Advantage (MA) is driven by better patient outcomes and better healthcare resource utilization. Shares in health care focused industrial conglomerate Danaher slid following a cautious revenue outlook for the year 2023, majorly driven lower by Covid related revenues. However, long term growth avenues for Danaher remain strong, anchored by bioproduction and molecular diagnostics segment growth. Despite reporting upbeat quarterly results, Axis Bank came under pressure over investor concerns about the exposure of the Indian banking sector to the Adani Group, accused of fraud and stock manipulation. However, our preliminary analysis suggests that the impact on Axis Bank will be limited. It maintains a leading position in the private sector with improving asset quality and substantial income fee from transaction and merchant banking activities.

Outlook

Going into 2023, we remain focused on three factors: inflation and interest rates; earnings and valuations; and sentiment and fund flows. As economies slow, it is likely that reported earnings will fall, though possibly by less than many previous downturns given the uplift in revenues from relatively high inflation. In typical market cycles, markets normally bottom ahead of the trough in company profits. So, while the global economic backdrop is not encouraging, the correction in valuations that we have already seen is typical for bear market phases and valuations now appear roughly fair and increasingly attractive on a longer-term view, especially outside the US.
At a regional level, the US economy appears to be slowing in sync with a soft-landing scenario allowing the Federal Open Market Committee to tone down the pace of hikes. While there is no shortage of gloomy predictions, thus far the US economy has proven more resilient than expected. Unsurprisingly, there remains considerable uncertainty over how to achieve the Fed's dual mandate of "maximum employment, stable prices" given the future direction of inflation, interest rates and economic activity. As ever, we continue to focus on fundamentals and investing in long-term growth compounders where estimates on a 2–5-year view are too low and valuations are reasonable.

Signatory of:

PRI Principles for Responsible Investment

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