

Fidelity Australian Opportunities Fund

Quarterly report

As at 30/06/2023

Fund description

Invests in a diversified selection of around 20 to 40 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: Casey McLean / Clare Coleman

Benchmark: S&P/ASX 200 Accumulation Index

Inception date: 31/07/2012

Fund size: AU\$231.13M

Number of stocks: 20 - 40

Management cost: 0.85% p.a

Buy/sell spread: 0.20%/0.20%

Portfolio guidelines

Stocks: +/-10% from benchmark

Sector: 25% from benchmark

Cash: Target range between 0% and 10%

Top 10 holdings (%)

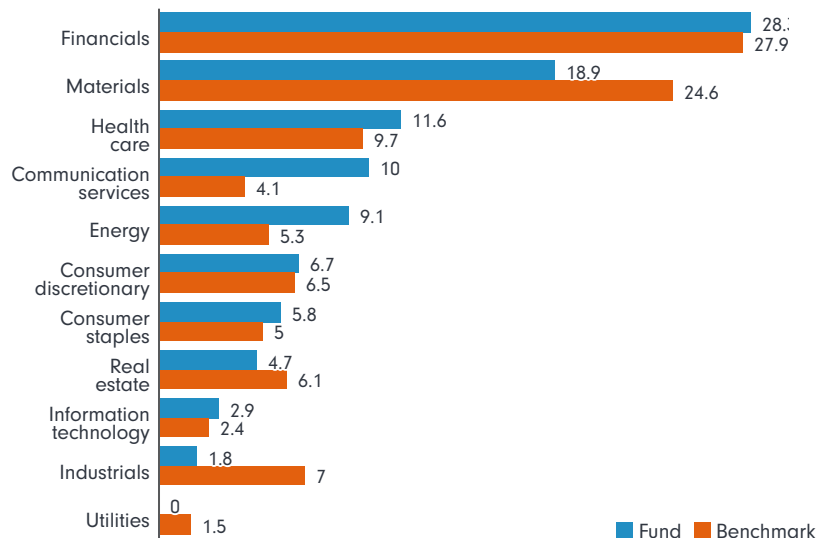
	Fund	B'mark
CSL Ltd	10.6	6.3
Commonwealth Bank Australia	9.6	7.9
BHP Group Ltd	9.4	10.7
Woodside Energy Group Ltd	9.1	3.1
Telstra Group Ltd	5.1	2.3
Macquarie Group Ltd	5.0	3.0
Goodman Group	4.7	1.6
Qbe Ins Group Ltd	4.4	1.1
Carsales.com Ltd	4.0	0.4
Woolworths Group Ltd	3.7	2.3

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.	Since Inception p.a (31/07/2012)
Fidelity Australian Opportunities Fund	1.70	1.59	5.38	13.35	9.68	5.97	8.18	9.31	10.26
S&P/ASX 200 Accumulation Index	1.76	1.01	4.51	14.78	11.12	7.16	8.95	8.56	9.44
Excess return	-0.06	0.58	0.87	-1.43	-1.44	-1.19	-0.77	0.75	0.82
Growth	1.7	1.56	3.62	7.91	6.7	3.21	5.45	5.41	6.5
Income	-	0.03	1.76	5.44	2.98	2.76	2.73	3.9	3.76

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 30/06/2023	Active pos.	Contribution
Collins Foods Ltd	0.9	0.3
Wisetech Global Ltd	1.6	0.3
James Hardie Industries Plc	1.4	0.3
Woodside Energy Group Ltd	4.6	0.3
Igo Ltd	1.6	0.3

Major detractors (%)

As at 30/06/2023	Active pos.	Contribution
Treasury Wine Estates Ltd	2.0	-0.3
BHP Group Ltd	-0.1	-0.3
Anz Group Holdings Ltd	-3.3	-0.2
Idp Education Ltd	0.9	-0.2
Xero Ltd	-0.7	-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 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 over the quarter. The information technology (IT) sector delivered solid gains in line with the strength in their Wall Street peers. This was broadly driven by optimistic growth prospects for companies involved in artificial intelligence (AI). The consumer discretionary sector was weighed down by recessionary fears, while the materials sector was negatively impacted by demand concerns from China. Mid-cap equities outperformed their large-cap peers. The Reserve Bank of Australia (RBA) raised interest rates by 0.50 percentage points during the quarter. The board noted that although inflation in Australia has passed its peak, the decision was based on its focus to return inflation to target levels within a reasonable timeframe and indicated that further tightening measures may be warranted. On the economic front, Australia's GDP for the March quarter eased further, increasing slightly by 0.2% quarter-on-quarter vs. 0.5% quarter-on-quarter in the December quarter. Weakness in household consumption drove the bulk of the slowdown as cost-of-living pressures weighed on real disposable incomes. Australia's monthly Consumer Price Index (CPI) indicator rose by 5.6% year-on-year in May 2023 vs. 6.8% year-on-year in April, reflecting a clear downtrend in inflation, but still above the RBA's target range. The Westpac-Melbourne Institute's Index of Consumer Sentiment rose slightly to 79.2 in June from 79.0 in May. Sentiment has steadied near recession lows, with inflation being a dominant drag on confidence. The business confidence index, as measured by the National Australia Bank (NAB), remained in negative territory. Forward orders fell sharply, particularly from the

consumer sector in both retail and wholesale. Australian retail sales came in stronger than expected in May, with retailer discounts and promotional activities driving strong sales. Australia's labour market remained strong, with the unemployment rate decreasing to 3.6% in May, and the participation rate increasing to 66.9%.

Fund performance

Security selection in the materials and consumer discretionary sectors added notable value. Fibre cement producer James Hardie Industries reported a 4% growth in its global net sales for the year ending March 2023 and its results were in-line with the guidance. The company has a strong correlation with the US housing market, which is driven by interest rates. Indications that the interest rate cycle in the US may be peaking also supported its share price. The US housing sector remains undersupplied, and James Hardie Industries' dominant market position supports its margins. Clean energy miner, IGO, tracked the strength in lithium prices, supported by a global decarbonisation theme and a transition to electric vehicles (EVs). The broad-based global strength in the IT sector, led by news flows around developments in AI, buoyed the position in cloud-based end-to-end logistics software provider, WiseTech Global. The recently increased position in franchise operator Collins Foods contributed to returns. It continues to exhibit acceleration in same store sales growth and margin improvements in its European enterprises which buoyed investors. Conversely, the holding in beverage company, Treasury Wine Estates, slid as it reported mixed operating conditions in its recent trading update and flagged pressures in sales of its low-margin wine. Shares in IDP Education, which is the co-owner of the International English Language Testing System or IELTS, slid after the Canadian immigration

authority allowed four additional English language tests, ending IELTS' monopoly as means of attaining citizenship.

Outlook

The outlook for Australia's economic growth remains positive relative to the rest of the world. Australia benefits from being a net energy exporter, as well as from strong population growth driven by immigration and valuation support from the relatively high level of dividends paid. However, the downside risk to economic growth has increased against the backdrop of rising inflation and higher interest rates. The RBA continues to increase its benchmark interest rate as inflation in Australia surged past multi-decade highs. The potential impact of increasing interest rates on household spending trends needs to be closely monitored as mortgage payments weigh on disposable incomes. Nevertheless, considerable accumulation of household savings, pent-up demand for services and a strong labour market has supported near term consumption trends. Globally, the uncertainty surrounding the war in Ukraine, China's policy response towards Covid-19 outbreaks and the ensuing resolution of supply-side constraints remains key areas of concern. At the same time, high labour cost in an extremely tight labour market environment has been a major driver of inflation in the domestic market. 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. The manager looks 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.

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