

# Fidelity Australian Equities Fund

## Quarterly report

As at 31/03/2021

### Fund description

Invests in a diversified selection of around 30 to 50 Australian companies. Using a bottom-up stock-selection approach that focuses on undiscovered earnings potential, value and growth and is designed to be a core holding.

### Fund facts

**Portfolio manager:** Paul Taylor

**Benchmark:** S&P/ASX 200

Accumulation Index

**Inception date:** 30/06/2003

**Fund size:** AU\$5,416.17M

**Number of stocks:** 30 to 50

**Management cost:** 0.85% p.a.

**Buy/sell spread:** 0.20%/0.20%

### Portfolio guidelines

**Stocks:** +/-5% from benchmark

**Sector:** +/-7% from benchmark

**Cash:** Target range between 0% and 10%

### Top 10 holdings (%)

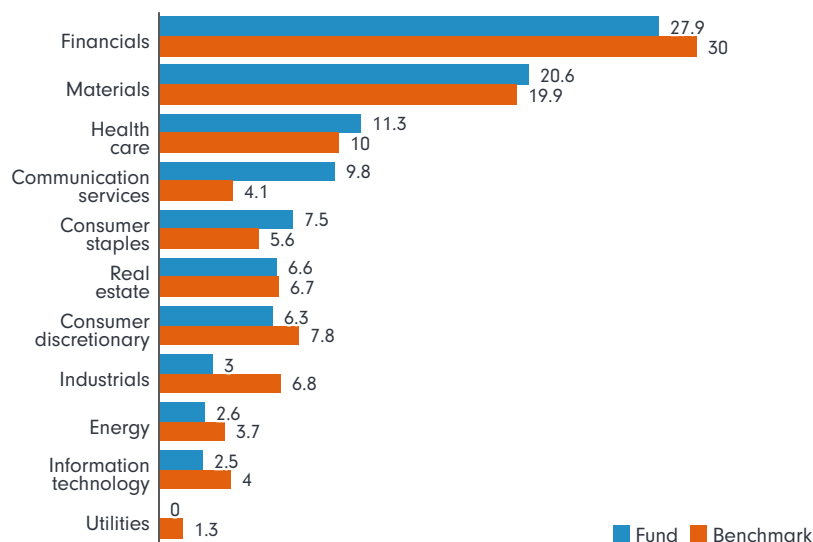
	Fund	B'mark
Commonwealth Bank Australia	10.3	8.0
BHP Group Ltd	9.8	7.0
CSL Ltd	7.4	6.3
Macquarie Group Ltd	4.6	2.7
Coles Group Ltd	4.6	1.1
Seek Ltd	4.5	0.5
Suncorp Group Ltd	4.3	0.7
Dominos Pizza Enterprises Ltd	4.2	0.3
Westpac Banking Corp	4.2	4.7
Goodman Group	4.2	1.6

### 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.	Since Inception p.a. (30/06/2003)
Fidelity Australian Equities Fund	2.13	3.39	18.65	39.54	10.68	10.04	8.12	9.20	8.15	11.57
S&P/ASX 200 Accumulation Index	2.44	4.26	18.54	37.47	9.65	10.25	7.70	7.95	6.34	9.24
<b>Excess return</b>	<b>-0.31</b>	<b>-0.87</b>	<b>0.11</b>	<b>2.07</b>	<b>1.03</b>	<b>-0.21</b>	<b>0.42</b>	<b>1.25</b>	<b>1.81</b>	<b>2.33</b>
Growth	2.13	3.39	17.72	31.06	6.07	6	4.35	5.41	4.37	7.39
Income	-	-	0.93	8.48	4.61	4.04	3.77	3.79	3.78	4.18

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. Growth return is the unit price movement on exit to exit basis. Income is expressed as Total Return less growth component.

### Industry breakdown %



### Major contributors (%)

As at 31/03/2021	Active pos.	Contribution
Dominos Pizza Enterprises Ltd	3.7	0.3
Afterpay Ltd	-1.6	0.3
Fortescue Metals Group Ltd	-2.0	0.3
BHP Group Ltd	2.8	0.3
Northern Star Resources Ltd	-0.6	0.2

### Major detractors (%)

As at 31/03/2021	Active pos.	Contribution
Coles Group Ltd	3.9	-0.6
National Australia Bank Ltd	-4.3	-0.4
Evolution Mining Ltd	1.4	-0.3
Charter Hall Group	1.2	-0.2
Goodman Group	2.5	-0.2

**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](http://www.fidelity.com.au) or call Client Services on 1800 044 922.**

This Fund is subject to risk of stock market fluctuations. Management costs and the buy/sell spread are current as at the date of shown above, but may be subject to change in the future. Management costs include GST and exclude abnormal expenses, 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.

# Quarterly report

## Market performance

Australian equities started the year on a positive note and advanced over the quarter. Optimism around a rapid vaccination rollout and strong corporate results supported investor sentiment. However, markets pared some gains given the global sell-off in risky assets amid an upward shift in US bond yields. The period witnessed a rotation towards value-led stocks on prospects of an upturn in the business cycle, in anticipation of a vaccinated recovery in economic activity. While the Reserve Bank of Australia (RBA) left interest rates unchanged at record low levels, rising bond yields prompted the central bank to launch an unscheduled offer to buy three-year government bonds. At a sector level, financials, notably banks, were driven by optimism around a pick-up in economic activity. The relatively defensive communication services sector also delivered strong performance. Robust growth prospects, supported by the opening up of the economy, boosted returns in the consumer discretionary sector. Materials and energy stocks advanced in line with rising commodity prices. Meanwhile, gold producers underperformed other mining stocks, as these were negatively impacted by rising bond yields. Conversely, investors rotated out of the information technology (IT) sector, in line with its global peers. On the economic front, Australia's unemployment rate hit 5.8% as the economic recovery strengthened. A measure of Australian business confidence rose to decade highs in February as sales, profits and employment picked up sharply owing to a continued economic recovery from last year's COVID-19-induced recession. The Westpac-Melbourne Institute index of consumer sentiment also advanced as upbeat news on the economy supported the long-term outlook for activity and consumption.

## Fund performance

The Fund delivered positive returns, but lagged the index over the quarter. The period

witnessed a rotation towards value-led stocks. Consequently, optimism around a rapid vaccination rollout and expectations of a swifter than expected economic recovery weighed on COVID-19 beneficiaries. Profit taking in preferred real estate holdings also held back gains. On a positive note, selected high-conviction holdings and the lack of exposure to some momentum-led stocks added value.

### Market rotation hurt Covid-19 beneficiaries

Shares in supermarket operator Coles slid amid concerns over market share losses and a tough near-term outlook, even as the company registered encouraging results in the first half of FY21. Meanwhile, the risk-on environment weighed on gold prices, which are a relative safe haven. Hence, the position in gold miner Evolution Mining fell out of favour.

### Investors rotated out of real estate stocks

Profit taking in preferred real estate holdings, including industrial property manager Goodman Group and property fund manager Charter Hall Group, weighed on returns. Both companies reported robust results and upgraded their guidance.

### High-conviction holdings added value

Shares in pizza delivery company Domino's Pizza advanced following an upgrade by a leading broker. Meanwhile, the lack of exposure to Afterpay, a company operating in the buy-now-pay-later (BNPL) segment enhanced gains. Investors rotated away from this momentum-led stock. Moreover, a bleak near-term outlook by a leading research house for the BNPL sector weighed on investor sentiment.

## Outlook

In five years' time, when we look back to this period, we will view it as an excellent opportunity to have invested in the market. Markets have recently been impacted by rising

bond yields in anticipation of a pick-up in inflation and growth. However, we believe that an economic recovery will need to be sustained for a couple of years for demand to reach pre-pandemic levels. Therefore, it will take a while for inflation to return to a meaningful level. While uncertainty and volatility are likely to prevail in the short term, Fidelity's substantial research network, technological support and extensive investment experience will help us to pick structural growth-led winners at attractive valuations. The monetary and fiscal policy expansion measures undertaken by economies globally are a significant tail wind for an economic recovery. We are likely to see a prolonged period of support from governments around the world, including Australia. There has been an upbeat response to the availability of vaccines with high levels of efficacy. The roll-out of vaccines will facilitate economic activity, aid the resumption of travel and, most importantly, restore the health and quality of human lives. Australia has been relatively resilient through the pandemic and we believe it will remain a preferred geography in which to invest, work and study. Migration will likely accelerate in a post-vaccine world. Companies will increase investments as the economy recovers. We are also witnessing a notable acceleration in existing trends such as e-commerce, digital delivery of food and beverages, cashless transactions, work from home, and a preference for active versus formal wear, which will continue to shape the future. These trends expand the universe of investment opportunities as more innovation and business models come to the market. The portfolio is invested in large-cap, highly liquid blue-chip stocks. We believe that the current market environment can aid stock pickers with a strong process. We look to upgrade the portfolio when stocks that may have been on my buy list are available at attractive valuations.

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