Fidelity Hedged Global Equities Fund

Quarterly Report as at 31 December 2018

Fund description

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

Fund facts

Portfolio manager: Amit Lodha

Benchmark: MSCI All Country World Index NR AUD Hedged

Inception date: 29 September 2005

Fund size: AU$7.50M

Number of stocks: 80 to 120

Management cost: 1.04% p.a.

Buy/sell spread: 0.30%/0.30%

Portfolio guidelines

Stocks: +/-3% from benchmark

Industry: +/-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 %

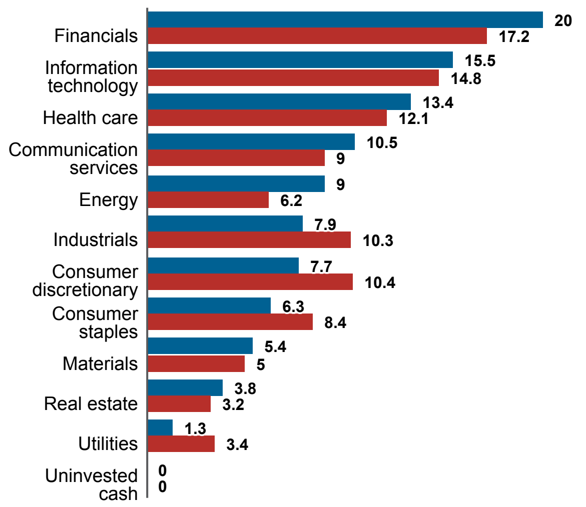
	Fund	B'mk
MICROSOFT CORP	2.5	1.8
MERCK & CO INC NEW	2.4	0.5
ALPHABET INC	2.1	1.6
ROCHE HOLDING LTD	1.9	0.4
ROYAL DUTCH SHELL PLC	1.8	0.6
ORACLE CORP	1.7	0.3
VISA INC	1.7	0.6
JPMORGAN CHASE & CO	1.7	0.8
COCA COLA CO	1.6	0.5
WELLS FARGO & CO NEW	1.6	0.5

Past performance %

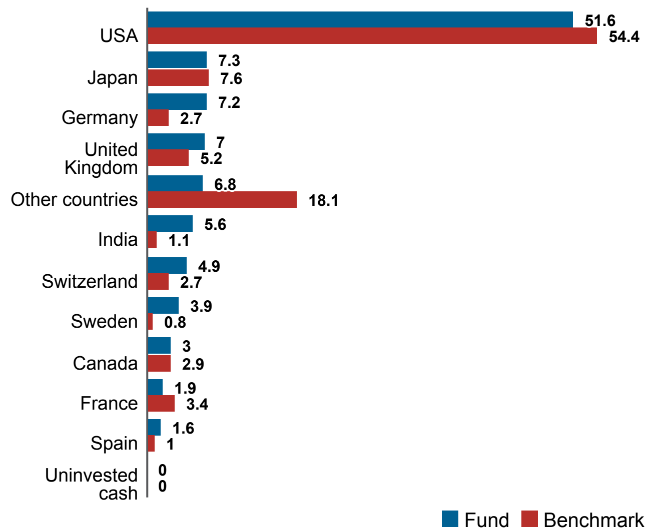
	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	Since Inception p.a (29.09.2005)
Fidelity Hedged Global Equities Fund	-7.70	-12.84	-10.10	-7.79	6.69	7.18	12.07	12.47	7.08
MSCI All Country World Index NR AUD Hedged	-7.51	-12.83	-8.61	-7.90	6.98	6.97	11.37	11.45	6.70
Excess return	-0.19	-0.01	-1.49	0.11	-0.29	0.21	0.70	1.02	0.38

Past performance is not a reliable indicator of future performance. Total returns (net) have been calculated using mid prices and are net of Fidelity's management costs, transactional and operational costs and assumes the reinvestment of distributions. No allowance has been made for tax or the buy/sell spread. Returns of more than one year are annualised. The return of capital is not guaranteed. **The benchmark is the MSCI ACWI (All Country World Index) Index 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 ACWI (All Country World Index) Index 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 %



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 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.

Market performance

Global equities declined sharply (in AUD terms) over a volatile fourth quarter amid the prevailing risk-off sentiment in financial markets. Concerns about a possible global economic slowdown and the US Federal Reserve's (Fed) interest rate hikes weighed on sentiment. Continued Brexit-related uncertainties and ongoing US-China trade frictions further worried investors. While the US and China reached a 90-day truce to temporarily halt new tariffs and finalise a trade deal, geopolitical uncertainty remained. At a regional level, US equities were weighed down by concerns over instability in Washington, including a partial government shutdown. At the start of the period, investors were concerned around the Fed's aggressive monetary policy stance. Subsequently, though, it took a more pragmatic stance and reduced its projections for rate hikes in 2019. Eurozone equities slid on a sharp slowdown in economic fundamentals, subdued growth prospects and Italy's budget standoff with the European Commission. The Italian government has since submitted a budget with a lower projected deficit, helping to bring borrowing costs back down. The European Central Bank (ECB) ended its bond-buying programme, but kept interest rates unchanged. The political deadlock over the Brexit deal and the deferment of the parliament vote on the UK's withdrawal agreement with the European Union (EU) also hurt UK markets. Japanese equities fell as the yen rose against the US dollar. Increasing concerns over earnings of export-reliant Japanese corporates further weighed on the market. A more than estimated contraction in the economy in the third quarter (due to a series of typhoons, a huge earthquake and weak external demand) also weighed on sentiment. Elsewhere, emerging markets declined, but outperformed developed markets. At a sector level, energy companies corrected the most as crude oil prices fell due to worries about excess supply and weak demand.

Fund performance

The fund outperformed the index by 0.2% over the quarter.

Conviction health care positions added value

Merck & Co is witnessing solid business momentum on the back of a strong competitive position in first-line lung cancer treatment. It also has a robust pipeline led by its cancer drug Keytruda. Roche Holdings rose as it launched new drugs and received early approval from the Food and Drug Administration (FDA) for its influenza medicine Xofluza. The company has a positive late stage pipeline and its new drugs, such as Ocrevus for multiple sclerosis, are performing well. Conversely, Sysmex declined due to weak quarterly results and a downward revision to its full-year guidance. However, a large addressable market across geographies, strong competitive positioning and pricing power should support growth.

Indian financials among top contributors

Kotak Mahindra Bank and ICICI Lombard General Insurance rose following the relaxation of liquidity norms by the central bank and hopes of a more favourable regulatory environment from the new governor. ICICI Lombard was also boosted by strong premium growth and an improved pricing outlook. Kotak's fundamentals remain strong, with a solid management team, conservative lending practices and improving margins from merger synergies with ING Vysya bank. Elsewhere, regulatory approvals for the acquisition of NEX Group and robust earnings boosted shares in CME Group, the largest US futures exchange. Within real estate, the holding in American Tower advanced, supported by strong earnings, a guidance upgrade and positive news flow on higher investments by wireless carriers in their fourth and fifth generation (4G and 5G) networks.

Certain communication services and energy holdings hurt returns

Music streaming services provider Spotify Technology was caught in a broad-based sell-off of technology stocks. It remains a key holding in the portfolio due to a growing addressable end-market and a capable management team that is focussed on music. In the energy sector, Hess and Baker Hughes declined due to the downtrend in oil prices. Nevertheless, Hess is slated to benefit from significant restructuring initiatives and growth prospects (Guyana) with dependable partners (Exxon). Baker Hughes' recent strong contract wins and a robust share buyback programme support its outlook.

Major contributors to quarterly performance %

As at 31/12/2018

	Active positions	Contribution
MERCK & CO INC NEW	1.75	0.33
APPLE INC	-1.16	0.27
CME GROUP INC CL A	1.09	0.23
KOTAK MAHINDRA BANK LTD	0.92	0.22
AMERICAN TOWER CORP	1.10	0.21

Major detractors to quarterly performance %

As at 31/12/2018

	Active positions	Contribution
SYSMEX CORPORATION	0.67	-0.27
HESS CORP	0.68	-0.27
SPOTIFY TECHNOLOGY SA	0.82	-0.25
BAKER HUGHES A GE CO	0.78	-0.24
CONCHO RESOURCES INC	1.02	-0.22

We believe that stock-specific fundamentals will remain the key driver of equity returns. Consequently, the portfolio continues to focus on companies that demonstrate strong pricing power, are led by talented management teams and are available at reasonable valuations. The aim is to link all the information globally and to leverage Fidelity's global research capabilities to identify the best ideas and investment opportunities, with an eye on quality, and sustainability and predictability of returns.

Outlook

Going into 2019, we remain cautious on the outlook for global equities in view of risks in the current late-cycle environment. Global economic slowdown concerns, tightening US monetary conditions, global trade frictions, Brexit-related uncertainty and softening corporate earnings present headwinds to the global economy. However, a late cycle is still positive for risk assets, and high market volatility can create interesting dislocations and throw up interesting buying opportunities to add value.

www.fidelity.com.au

Total net returns represent past performance only. Past performance is not a reliable indicator of future performance. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. The returns shown have been calculated using the net asset value of the Fund from one period to the next. The returns include any re-invested distributions and are after fees and expenses. 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. For periods greater than one year returns have been annualised.