Fidelity Australian Opportunities Fund

Quarterly report

As at 31/03/2021

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$366.87M
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 (%)

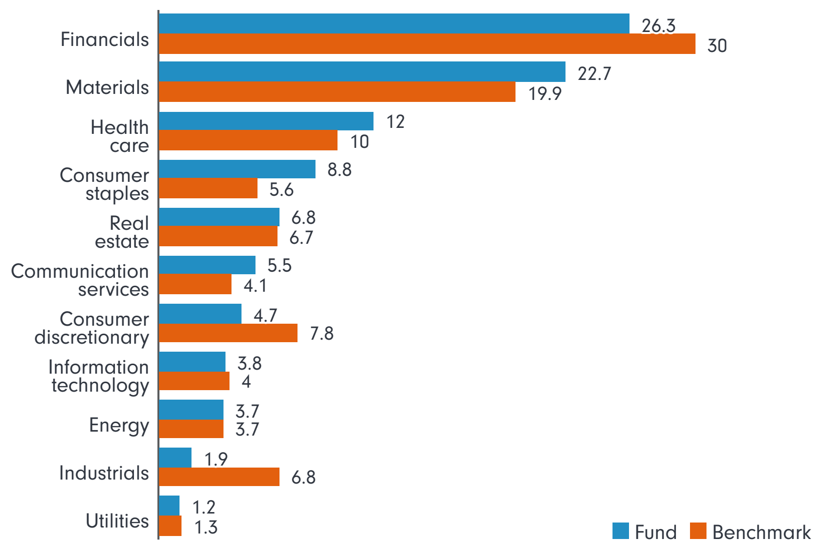
	Fund	B'mark
Commonwealth Bank Australia	10.6	8.0
BHP Group Ltd	9.2	7.0
CSL Ltd	8.0	6.3
Macquarie Group Ltd	5.9	2.7
Australia & NZ Banking Group Ltd	4.9	4.2
Goodman Group	4.0	1.6
Telstra Corp Ltd	3.1	2.1
Santos Ltd	3.0	0.7
Lendlease Group	2.9	0.5
Evolution Mining Ltd	2.6	0.4

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	1.64	2.20	16.65	38.28	9.27	10.51	9.51	11.79
S&P/ASX 200 Accumulation Index	2.44	4.26	18.54	37.47	9.65	10.25	7.70	10.10
Excess return	**-0.80**	**-2.06**	**-1.89**	**0.81**	**-0.38**	**0.26**	**1.81**	**1.69**
Growth	1.64	1.6	15.97	35.7	6.81	7.96	5.52	7.83
Income	-	0.6	0.68	2.58	2.46	2.55	3.99	3.96

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 31/03/2021	Active pos.	Contribution
Lynas Rare Earths Ltd	1.4	0.6
Starpharma Holdings Ltd	1.6	0.3
Afterpay Ltd	-1.6	0.3
Fortescue Metals Group Ltd	-2.0	0.3
Santos Ltd	2.4	0.3

Major detractors (%)

As at 31/03/2021	Active pos.	Contribution
Westpac Banking Corp	-4.0	-0.8
Megaport Ltd	2.1	-0.6
Westgold Resources Ltd	1.7	-0.6
Evolution Mining Ltd	2.1	-0.5
National Australia Bank Ltd	-4.1	-0.4

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.

Market performance

Australian equities started the year on a positive note and advanced over the quarter. Optimism around a rapid vaccination rollout and strong corporate results supported investor sentiment. However, markets pared some gains given the global sell-off in risky assets amid an upward shift in US bond yields. on prospects of an upturn in the business cycle, in anticipation of a vaccine-led recovery in economic activity. The period witnessed a rotation towards value-led stocks While the Reserve Bank of Australia (RBA) left interest rates unchanged at record low levels, rising bond yields prompted the central bank to launch an unscheduled offer to buy three-year government bonds. At a sector level, financials, notably banks, were driven by optimism around a pick-up in economic activity. The relatively defensive communication services sector also delivered strong performance. Robust growth prospects, supported by the opening up of the economy, boosted returns in the consumer discretionary sector. Materials and energy stocks advanced in line with rising commodity prices. Meanwhile, gold producers underperformed other mining stocks, as these were negatively impacted by rising bond yields. Conversely, investors rotated out of the information technology (IT) sector, in line with its global peers. On the economic front, Australia's unemployment rate slid to 5.8% as the economic recovery strengthened. A measure of Australian business confidence rose to decade highs in February as sales, profits and employment picked up sharply owing to a continued economic recovery from last year's COVID-19-induced recession. The Westpac-Melbourne Institute index of consumer sentiment also advanced as upbeat news on the economy supported the long-term outlook for activity and consumption.

Fund performance

The Fund delivered positive returns, but lagged the index over the quarter. The stock market rotated in favour of value stocks as a result of the expected post-pandemic normalisation and rising bond yields.

Market rotation held back performance

Shares in software-based elastic connectivity provider Megaport, slid. Investors overlooked its strong cash flows, healthy balance sheet and its long runway for growth from its digital infrastructure segment. In financials, the conservative exposure to banks, particularly Westpac Banking and National Australia Bank, weighed on relative returns given the strong rally in the four largest Australian banks over the quarter.

Preferred holdings added value

In the materials sector, non-gold and non-iron ore holdings gained, and were led by speciality commodity producers, even as gold producer Westgold Resources and Evolution Mining tracked gold prices lower. Positions in rare earths miner Lynas and Nickel Mines were driven by their record quarterly earnings. Elsewhere, in the health care sector, biopharmaceutical company Starpharma Holdings benefited from the registration of its antiviral nasal spray in Europe, which paves the way for a commercial launch in the European Economic Area. In laboratory studies, the spray demonstrated its capability to inactivate a broad spectrum of respiratory viruses, including SARS-CoV-2, which causes COVID-19.

Outlook

Liquidity infusions and the assurance of central bank support remain the key drivers of equity market momentum. The Australian government has taken measures to absorb economic shocks arising from the pandemic and safeguarded the interests of individuals, corporates and banks during this challenging environment. The RBA's Term Funding Facility (TFF) that enables banks to borrow from the central bank at ultra-low interest rates has also aided the positive momentum towards large banks and supported the housing market. Against this backdrop, the Australian economy is likely to witness a V-shaped recovery. Thus, in a rather unusual market and economic environment, it becomes critical to view valuations from a long-term perspective and in a global context, and to pay even more attention to the resilience of business models in a momentum-driven world. 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, we look 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.