

Fidelity Future Leaders Fund

Quarterly report

As at 31/12/2020

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\$1,066.63M

Number of stocks: 40 to 70

Management cost: 1.20%

Buy/sell spread: 0.25%/0.25%

Portfolio guidelines

Stocks: +/-5% from benchmark

Industry: +/-10% from benchmark

Cash: Target range between 0% and 10%

Top 10 holdings (%)

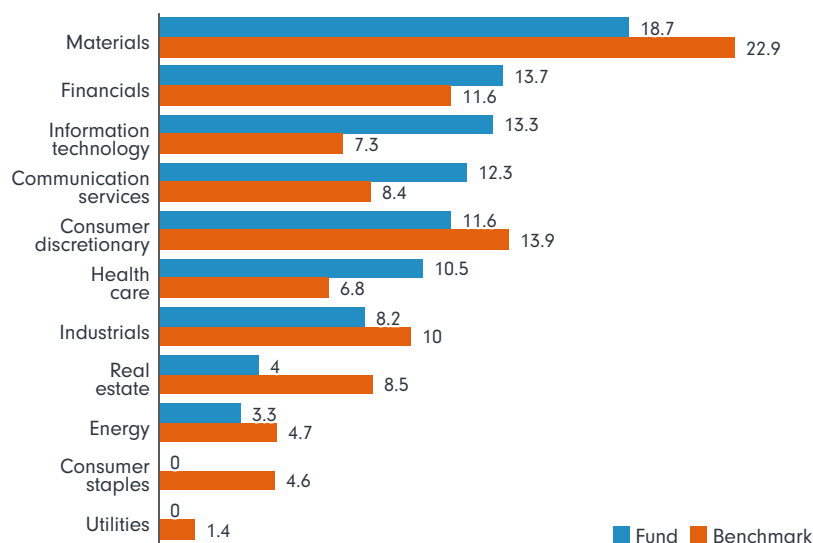
	Fund	B'mark
Xero Ltd	4.7	0.0
Seek Ltd	4.4	2.0
Rea Group Ltd	4.2	1.5
Charter Hall Group	4.0	1.4
Resmed Inc	3.2	1.8
Csr Ltd	3.1	0.5
Als Ltd	3.1	0.9
Magellan Financial Group Ltd	3.1	1.5
Altium Ltd	2.8	0.8
Seven Group Holdings Ltd	2.8	0.6

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	1.85	8.24	14.36	10.68	12.14	13.15	14.00	14.29
S&P/ASX Mid Small Index	3.10	15.50	21.71	13.36	8.25	12.20	10.98	11.33
Excess return	-1.25	-7.26	-7.35	-2.68	3.89	0.95	3.02	2.96
Growth	1.85	8.24	13.99	10.16	10.34	11.67	12.19	12.58
Income	-	-	0.37	0.52	1.8	1.48	1.81	1.71

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 31/12/2020	Active pos.	Contribution
Xero Ltd	3.1	0.6
Rea Group Ltd	2.5	0.4
Seek Ltd	2.5	0.3
Virgin Money Uk Plc	1.2	0.3
Pinnacle Investment Management Group Ltd	1.5	0.3

Major detractors (%)

As at 31/12/2020	Active pos.	Contribution
Afterpay Ltd	- 3.9	- 0.9
Evolution Mining Ltd	1.6	- 0.8
Temple &Webster Pty Ltd	1.7	- 0.8
Megaport Ltd	1.4	- 0.6
Altium Ltd	2.4	- 0.6

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.

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Market performance

Australian equities advanced strongly over the last quarter of 2020. A supportive Federal budget, coupled with accommodative monetary and fiscal support, propped-up domestic equities. Moreover, positive news around the development of a COVID-19 vaccine boosted investor sentiment. Joe Biden's victory in the US elections and expectations of a swifter economic recovery further supported stock markets. At a sector level, energy and financials gained the most, given the rotation towards value-led stocks amid prospects of an upturn in the business cycle in anticipation of a vaccine-led recovery in economic activity. The Reserve Bank of Australia (RBA) cut interest rates to record low levels and committed to maintaining a supportive monetary policy. Various economic indicators released over the quarter showed signs of an improvement, aided by easing restrictions in most parts of the country. Australia's GDP rebounded sharply in the quarter ending September. Both consumption and investment spending strengthened, offset by weaker net exports. The National Australia Bank's business confidence index rose, marking its fourth consecutive monthly gain. The business conditions index also improved in November. The Westpac-Melbourne Institute's consumer sentiment index continued to climb for the fourth straight month to a ten-year high as consumers became more optimistic about the country's economic recovery. Retail sales growth for October beat expectations as the second-most populous state of Victoria emerged from a COVID-19-induced lockdown. Elsewhere, the unemployment rate slid marginally in November, as the state of Victoria joined the economic recovery.

Fund performance

The Fund delivered healthy returns but underperformed the index over the fourth quarter of 2020, amid extreme market exuberance. Positive news flows about the efficacy of COVID-19 vaccines prompted a rotation away from growth-oriented and quality-led technology and consumer-led names that had performed well so far. Encouragingly, preferred holdings in companies with structural growth opportunities contributed to performance.

Market rotation led to profit taking

Amid a rotation away from growth stocks, software developer Altium and data service provider Megaport came under pressure. Shares in artificial intelligence (AI) service provider Appen slid after it lowered its profit guidance as some of its key US-based customers have delayed projects in light of a resurgence in COVID-19 cases. Likewise, gold miner Evolution Mining, online retailer Temple & Webster and respiratory equipment manufacturer Fisher & Paykel, which registered strong gains during the pandemic, fell out of favour. Fund manager Magellan Financial Group declined after its flagship fund, which is widely considered a proxy for quality stocks, witnessed outflows in December. Not holding Afterpay, a buy-now-pay-later model, hurt performance as its shares rose after it was included in the top bracket of large-cap Australian stocks. This COVID-19 momentum-driven business model does not offer any competitive advantage that justifies its sharp valuation premium.

Strong growth outlook lifted contributors

Investors favoured software platform Xero's growth prospects as the company has been

investing heavily in product development and is one of the few players in its category worldwide. The value rotation benefited investment management company Pinnacle, which is registering consistent growth in fund inflows through its affiliates. Elsewhere, an uptick in economic activity led to the outperformance of growth-sensitive holdings such as online property advertisement company REA Group, employment classifieds provider SEEK and building materials manufacturer CSR.

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 valuations have been quite generous in various pockets of quality and momentum stocks, and are moving from all-time lows in value or transition names. 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 on looking for companies with reasonable valuations and sustainable quality businesses, as well as those that can maintain free cash flow yields.

[fidelity.com.au](https://www.fidelity.com.au)



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