Fidelity Australian Opportunities Fund

Quarterly report

As at 30/06/2022

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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$446.93M
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
Sector: +/-7% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings (%)

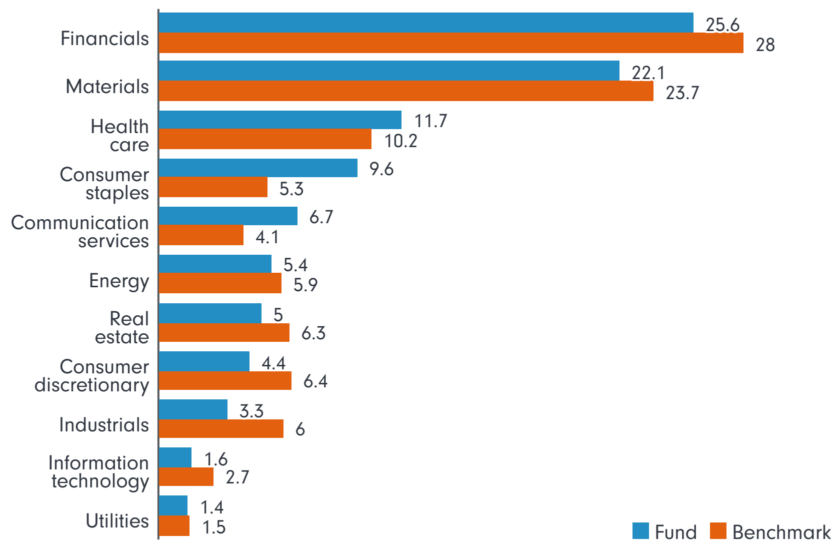
	Fund	B'mark
BHP Group Ltd	11.8	10.8
Commonwealth Bank Australia	9.5	8.0
CSL Ltd	9.4	6.7
Woolworths Group Ltd	5.3	2.2
Telstra Corp Ltd	5.2	2.3
Macquarie Group Ltd	5.1	3.1
Santos Ltd	3.7	1.2
Goodman Group	3.6	1.6
Steadfast Group Ltd	3.4	0.3
National Australia Bank Ltd	2.5	4.5

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	-10.13	-14.00	-15.53	-9.77	2.39	6.51	7.49	9.96
S&P/ASX 200 Accumulation Index	-8.77	-11.90	-9.93	-6.47	3.34	6.83	6.91	8.91
Excess return	**-1.36**	**-2.10**	**-5.60**	**-3.30**	**-0.95**	**-0.32**	**0.58**	**1.05**
Growth	-10.13	-14.04	-16.45	-11.25	0.47	4.38	4.47	6.36
Income	-	0.04	0.92	1.48	1.92	2.13	3.02	3.6

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
Steadfast Group Ltd	2.7	0.4
Block Inc	-0.5	0.3
CSL Ltd	2.4	0.3
Telstra Corp Ltd	2.7	0.2
Polynovo Ltd	0.6	0.2

Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Evolution Mining Ltd	2.2	-0.9
Transurban Group	-2.0	-0.4
Medical Developments Intl Ltd	0.6	-0.4
Judo Capital Holdings Ltd	1.8	-0.4
Megaport Ltd	0.3	-0.3

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 declined during the quarter as investors remained 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 0.75 percentage points during the quarter, which was larger than expected 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 underperformed the index over the quarter. Selected holdings in the materials sector held back gains, while selected conviction positions within communication services supported returns.

Materials held back gains

The position in gold miner Evolution Mining declined amid a weaker profit outlook for the company. It revised its production guidance downwards amid a delay at its Red Lake asset and cited inflationary pressures as it raised its cost guidance. Nevertheless, the company's position is supported by its robust balance sheet and quality gold exposure. In addition, the weakness in the mining industry amid rising cost pressure led Nickel Industries lower.

Broader market factors weighed on performance

Strong capital inflows into large-cap equities amid recession fears in Europe led these stocks to outperform smaller cap names, which negatively impacted the position in respiratory device manufacturer Medical Developments International (MVP) and challenger bank Judo Capital. MVP's strength is underpinned by its robust profitability outlook, which presents a notable upside potential. Judo's profitability is well placed to gain favourably from rising interest rates. Margins are expected to expand as its lending portfolio is broadly based on floating interest rates, while funding cost are largely fixed, and are accessed from the Reserve Bank of Australia's (RBA) term funding facility.

Conviction holdings added value

The conviction holding in commercial insurance broker Steadfast contributed to returns. It is well placed in the insurance value chain and has a return accretive, asset-light/scalable business model with limited under-writing risk bearing. Investors favoured holdings with predictable earnings streams, as such the conviction holdings in global specialty biotherapeutics company CSL and telecommunication services provider Telstra advanced. CSL maintains its competitive advantage in plasma sourcing and is well placed to recover from increased plasma collection in the US.

Market Outlook

The Australian economy has remained resilient despite supply shocks associated with the war in Ukraine, as activity resumes pace after the Omicron variant of Covid. The uncertainty surrounding the war in Ukraine, China's policy response towards Covid outbreaks and the ensuing resolution of supply-side constraints remains key areas of concern worldwide. Tightness in the domestic labour market is also contributing to inflationary woes. The RBA raised interest rates thrice during the year and has indicated further rate hikes as it kicked off its monetary tightening cycle. The outlook for the Australia's economic growth remains positive relative to rest of the world. Elevated commodity prices have supported the country's terms of trade and aided its national income from the resources sector. The reopening of international borders is favourable for demand from inbound entrants into Australia, such as foreign students and tourists, as well as for related services industries. Considerable accumulation of household savings and pent-up demand for services is expected to support consumption trends near term. However, the potential impact of increasing interest rates on household spending trends needs to be closely monitored as mortgage payments weigh on disposable incomes. Rising rates are also cooling down the housing market and asset value, which can curtail consumption. It remains critical to view valuations from a long-term perspective and in a global context; to pay more attention to the resilience of business models; and to look for valuation anomalies as attractive entry points. We look to identify opportunities that are supported by strong balance sheets, healthy free cash flows and management teams that can withstand uncertainty and focus on long-term execution.