

# Fidelity Australian Opportunities Fund

## Quarterly report

As at 31/03/2023

### 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\$255.39M

**Number of stocks:** 20 - 40

**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 (%)

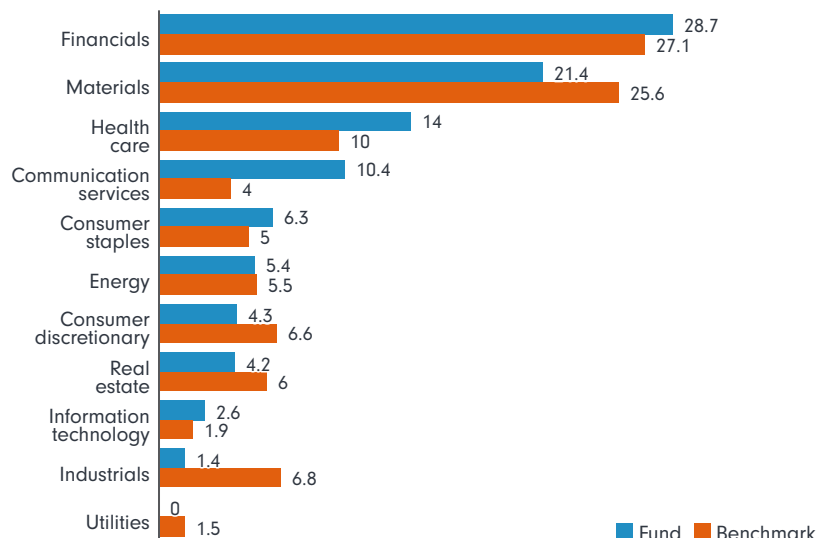
	Fund	B'mark
BHP Group Ltd	13.2	11.2
CSL Ltd	11.2	6.5
Commonwealth Bank Australia	10.3	7.8
Telstra Group Ltd	5.6	2.3
Woodside Energy Group Ltd	5.4	3.0
Macquarie Group Ltd	5.2	3.0
Goodman Group	4.2	1.5
Woolworths Group Ltd	3.7	2.2
Carsales.com Ltd	3.7	0.4
Qbe Ins Group Ltd	3.5	1.0

### 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	-0.91	3.73	11.58	-4.05	14.61	7.27	8.71	9.07	10.35
S&P/ASX 200 Accumulation Index	-0.16	3.46	13.19	0.10	16.52	8.69	9.39	8.18	9.56
<b>Excess return</b>	<b>-0.75</b>	<b>0.27</b>	<b>-1.61</b>	<b>-4.15</b>	<b>-1.91</b>	<b>-1.42</b>	<b>-0.68</b>	<b>0.89</b>	<b>0.79</b>
Growth	-0.91	2.03	9.52	-8.66	11.4	4.42	5.9	5.14	6.51
Income	-	1.7	2.06	4.61	3.21	2.85	2.81	3.93	3.84

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 31/03/2023	Active pos.	Contribution
Westpac Banking Corp	-3.5	0.4
Wisetech Global Ltd	1.2	0.3
Qbe Ins Group Ltd	1.7	0.3
Ventia Services Group Pty Ltd	0.3	0.3
BHP Group Ltd	2.5	0.3

### Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Newcrest Mng Ltd	-1.0	-0.3
Wesfarmers Ltd	-2.6	-0.2
Judo Capital Holdings Ltd	1.6	-0.2
Medical Developments Intl Ltd	0.6	-0.2
Fortescue Metals Group Ltd	-1.7	-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](http://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.

# Quarterly report

## 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 healthcare 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

From 1 October 2022, Casey McLean took over as Lead Portfolio Manager of the Fund and Clare Coleman as Co-portfolio Manager on the Fund. The Fund delivered positive returns but underperformed the index over the quarter. Stock selection in the materials, real estate and consumer staples sectors held back gains. Rising interest rates weighed on the holding in global property and infrastructure developer Lendlease Group. Specialty biotherapeutics company CSL faced selling pressure along with the rest of the healthcare sector. Shares in sustainable materials producer Calix fell. Investor sentiment was weighed down by the Federal Government's withdrawal of its grant funding plans for its carbon capture, use and storage (CUSS) programme. The underweight allocation to iron ore miners Rio Tinto held back relative gains. Its shares advanced in-line with rising iron ore prices. IGO slid on retreating lithium prices. Its Nova nickel-copper mine has stopped operations after a fire at the power station. It may take several weeks to restore power. On a positive note, the lack of exposure to low-cost hard rock lithium miner Pilbara Minerals proved beneficial as its shares declined in line with lithium peers due to retreating lithium prices. 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. Elsewhere, the position in leading commercial insurance broker Steadfast Group added value as its shares advanced. Investors cheered its asset-light and scalable business model, with

limited underwriting risk bearing. The position in medical device company PolyNovo advanced after it reported record sales volumes, primarily driven by its US business.

## 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 and house prices are declining in large markets such as Sydney. Weaker housing market and asset value can also curtail consumption. 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. 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.

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