

Fidelity Hedged Global Equities Fund

Quarterly report

As at 31/03/2023

Fund description

A hedged equivalent of the Fidelity Global Equities Fund, currency exposure is substantially hedged back to Australian dollars.

Fund facts

Portfolio manager: Ashish Kochar
Benchmark: MSCI All Country World Index NR AUD Hedged
Inception date: 29/09/2005
Fund size: AU\$20.16M
Number of stocks: 80 to 120
Management cost: 1.04% p.a.
Buy/sell spread: 0.20%/0.20%

Portfolio guidelines

Stocks: +/-3% from benchmark
Sector: +/-10% from benchmark
Region: +/-20% from benchmark
Country: No constraints
Emerging markets: maximum 20% of the portfolio (typically less than 10%)
Cash: Target range between 0% and 10%

Top 10 holdings (%)

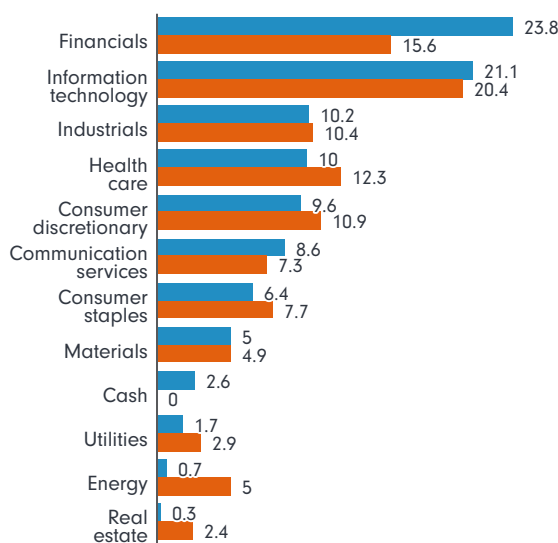
	Fund	B'mark
Alphabet Inc	6.5	2.0
Microsoft Corp	5.0	3.4
Berkshire Hathaway Inc Del	4.3	0.7
Canadian Pacific Kansas City Ltd	3.0	0.1
Gallagher (Arthur J.) & Co	3.0	0.1
Alibaba Group Holding Ltd	2.7	0.3
S&p Global Inc	2.6	0.2
Unitedhealth Group Inc	2.6	0.7
Asml Holding Nv	2.3	0.5
Nestle S.A.	2.3	0.6

Performance %

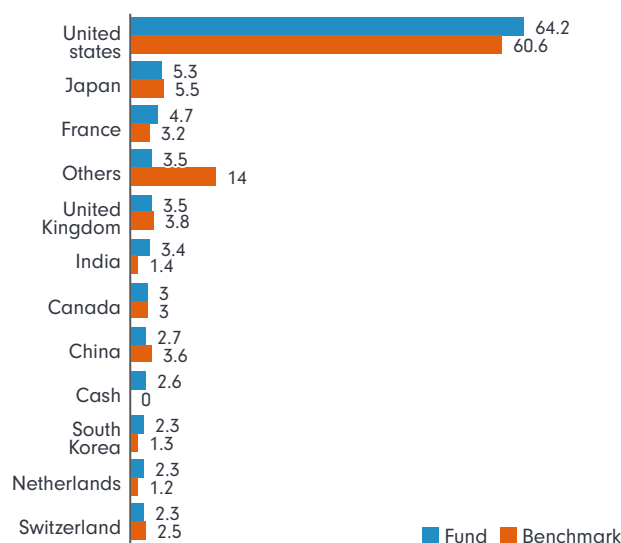
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	15 yrs p.a.	Since Inception p.a (29/09/2005)
Fidelity Hedged Global Equities Fund	3.67	7.31	16.00	-7.71	13.75	7.19	9.65	9.61	7.80	7.83
MSCI All Country World Index NR AUD Hedged	2.42	6.60	14.15	-7.57	13.99	6.66	8.98	9.23	7.54	7.37
Excess return	1.25	0.71	1.85	-0.14	-0.24	0.53	0.67	0.38	0.26	0.46

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. **The benchmark is the MSCI All Country World Index NR 100% Hedged to AUD (effective 1 November 2011). The benchmark before 1 November 2011 was the MSCI World Index Hedged in AUD. The major difference between the two indices is the inclusion of 21 emerging market country indices in the MSCI All Country World Index NR 100% Hedged to AUD. In December 2006, the benchmark for the Fund changed from the MSCI World Index ex Australia Hedged in AUD to the MSCI World Index Hedged in AUD.

Industry breakdown %



Geographic breakdown %



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This Fund is subject to the risk of fluctuations in international stock markets and currencies. 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 but 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

Global equities ended the first quarter higher. Markets started the period on a strong note, as upbeat economic data and improving corporate earnings boosted investor sentiment. However, most of the losses came through in the second half of the quarter as inflationary concerns weighed on stock prices. The banking sector saw a period of significant volatility, as the collapse of Silicon Valley Bank (SVB) and Signature Bank, followed by further financial sector disruption in US and Europe, led to a sharp decline in markets in the first half of March. Equities subsequently recovered and finished the month and quarter higher. At a regional level, US equities advanced on improving sentiment as data indicated a slowdown in inflation, leading to expectations that the hiking cycle could shortly come to an end. The US Federal Reserve (Fed) expressed confidence in the resilience of the US banking system and raised the policy rate by 0.25 percentage points in both February and March. European equities notched up strong gains despite volatility within the banking sector owing to problems related to troubled lender Credit Suisse. Japanese equities rose, with a weaker yen boosting sentiment in the export-heavy market. Against this backdrop, information technology (IT) was the best performing sector, as investors rotated out of financial shares and sought safety amid contagion fears in cash-rich growth technology names. Within IT, semiconductor shares performed well on the back of expectations that the memory chip downcycle is likely to bottom out. From a style perspective, growth stocks outperformed value names as the hit to banking shares weighed on the performance of value stocks, while large-cap stocks fared better than their small-cap counterparts.

Fund performance

The Fund delivered positive returns and outperformed the index over the quarter. At a sector level, exposure to communication services proved rewarding, while certain financials sector holdings held back returns. Alphabet rallied as it unveiled new artificial intelligence (AI) capabilities for its suite of productivity apps. Meta Platforms reported robust quarterly revenues boosted its share buyback programme. Shares in Alibaba

Group Holding outperformed following the announcement of significant restructuring plans within the company. Within IT, Renesas Electronics contributed to returns as net profits increased, supported by strong demand for chips. The holding in Salesforce rose after it raised its forecast for profit margins and doubled stock buyback plans. In contrast, the lack of exposure to Nvidia weighed on relative returns. The stock rallied strongly over the quarter on optimism around generative AI which drove an acceleration in demand. The underweight stance in Apple also held back relative gains as shares rose amid expectations that the company would move into the rapidly expanding augmented reality arena. Shares in diversified conglomerate holding company Berkshire Hathaway lagged the broader market. The collapse of SVB and issues related to troubled Swiss lender Credit Suisse led to significant volatility in the US and European banking stocks. In particular, Wells Fargo came under pressure amid heightened risk aversion as well as contagion fears in the overall financial sector.

Fund positioning

The Fund invests in two categories of stocks i.e., compounders and transformers. Holdings in the compounders category typically have defensive characteristics, enjoy some pricing power and/or secular growth opportunities. Transformers are businesses that are either witnessing high cyclical growth or are special situations. At a sector level, the Fund has an overweight stance in high quality businesses spread across the financials and communication services sectors. At a stock level, Google's parent company Alphabet is the top active position in the portfolio. It maintains an attractive growth runway and margin potential buoyed by structural behavioural shifts, while new growth initiatives and a keen focus on profitability bode well in the long term. Transcontinental rail service provider Canadian Pacific Railway's best-in-class operating metrics, long-term growth prospects, and industry leading efficiency/ROIC give it an edge over its peers. During the quarter, we invested in UK based alcoholic beverage company Diageo. Its portfolio diversification across categories and geographies provides strong competitive advantages while accelerating investment spend to gain market traction bodes well for the company's long-term revenue and growth

potential. A new position was also added in leading hard disk drive (HDD) manufacturer Western Digital. With the acceleration in the pace of new technology adoption at certain cloud players, a shift to a leadership capacity position could yield meaningful market share gains for the company.

Outlook

Going into Q2 2023, although risk sentiment has improved at the margin, we still maintain a cautious outlook in our approach. Even if the credit market stress has eased and emergency lending via the Fed windows has dropped, we believe the effects will ripple through the economy in the form of higher borrowing costs for corporates and tighter financial conditions generally. Headwinds are expected in the coming quarters, as several data points indicate tightening bank lending standards, contraction in the manufacturing sector and profit margin compression. This will likely lead to higher unemployment and tighter credit conditions, as households cut back on consumption and businesses trim investments. As ever, we continue to focus on fundamentals and investing in long-term growth compounders where estimates on a 2-5-year view are too low and valuations are reasonable.

Major contributors (%)

As at 31/03/2023	Active pos.	Contribution
Alphabet Inc	4.0	0.4
General Electric Co	1.0	0.3
Meta Platforms Inc	0.6	0.3
Renesas Electronics Corp	0.5	0.2
Alibaba Group Holding Ltd	2.3	0.2

Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Nvidia Corp	-0.9	-0.5
Apple Inc	-2.3	-0.4
Tesla Inc	-0.8	-0.4
Unitedhealth Group Inc	1.9	-0.3
Norfolk Southern Corp	1.4	-0.3

Signatory of:



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