

Fidelity Australian Equities Fund

Quarterly report

As at 30/06/2022

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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\$5,282.60M

Number of stocks: 30 to 50

Management cost: 0.85% p.a.

Buy/sell spread: 0.15%/0.15%

Portfolio guidelines

Stocks: +/-5% from benchmark

Sector: +/-7% from benchmark

Cash: Target range between 0% and 10%

Top 10 holdings (%)

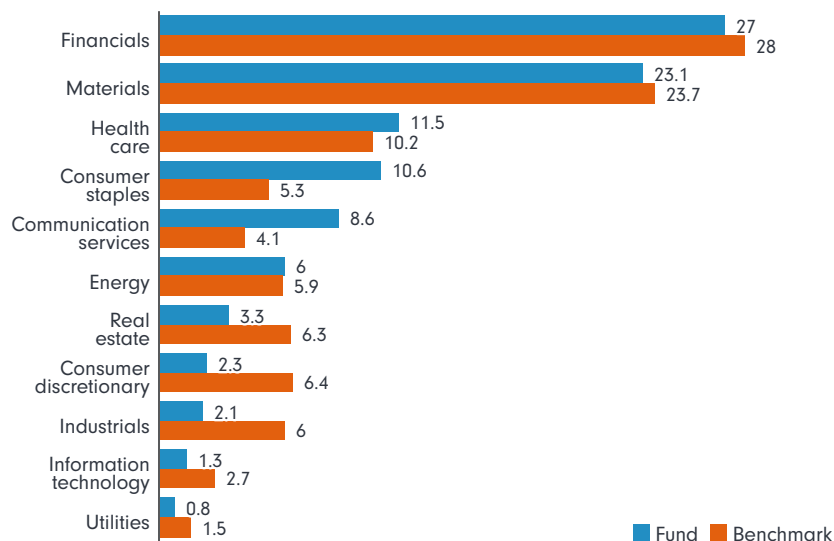
	Fund	B'mark
BHP Group Ltd	11.2	10.8
Commonwealth Bank Australia	10.6	8.0
CSL Ltd	7.3	6.7
Macquarie Group Ltd	5.0	3.1
Telstra Corp Ltd	4.7	2.3
Coles Group Ltd	4.7	1.2
Suncorp Group Ltd	4.4	0.7
Ramsay Health Care Ltd	4.2	0.7
Igo Ltd	4.1	0.3
Santos Ltd	3.6	1.2

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	-9.85	-12.96	-12.98	-6.58	4.87	7.72	7.41	10.27	6.32	10.95
S&P/ASX 200 Accumulation Index	-8.77	-11.90	-9.93	-6.47	3.34	6.83	6.91	9.29	4.67	8.68
Excess return	-1.08	-1.06	-3.05	-0.11	1.53	0.89	0.50	0.98	1.65	2.27
Growth	-9.85	-13.98	-15.13	-12.05	-0.29	3.22	3.28	6.21	2.65	6.71
Income	-	1.02	2.15	5.47	5.16	4.5	4.13	4.06	3.67	4.24

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 30/06/2022	Active pos.	Contribution
Ramsay Health Care Ltd	3.2	0.7
Suncorp Group Ltd	3.5	0.4
Coles Group Ltd	3.2	0.4
Block Inc	-0.5	0.3
Telstra Corp Ltd	2.2	0.2

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Igo Ltd	4.2	-0.9
Evolution Mining Ltd	1.4	-0.6
Seek Ltd	2.4	-0.5
Transurban Group	-2.0	-0.4
Ma Financial Group Ltd	0.6	-0.2

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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 declined during the quarter as investors remained in our view cautious about rising inflationary pressures and subsequent monetary tightening, as well as a deteriorating economic growth outlook. The Reserve Bank of Australia (RBA) raised interest rates by a larger than expected 0.75 percentage points during the quarter and warranted further rate hikes amid rising inflationary pressure. Information technology remained the worst performer amid valuation multiple de-ratings for growth stocks globally. Materials declined amid weaker industrial metal prices and rising cost pressures, and rising rates were a headwind for the real estate sector. Consumer discretionary also declined as increasing inflationary pressure dimmed investor sentiment. Australia concluded its Federal election in May, with the Labor Party's victory and Anthony Albanese taking charge as the country's 31st Prime Minister. On the economic front, Australia's GDP for the quarter ending March expanded by 0.8%, driven broadly by the rise in household consumption and government spending. Retail sales beat market forecasts and increased in May, broadly due to increased spending on eating out and departmental stores. The unemployment rate remained firm at 3.9% in May, the lowest level in almost 50 years, while the participation rate remained at a record high of 66.7%. However, the Westpac-Melbourne Institute's Index of Consumer Sentiment declined to 86.4 in June from 90.4 in May. Concerns over rising inflation and the increase in interest rates, coupled with a weaker economic outlook, undermined consumer confidence. Australia's business confidence index, as measured by the National Australia Bank (NAB), fell 4 points to +6 points in May, just above the long-run average. NAB noted that business confidence remained healthy but highlighted the risk from higher inflation and increased interest rates for businesses. The S&P Global Australia manufacturing Purchasing Managers' Index (PMI) remained in expansionary territory in May, supported by strong domestic and

foreign demand conditions.

Fund performance

The Fund lagged the index over the quarter. Selected positions weighed on relative returns.

Selected material names held back gains

The mining sector was negatively impacted by rising cost inflation, labour shortages and construction delays, due to which the position in copper, nickel and gold miner IGO slid. Similarly, shares in gold miner Evolution Mining declined due to a weaker profit outlook for the company. It revised its production guidance downwards and cited inflationary pressures as it revised its cost guidance upwards. Elsewhere, investors remained cautious of job listing portal SEEK's high valuations as its shares declined. However, we consider that the currently developing tight labour market and low levels of unemployment present the perfect environment for its core business to grow.

High conviction in selected defensive stocks supported returns

Shares in leading private hospital operator Ramsay Healthcare rallied after it was approached by a consortium led by KKR with an attractive takeover bid. Likewise, the conviction holding in food and staples retailer Coles Group proved favourable. Its shares advanced due to a shift in market sentiment towards defensive names with predictable revenue streams and its ability to pass on rising prices to customers in the current inflationary environment. In addition, the domestic staples sector has demonstrated an attractive long-term return profile, driven we believe by an oligopolistic structure, high barriers to entry and strong bargaining power for incumbents. Financial services provider Suncorp Group gained amid speculation that it is preparing to sell its banking operations and focus on the larger and more profitable insurance business.

Market outlook

Australian equities started the year on a very pessimistic note. Inflation, interest rates and market volatility were all on the rise, the market was still gripped by pandemic fears and the related supply chain issues were weighing on the market. However, if we look

back at times when interest rates were rising, we see that equity markets generally do reasonably well through these periods. At the early stages, markets appear to be focused on the reason for interest rate hikes rather than on the fact that they are going up. We believe that interest rates are rising because we're learning to live with Covid, the economy is recovering and the unemployment rate is very low – i.e., rates are rising because things are getting better. In environments when interest rates go up very quickly, equity markets tend not to perform as well as when rates rise steadily. More often than not, though, returns are still positive. Indeed, equities investments can help keep pace with inflation as many businesses benefit from such an environment.

While uncertainty is likely to prevail in the short term, our substantial research network, technological support and extensive investment experience will help us to pick structural growth-led winners at attractive valuations. Once again, in terms of history, the businesses that tend to do well during inflationary periods are those that are linked to commodities (both soft and hard), as well as essential businesses that have pricing power. The opposite is true for businesses that have no pricing power or offer fixed-price contracts. Another interesting movement in the market is 'goods' versus 'services.' Pre-Covid, we saw a structural trend of services growth outstripping the growth in goods. During the pandemic, this trend was completely reversed. Services took a significant hit as travel, restaurants, theatres and most outdoor activities shut down and movement was constrained. While consumers could not travel or eat out, they could buy things online. As a likely result, growth in goods accelerated, but services declined. As an anticipated result of the world learning to live with Covid, services are starting to grow again, but we are seeing a decline in goods. The portfolio is invested in large-cap, highly liquid blue-chip stocks. As we are entering a new phase in the economic environment, we are adopting a barbell strategy with the portfolio. At one end of the barbell are commodities and at the other end are companies that sell the essentials and have pricing power.

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