

Fidelity Australian Opportunities Fund

Quarterly report

As at 31/12/2020

Fund description

Invests in a diversified selection of around 40 to 70 Australian companies. The portfolio manager seeks attractive stock mispricings of all types, while avoiding a strong style bias. The portfolio is largely industry neutral with risk and return focused at the stock level. Designed to be a core holding.

Fund facts

Portfolio manager: Kate Howitt
Benchmark: S&P/ASX 200 Accumulation Index
Inception date: 31/07/2012
Fund size: AU\$347.44M
Number of stocks: 40 to 70
Management cost: 0.85% p.a.
Buy/sell spread: 0.20%/0.20%

Portfolio guidelines

Stocks: +/-5% from benchmark
Industry: +/-7% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings (%)

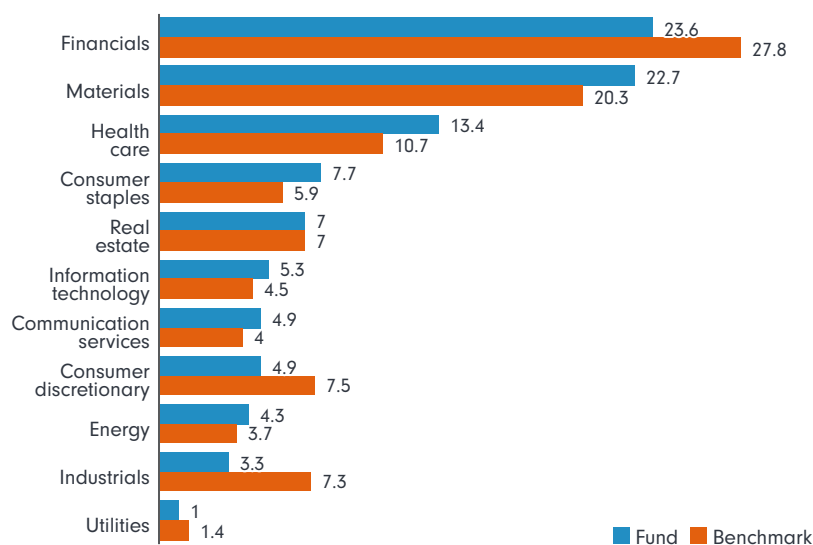
	Fund	B'mark
Commonwealth Bank Australia	10.3	7.9
CSL Ltd	8.8	7.0
BHP Group Ltd	7.1	6.8
Macquarie Group Ltd	5.4	2.6
Australia & NZ Banking Group Ltd	4.0	3.5
Goodman Group	4.0	1.7
Lendlease Group	3.0	0.5
Santos Ltd	3.0	0.6
Telstra Corp Ltd	2.8	1.9
Coles Group Ltd	2.8	1.3

Performance %

	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	Since Inception p.a (31/07/2012)
Fidelity Australian Opportunities Fund	2.24	14.14	16.74	3.18	6.83	9.01	9.55	11.87
S&P/ASX 200 Accumulation Index	1.21	13.70	13.20	1.40	6.73	8.73	7.38	9.87
Excess return	1.03	0.44	3.54	1.78	0.10	0.28	2.17	2.00
Growth	2.24	14.14	15.56	1.05	4.43	6.46	5.5	7.87
Income	-	-	1.18	2.13	2.4	2.55	4.05	4

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 31/12/2020	Active pos.	Contribution
Lynas Rare Earths Ltd	1.5	0.7
Nickel Mines Limited	1.4	0.6
Bluescope Stl Ltd	2.3	0.5
Newcrest Mng Ltd	- 1.3	0.5
Polynovo Ltd	1.0	0.5

Major detractors (%)

As at 31/12/2020	Active pos.	Contribution
Evolution Mining Ltd	2.2	- 0.7
Megaport Ltd	2.3	- 0.7
National Australia Bank Ltd	- 3.9	- 0.6
CSL Ltd	2.4	- 0.6
Fortescue Metals Group Ltd	- 1.8	- 0.5

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 the risk of stock market fluctuations. 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 and 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

Australian equities advanced strongly over the last quarter of 2020. A supportive Federal budget, coupled with accommodative monetary and fiscal support, propped-up domestic equities. Moreover, positive news around the development of a COVID-19 vaccine boosted investor sentiment. Joe Biden's victory in the US elections and expectations of a swifter economic recovery further supported stock markets. At a sector level, energy and financials gained the most, given the rotation towards value-led stocks amid prospects of an upturn in the business cycle in anticipation of a vaccine-led recovery in economic activity. The Reserve Bank of Australia (RBA) cut interest rates to record low levels and committed to maintaining a supportive monetary policy. Various economic indicators released over the quarter showed signs of an improvement, aided by easing restrictions in most parts of the country. Australia's GDP rebounded sharply in the quarter ending September. Both consumption and investment spending strengthened, offset by weaker net exports. The National Australia Bank's business confidence index rose, marking its fourth consecutive monthly gain. The business conditions index also improved in November. The Westpac-Melbourne Institute's consumer sentiment index continued to climb for the fourth straight month to a ten-year high as consumers became more optimistic about the country's economic recovery. Retail sales growth for October beat expectations as the second-most populous state of Victoria emerged from a COVID-19-induced lockdown. Elsewhere, the unemployment rate slid marginally in November, as the state of Victoria joined the

economic recovery.

Fund performance

The Fund delivered strong positive returns and outperformed the index over the quarter. Positive news flows around the development of a COVID-19 vaccine dominated investor sentiment and prompted a rotation into value stocks. Consequently, expectations of a swifter economic recovery supported selected conviction holdings. These gains were partly offset by selected commodity-led positions and a sell-off in selected holdings that had fared well in recent months.

Preferred commodity holdings added value

Conviction holdings in the materials sector, including positions in rare earths miner Lynas, Nickel Mines, steel producer BlueScope Steel and Mineral Resources enhanced gains. Lynas reported positive drilling results below its Mt Weld mine, a high grade operating rare earth mine with a long mine life. Nickel Mines entered into value accretive acquisitions for the development of projects in Indonesia. BlueScope Steel gained in light of an encouraging earnings guidance for the first half of FY21. Mineral Resources gained amid a surge in iron ore prices in light of robust demand from China. Conversely, not holding iron ore producer Fortescue Metals Group weighed on relative returns.

Vaccine-news driven value rotation held back returns

Vaccine related news weighed on gold prices, a relative safe-haven asset in volatile markets. Consequently, the position in gold producer Evolution Mining held back performance. A value rally in banking stocks was less favourable due to the lack of exposure to

National Australia Bank. Against this backdrop, a round of profit taking weighed on the position in connectivity provider Megaport, which did well earlier in the year.

Outlook

Liquidity infusions and the assurance of central bank support remain the key drivers of equity market momentum. However, it is still too early to overlook the uncertainty over the breadth and depth of the pandemic, while positive developments on the vaccine front boost the outlook for a resumption of economic activity. The Reserve Bank of Australia (RBA) maintains its monetary easing stance and interest rates are at a historic low of 0.1%. At the current level of ultra-low interest rates, equities continue to offer a more attractive return profile on a relative basis. The RBA has also been a long-standing advocate of deploying fiscal support as a preferred mechanism. Meanwhile, the government is shifting to offer wide scale nation building stimulus measures and is starting to taper off JobKeeper and JobSeeker benefits. Thus, as economic value creation returns at a slow pace, it becomes critical to view valuations from a long-term perspective and in a global context. Simultaneously, the disruption we are experiencing is highlighted in new business models as well as in agile management teams, which will drive the next value creation trajectory. Against this backdrop, the manager looks to identify opportunities that are supported by strong balance sheets, healthy free cash flows and management teams that are capable of withstanding the current duress and focusing on long-term execution.

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