Fidelity Australian Equities Fund

Quarterly report

As at 31/12/2022

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$5,436.33M
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 (%)

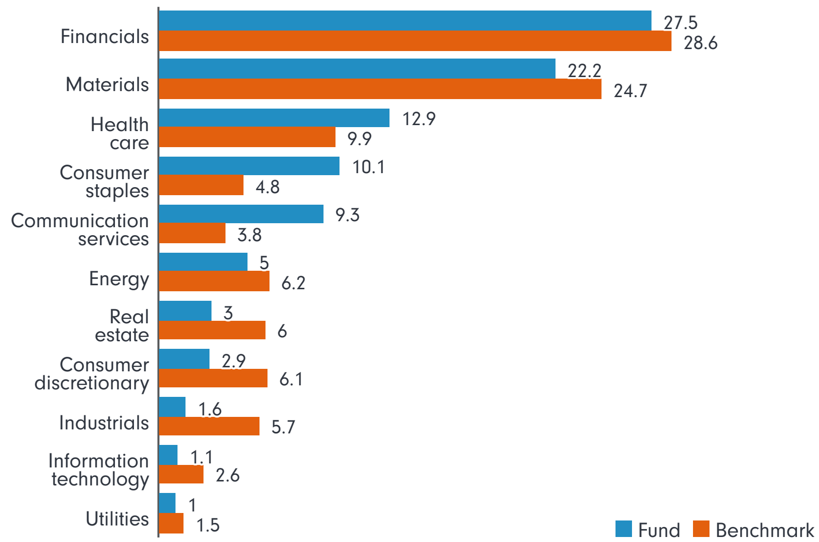
	Fund	B'mark
Commonwealth Bank Australia	10.9	8.3
BHP Group Ltd	10.6	11.1
CSL Ltd	7.8	6.7
Telstra Group Ltd	5.4	2.2
Suncorp Group Ltd	5.3	0.7
Ramsay Health Care Ltd	4.9	0.6
Macquarie Group Ltd	4.8	2.9
Coles Group Ltd	4.7	1.1
Igo Ltd	4.4	0.4
Seek Ltd	3.2	0.4

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	-3.28	9.07	8.95	-5.19	6.85	7.63	8.28	9.47	6.56	11.14
S&P/ASX 200 Accumulation Index	-3.21	9.40	9.82	-1.08	5.55	7.11	8.43	8.66	5.12	8.97
Excess return	**-0.07**	**-0.33**	**-0.87**	**-4.11**	**1.30**	**0.52**	**-0.15**	**0.81**	**1.44**	**2.17**
Growth	-3.28	8.78	-1.6	-16.48	-1.29	1.38	2.85	4.59	2.27	6.44
Income	-	0.29	10.55	11.29	8.14	6.25	5.43	4.88	4.29	4.7

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 31/12/2022	Active pos.	Contribution
Evolution Mining Ltd	1.1	0.4
Suncorp Group Ltd	4.4	0.4
Dominos Pizza Enterprises Ltd	1.8	0.3
Aristocrat Leisure Ltd	-1.1	0.2
James Hardie Industries Plc	-0.7	0.2

Major detractors (%)

As at 31/12/2022	Active pos.	Contribution
Igo Ltd	4.7	-0.6
Coles Group Ltd	3.6	-0.3
BHP Group Ltd	-0.3	-0.3
Domain Holdings Australia Ltd	0.8	-0.2
Santos Ltd	1.6	-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 advanced over the quarter amid cautious optimism that we may be nearing the end of the rate hiking cycle. At a sector level, utilities remained the best performer, driven by a takeover bid for sector constituent Origin Energy. The anticipation of China's reopening underpinned a favourable demand outlook for the materials sector and supported its performance. Conversely, the information technology (IT) and health care sectors lagged the broader market. Large-cap equities outperformed their mid-cap and small-cap peers. The Reserve Bank of Australia (RBA) raised interest rates by 0.75 percentage points during the quarter and highlighted that the board intends to increase rates further, but it is not on a pre-set course. It continues to monitor the global economy, household spending and wage and price setting behaviour. On the economic front, Australia's GDP for the quarter ending September expanded by 0.6% quarter-on-quarter, falling slightly below market expectations. Consumer spending remained solid, but the pace of growth slowed as higher cost of living and rising rates weighed on spending power. Australia's monthly consumer price inflation slowed to 6.9% over the year to October, amid a weaker rise in food prices. The Westpac-Melbourne Institute's Index of Consumer Sentiment improved slightly to 80.3 in December from 78.0 in November. The improvement was led by increasing confidence that the bulk of the current rate hike cycle may be behind us. However, downside risk to economic growth and inflation remained a key concern. The business confidence index, as measured by the National Australia Bank (NAB), turned negative in November to -4 index points amid concerns over a weak global economic outlook. The Judo Bank Australia manufacturing Purchasing Managers' Index (PMI) remained in expansionary territory in December, but the rate of expansion continued to moderate, reflecting a slowdown in economic activity. The unemployment rate remained steady at 3.4% in November, while the participation rate increased to 66.8%, depicting a tight labour market.

Fund performance

The Fund delivered strong positive returns and lagged the index over the quarter. Selected positions weighed on relative returns.

Selected materials held back gains

Pure-play electric vehicle (EV) battery stock IGO slid on retreating lithium prices. News of a fire incident at IGO's Nova Power station overshadowed its commercial lithium production milestone. The underweight allocation to BHP Group held back relative gains. Shares in the diversified miner, with a portfolio weighted towards iron ore, advanced in line with rising iron ore prices. Shares in Coles Group tumbled despite reporting third quarter sales that met expectations, as investors remained cautious of rising inflationary cost pressures for the consumer staples sector.

Security selection in consumer discretionary and financials added value

On a positive note, investors accumulated shares in pizza chain operator Domino's Pizza Enterprises due to its attractive valuations. It has an established track record of leadership in digital innovation and delivery, which is expected to drive future growth. Leading insurer Suncorp Group gained on expectations of a handsome dividend post the completion of the sale of its banking operations to Australia and New Zealand Banking Group. Investors accumulated shares in gold miner Evolution Mining amid rising gold prices and a slowing rate of interest rate increases as indicated by the US Federal Reserve (Fed). It is well positioned to benefit in such an environment, given its robust balance sheet and quality gold exposure.

Fund positioning

The Fund is invested in large-cap, highly liquid blue-chip stocks. We remain mindful of company fundamentals and focus on the experience and competence of management teams, which is crucial to their ability to manage through the current uncertainty. Australia remains home to innovative companies that are well positioned to deliver long-term growth. We favour high-quality companies with a sustainable competitive edge, strong free cash flow generation and robust earnings growth.

Added to strong conviction holdings

We increased the holding in Ramsay Healthcare amid attractive valuations. Ramsay is the largest private hospital operator in Australia and has an experienced management team with a strong execution track record.

Preference for resilient businesses

Financial services company Suncorp Group has a strong focus on business improvement initiatives and its insurance business remains attractive. The company's new initiatives are likely to drive further improvements in its core insurance and banking businesses and accelerate its digital and data driven transformation.

Outlook

We believe 2023 is shaping up as another fascinating year in equity markets, with inflation and interest rates continuing to dominate the narrative. In the US, the Fed's aggressive interest rate rises are strengthening the US dollar, which is having ripple effects worldwide. China is reopening its economy at a fast pace, while the conflict in Ukraine continues to have wider global implications. With interest rates expected to keep rising, the likelihood that the US and Europe will enter a recession in early 2023 is increasing. Still, it is less certain whether Australia will follow suit, given high energy costs and favourable conditions for commodities, although future rate rises could do some damage. Immigration and population growth are likely to accelerate in 2023. These are key to underpinning Australia's long-term structural growth and provide an additional cushion against recession. The businesses that tend to do well during inflationary periods are those linked to commodities (both soft and hard), as well as essential businesses that have pricing power. The opposite is true for companies with no pricing power or those that offer fixed-price contracts. Businesses such as contractors and building companies with fixed-price contracts and rising input costs see their margins significantly squeezed through inflationary periods.

While sectors such as essentials (supermarkets, healthcare), materials, insurance and financials are likely to perform well in 2023, a more challenging environment should provide investors with an opportunity to invest in inexpensive, high-quality businesses with long-term structural growth.

Signatory of:

PRI Principles for Responsible Investment

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