

Fidelity Australian Equities Fund

Quarterly report

As at 30/09/2022

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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\$5,055.27M

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 (%)

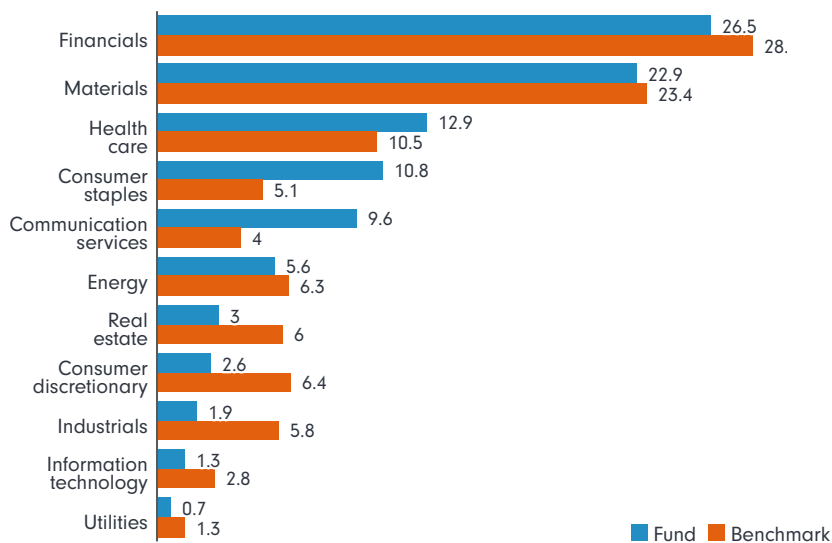
	Fund	B'mark
Commonwealth Bank Australia	10.4	8.1
BHP Group Ltd	10.0	10.2
CSL Ltd	8.2	7.2
Igo Ltd	5.8	0.5
Telstra Corp Ltd	5.5	2.3
Coles Group Ltd	5.0	1.1
Suncorp Group Ltd	4.8	0.7
Macquarie Group Ltd	4.8	2.9
Ramsay Health Care Ltd	4.5	0.6
Seek Ltd	3.1	0.4

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	-6.19	-0.10	-13.05	-11.29	3.99	7.65	8.19	9.25	5.88	10.79
S&P/ASX 200 Accumulation Index	-6.17	0.39	-11.56	-7.69	2.67	6.76	8.01	8.41	4.30	8.58
Excess return	-0.02	-0.49	-1.49	-3.60	1.32	0.89	0.18	0.84	1.58	2.21
Growth	-6.19	-9.54	-22.18	-21.68	-3.92	1.34	2.74	4.36	1.62	6.06
Income	-	9.44	9.13	10.39	7.91	6.31	5.45	4.89	4.26	4.73

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 30/09/2022	Active pos.	Contribution
Igo Ltd	4.4	1.6
Transurban Group	-2.1	0.3
Commonwealth Bank Australia	2.5	0.2
Newcrest Mng Ltd	-0.8	0.2
BHP Group Ltd	0.0	0.2

Major detractors (%)

As at 30/09/2022	Active pos.	Contribution
Ramsay Health Care Ltd	3.2	-0.7
Pilbara Minerals Ltd	-0.4	-0.3
Coles Group Ltd	3.5	-0.3
Dominos Pizza Enterprises Ltd	0.9	-0.3
Whitehaven Coal Ltd	-0.3	-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 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.

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Market performance

Australian stocks increased marginally during a quarter that was marked by a global equity market selloff. Gains in the first two months of the quarter were capped by investor concerns over a hawkish US Federal Reserve and a worsening global economic outlook towards the end of the period. At a sector level, energy remained the best performer, led by strength in coal prices and a bumper interim dividend declared by sector giant Woodside Energy. The defensive healthcare sector also rose. However, utilities remained the worst performer as investors materially derated the sector. The interest rate-sensitive real estate sector also lagged the market. The Reserve Bank of Australia (RBA) raised interest rates by 1.50 percentage points during the quarter and indicated that further hikes would be guided by incoming data and the outlook for inflation and the labour market. On the economic front, Australia's GDP for the quarter ending June expanded by 0.9%. Growth was led by strong household consumption, notably from spending on services, including hotels, cafes and restaurants, transport services and recreation and culture. Australia released its first monthly inflation indicator, which depicted a slight easing of inflation to 6.8% in August from 7.0% in July, broadly driven by a decrease in prices for automotive fuel. The Westpac-Melbourne Institute's Index of Consumer Sentiment rose to 84.4 in September from 81.2 in August. The marginal improvement was led by the strength in the labour market, despite rising interest rates and inflation headwinds. Retail sales topped forecasts and continued to increase in August, broadly driven by strong demand for household goods and dining out services. The business confidence index, as measured by the National Australia Bank (NAB), continued to rebound from June lows

and reached +10 points in August. NAB noted that demand remained robust in August, with strong capacity utilisation and positive near-term outlook as forward orders rose. The unemployment rate increased marginally to 3.5% in August but remained at historically low levels.

Fund performance

Inflation concerns held back gains

Domino's Pizza Enterprises slid amid a challenging macroeconomic environment and a tight labour market. However, its financial year 2022 results indicate a reacceleration in sales growth, driven by franchise stores. Leading food and staples retailer Coles Group slid as its management's outlook was subdued on expectations of rising costs and high capital expenditure. However, it delivered solid annual results ahead of consensus estimates. Financial services provider Suncorp Group was caught amid a mixed market response to its decision to sell its banking operations to Australia and New Zealand Banking Group. Its shares rallied and then declined rapidly post the announcement. Elsewhere, shares in private hospital operator Ramsay Healthcare tumbled after its Board terminated merger discussions with a consortium led by KKR.

Security selection in materials added value

Clean energy focused miner IGO advanced as it reported positive results, followed by a renewed uptrend in lithium prices. IGO's results were led by a double-digit increase in revenue compared to the previous quarter. Speculation regarding Mineral Resources' listing of its lithium business separately also buoyed investor sentiment. Meanwhile, the lack of exposure to Newcrest Mining and AVZ Minerals proved beneficial as their shares declined. The former slid in line with falling copper and gold prices. The underweight

exposure to Diversified miner BHP Group proved beneficial. Concerns over iron ore demand from China, its top consumer from a country perspective, weighed on its share price.

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. Interest rates are rising because things are getting better. In environments when interest rates go up very quickly, equity markets do not 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, Fidelity's substantial research network, technological support and extensive investment experience should 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 portfolio is invested in large-cap, highly liquid blue-chip stocks. As we are entering a new phase in the economic environment, I'm 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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