

Fidelity Australian Opportunities Fund

Quarterly report

As at 30/09/2022

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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\$294.03M

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 (%)

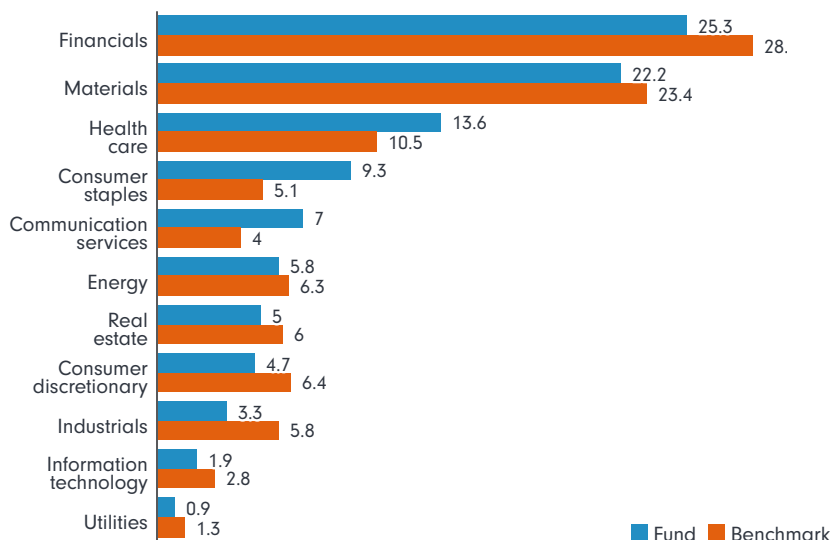
	Fund	B'mark
BHP Group Ltd	11.2	10.2
CSL Ltd	11.0	7.2
Commonwealth Bank Australia	10.9	8.1
Macquarie Group Ltd	5.2	2.9
Telstra Corp Ltd	5.1	2.3
Woolworths Group Ltd	4.2	2.1
Goodman Group	3.4	1.4
Santos Ltd	3.3	1.2
National Australia Bank Ltd	3.1	4.8
Treasury Wine Estates Ltd	2.8	0.5

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	-6.69	-0.00	-14.00	-11.72	0.93	5.87	8.04	9.28	9.70
S&P/ASX 200 Accumulation Index	-6.17	0.39	-11.56	-7.69	2.67	6.76	8.01	8.41	8.72
Excess return	-0.52	-0.39	-2.44	-4.03	-1.74	-0.89	0.03	0.87	0.98
Growth	-6.69	-2.99	-16.61	-15.38	-1.61	3.24	5.38	5.42	5.88
Income	-	2.99	2.61	3.66	2.54	2.63	2.66	3.86	3.82

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 30/09/2022	Active pos.	Contribution
Igo Ltd	1.6	0.6
CSL Ltd	3.2	0.3
Transurban Group	-2.1	0.3
Wisetech Global Ltd	1.0	0.3
Commonwealth Bank Australia	2.2	0.3

Major detractors (%)

As at 30/09/2022	Active pos.	Contribution
Pilbara Minerals Ltd	-0.4	-0.3
Nickel Industries Ltd	1.8	-0.3
Goodman Group	2.1	-0.2
Whitehaven Coal Ltd	-0.3	-0.2
Flight Centre Trvl Grp Ltd	1.2	-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 stocks increased marginally during a quarter that was marked by a global equity market selloff. Gains in the first two months of the quarter were capped by investor concerns over a hawkish US Federal Reserve and a worsening global economic outlook towards the end of the period. At a sector level, energy remained the best performer, led by strength in coal prices and a bumper interim dividend declared by sector giant Woodside Energy. The defensive health care sector also rose. However, utilities remained the worst performer as investors materially derated the sector. The interest rate-sensitive real estate sector also lagged the market. The Reserve Bank of Australia (RBA) raised interest rates by 1.50 percentage points during the quarter and indicated that further hikes would be guided by incoming data and the outlook for inflation and the labour market. On the economic front, Australia's GDP for the quarter ending June expanded by 0.9%. Growth was led by strong household consumption, notably from spending on services, including hotels, cafes and restaurants, transport services and recreation and culture. Australia released its first monthly inflation indicator, which depicted a slight easing of inflation to 6.8% in August from 7.0% in July, broadly driven by a decrease in prices for automotive fuel. The Westpac-Melbourne Institute's Index of Consumer Sentiment rose to 84.4 in September from 81.2 in August. The marginal improvement was led by the strength in the labour market, despite rising interest rates and inflation headwinds. Retail sales topped forecasts and continued to increase in August, broadly driven by strong demand for household goods and dining out services. The business confidence index, as measured by the National Australia Bank (NAB), continued to rebound from June lows and reached +10 points in August. NAB noted that demand remained robust in August, with strong capacity utilisation and positive near-

term outlook as forward orders rose. The unemployment rate increased marginally to 3.5% in August, but remained at historically low levels.

Fund performance

Resources held back gains

Within energy, the lack of exposure to coal miner **Whitehaven Coal** held back relative returns as its shares advanced in light of surging coal prices. With materials, Nickel producer **Nickel Industries** declined despite releasing in-line results. Investors remain concerned about its margin compression due to the resilience in thermal coal prices. Nevertheless, its earnings will continue to grow as its higher volume and margin stability thesis remains intact over the long term. Within materials, lithium prices reached record levels as supportive EV policies globally continued to support demand, while recent heat wave-driven power cuts in China negatively impacted supply in an already tight market environment. As such, the lack of exposure to lithium and tantalite mining company **Pilbara Minerals** held back relative gains. Conversely, these gains were partially offset by the position in **IGO** as surging lithium prices buoyed the position in clean energy focused miner.

Short-term weakness in structural growth winners

Rising interest rates weighed on the position in industrial property manager **Goodman Group**; its shares declined in line with the broader real estate sector. Nevertheless, Goodman has quality assets and a strong balance sheet position, coupled with ongoing structural growth opportunities. Markets sold down travel shares amid concerns over rising cost of living and the subsequent impact on tourism. Consequently, the holding in offline travel agent **Flight Centre Travel** declined.

Robust stock picking added value

Cloud-based end-to-end logistics software provider **WiseTech Global** advanced as it delivered promising results and robust guidance. It is a capital light business that enjoys self-funding from cash flows and is

underpinned by large economies of scale and a strong balance sheet position. The conviction position in global specialty biotherapeutics company **CSL** outperformed the broader market amid investors' preference for defensive health care stocks. The lack of exposure to toll road operator **Transurban Group** contributed to performance. Its shares declined as it announced disappointing dividend guidance.

Outlook

The outlook for Australia's economic growth remains positive relative to the rest of the world. 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. 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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