Fidelity INTERNATIONAL

Fidelity Future Leaders Fund

Monthly report

As at 31/03/2021

Fund description

Invests in 40 to 70 Australian small and mid-cap stocks, using Fidelity's global research capabilities to identify the companies of tomorrow.

Fund facts

Portfolio manager: James Abela
Benchmark: S&P/ASX Mid Small Index
Inception date: 22/07/2013
Fund size: AU$1,051.41M
Number of stocks: 40 to 70
Management cost: 1.20%
Buy/sell spread: 0.25%/0.25%

Portfolio guidelines

Stocks: +/-5% from benchmark
Sector: +/10% from benchmark
Cash: Target range between 0% and 10%

Top 10 holdings (%)

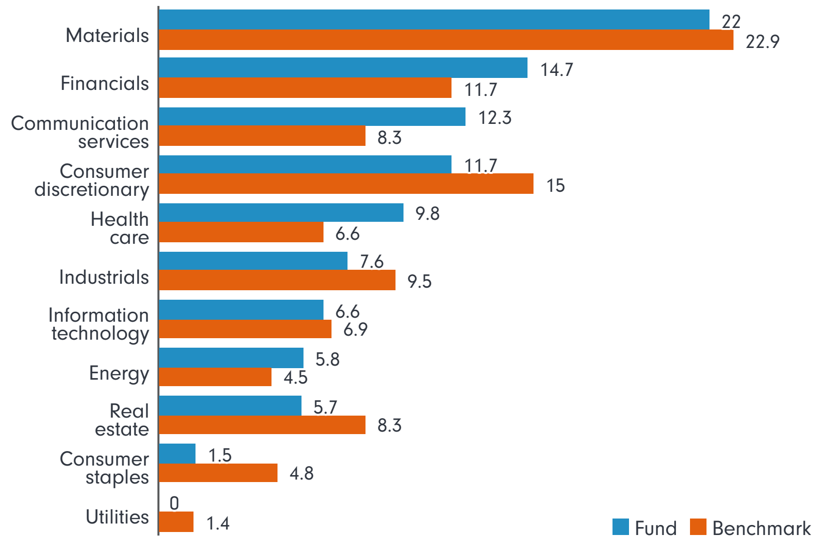
	Fund	B'mark
Rea Group Ltd	4.1	1.4
Oz Minerals Ltd	3.8	1.5
Resmed Inc	3.7	1.7
Charter Hall Group	3.6	1.2
Pinnacle Investment Management Group Ltd	3.5	0.3
Seek Ltd	3.4	2.0
Oil Search Limited	3.3	1.5
Als Ltd	3.2	0.9
Seven Group Holdings Ltd	3.0	0.6
Breville Group Ltd	2.7	0.5

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 (22/07/2013)
Fidelity Future Leaders Fund	0.26	-3.92	4.00	33.38	11.32	12.84	12.44	13.21
S&P/ASX Mid Small Index	1.75	1.07	16.73	56.65	9.54	11.95	10.72	11.10
Excess return	**-1.49**	**-4.99**	**-12.73**	**-23.27**	**1.78**	**0.89**	**1.72**	**2.11**
Growth	0.26	-4.05	3.86	32.76	9.66	11.36	10.75	11.55
Income	-	0.13	0.14	0.62	1.66	1.48	1.69	1.66

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 %



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 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.

Monthly report

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. The period witnessed a rotation towards value-led stocks on prospects of an upturn in the business cycle, in anticipation of a vaccine-led recovery in economic activity. 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 hit 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 portfolio underperformed the index over the quarter. Preferred technology-driven holdings came under pressure as investors continued to rotate in favour of value stocks as a result of the expected post-pandemic normalisation.

Market rotation led to profit taking

Shares in software developer Altium slid after management said that it expected lower revenues for the first half of FY 2021 due to fresh COVID-19 cases in the US and Europe. Nonetheless, the company is expecting significant growth in its pipeline as deals were pushed for the second half of the year. Cloud-based accounting software platform Xero was caught in market rotation despite reporting encouraging results. Likewise, the conviction holding in property fund manager Charter Hall Group declined as investors rotated out of the real estate sector in search of higher returns from rising bond yields. The opening up of the economy weakened sentiment towards Temple & Webster as online sales tapered off from the high levels seen in 2020. Among financials, the exposure to technology-based financial services platforms Netwealth Group and Zip Co came under pressure as bond yields soared over the quarter, and investors rotated into large cap banking stocks. Both platforms reported strong first half results, benefiting from a strong market tailwind though Netwealth provided a cautious guidance on growth into the second half.

Strong growth outlook lifted contributors

On a positive note, favourable stock selection in financials partly offset losses. The exposure to Virgin Money advanced amid rising bond yields and an improving economic outlook for the UK. Better than expected quarterly results buoyed the position in asset manager Pinnacle Investment Management. The company reported robust fund inflows, encouraging margins and growth in performance fee. Security selection in the materials sector also supported returns. The position in OZ Minerals tracked copper prices higher. Meanwhile, the portfolio avoided gold-miner Northern Star Resources, which fell in line with gold prices.

Outlook

With easing restrictions and ongoing government stimulus measures, the Australian economy is showing consistent signs of a recovery from the recessionary conditions associated with COVID-19. Bottom-up stock picking will become very important in the recovery phase, as quality valuations are more in check now that growth premiums are being dispersed throughout the economy. The high valuations momentum stocks have enjoyed will be challenged by rising rates, increasing scepticism towards market favourites and a greater focus on sustainability and viability. Transition and value stocks will need to deliver earnings growth and demonstrate pricing power and margin growth beyond that of the top-line growth associated with high economic activity levels. Against this backdrop, we are finding interesting opportunities in the consumer cyclicals, financials, mining and construction material sectors. We will continue to adhere to long duration drivers, paying consistent attention to the viability, sustainability and credibility of the earnings profile of the positions held in the portfolio. The emphasis is always on looking for companies with reasonable valuations and sustainable quality businesses, as well as those that can maintain free cash flow yields.