

Fidelity Future Leaders Fund

Quarterly report

As at 31/12/2022

Fund description

Invests in 40-70 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\$767.24M
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 (%)

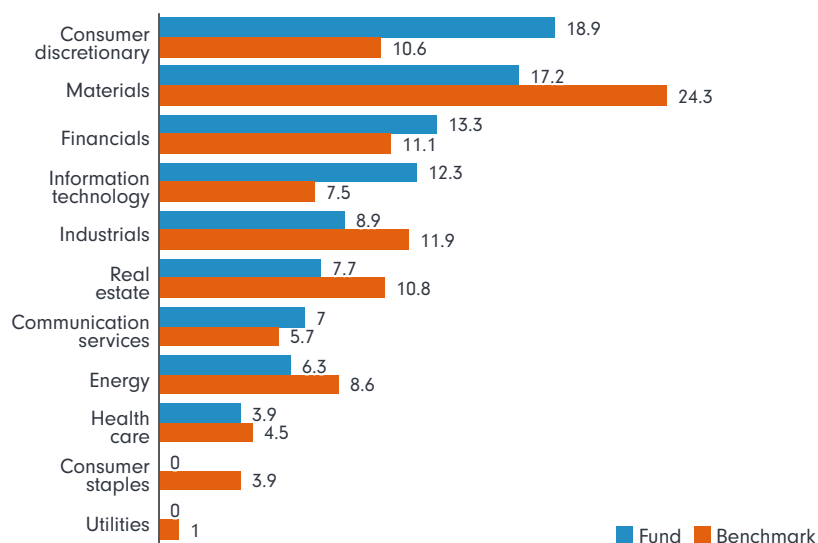
	Fund	B'mark
Altium Ltd	5.2	0.9
Orica Ltd	3.8	1.4
Evolution Mining Ltd	3.8	1.1
Steadfast Group Ltd	3.8	1.2
Als Ltd	3.8	1.2
Idp Education Ltd	3.6	1.2
Pwr Holdings Ltd	3.3	0.2
Wisetech Global Ltd	3.2	1.8
Fisher & Paykel Healthcare Corp	3.2	0.7
Vicinity Centres	3.2	1.6

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	-6.05	4.03	7.30	-23.32	0.24	5.11	7.76	10.00
S&P/ASX Mid Small Index	-4.21	7.36	10.08	-12.23	5.81	5.80	9.25	9.34
Excess return	-1.84	-3.33	-2.78	-11.09	-5.57	-0.69	-1.49	0.66
Growth	-6.05	3.99	4.81	-26.7	-1.5	3.11	6.03	8.15
Income	-	0.04	2.49	3.38	1.74	2	1.73	1.85

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 31/12/2022	Active pos.	Contribution
Pwr Holdings Ltd	2.9	0.4
Evolution Mining Ltd	1.0	0.4
Fisher & Paykel Healthcare Corp	1.8	0.4
Als Ltd	2.3	0.3
Liontown Resources Ltd	0.0	0.2

Major detractors (%)

As at 31/12/2022	Active pos.	Contribution
Collins Foods Ltd	2.7	-0.7
Megaport Ltd	1.4	-0.5
Core Lithium Ltd	0.5	-0.4
Rea Group Ltd	2.3	-0.4
Altium Ltd	3.9	-0.3

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 stocks advanced over the quarter amid cautious optimism that we may be nearing the end of the rate hiking cycle. At a sector level, utilities remained the best performer, driven by a takeover bid for sector constituent Origin Energy. The anticipation of China's reopening underpinned a favourable demand outlook for the materials sector and supported its performance. Conversely, the information technology (IT) and healthcare sectors lagged the broader market. Large-cap equities outperformed their mid-cap and small-cap peers. The Reserve Bank of Australia (RBA) raised interest rates by 0.75 percentage points during the quarter and highlighted that the board intends to increase rates further, but it is not on a pre-set course. It continues to monitor the global economy, household spending and wage and price setting behaviour. On the economic front, Australia's GDP for the quarter ending September expanded by 0.6% quarter-on-quarter, falling slightly below market expectations. Consumer spending remained solid, but the pace of growth slowed as higher cost of living and rising rates weighed on spending power. Australia's monthly consumer price inflation slowed to 6.9% over the year to October, amid a weaker rise in food prices. The Westpac-Melbourne Institute's Index of Consumer Sentiment improved slightly to 80.3 in December from 78.0 in November. The improvement was led by increasing confidence that the bulk of the current rate hike cycle may be behind us. However, downside risk to economic growth and inflation remained a key concern. The business confidence index, as measured by the National Australia Bank (NAB), turned negative in November to -4 index points amid concerns over a weak global economic outlook. The Judo Bank Australia manufacturing Purchasing Managers' Index (PMI) remained in expansionary territory in December, but the rate of expansion continued to moderate, reflecting a slowdown in economic activity. The unemployment rate remained steady at 3.4% in November, while the participation rate increased to 66.8%, depicting a tight labour market.

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Fund performance

The Fund delivered positive results but underperformed the index over the quarter. Information technology stocks remained out of favour over the three-month period, and our preferred positions came under pressure.

Short-term weakness amid detractors

The holding in on-demand connectivity provider Megaport declined as its latest results fell short of market expectations. Nonetheless, its robust business fundamentals support a long runway for growth. Shares in restaurant franchise operator Collins Foods declined as it delivered subdued results. Investors were disappointed by its weak margin guidance amid building cost pressures and weakness at its Taco Bell business. The position in online real estate portal REA Group declined amid a dim outlook for listings against the backdrop of weak industry trends in an environment of rising interest rates.

Selected materials holdings declined

Lithium miners slid amid concerns about peak pricing and valuation premiums as the weakening global economic growth outlook undermined investor confidence. This hurt the holding in lithium producer Core Lithium. Conversely, gold miner Evolution Mining rose in line with gold prices and a favourable demand outlook for the commodity. Its robust balance sheet and quality gold exposure hold it in good stead.

Structural growth winners added value

The conviction quality allocation to automobile parts manufacturer PWR Holdings and diversified testing service provider ALS proved rewarding. Both positions enjoy a favourable long-term structural growth outlook. The quality holding in medical device manufacturer Fisher & Paykel Healthcare advanced as it posted in-line results, which indicated a resumption in its post Covid-19 business growth.

Fund positioning

We follow a rigorous process and disciplined approach, where the viability, sustainability and credibility of the business model remain the pillars of success. The focus is on bottom-up stock selection to find sustainable quality names as well as fundamentally strong cyclicals with strong cash flows at reasonable valuations. During the quarter, we continued to strengthen the exposure to companies that are likely to be long-term winners, where

valuations remain reasonable.

Outlook

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. Inflationary pressures are arising from rising labour costs, higher energy prices, supply side disruptions and an end to the era of low-cost debt. Nevertheless, consumers in Australia have been resilient, broadly supported by robust household balance sheet and strong employment. However, the prospective outlook is weak as higher rates and inflation are likely to weigh on spending trends. Higher mortgage payments will likely pressure disposable incomes; and weaker housing market and asset value can curtail consumption. The business cycle continues to adjust as companies absorb higher rates and tighter economic conditions. A shift towards lower business investment also is likely to weigh on the current positive economic conditions. Volatility in equity markets continue and valuation discipline remains crucial in investment decision making. The Fund is positioned to include high quality and growth names with strong market structures, visible outlook and unique services, which will enable them to sustain margins and deliver earnings despite increasing economic pressures. The Fund remains balanced with a blend of strong positions in technology, electric vehicle resources, consumer names with global growth or defensive properties, and exposure to financials, energy, real estate and global industrials. Some critical considerations over the near term include pricing power (given rising input costs, inflation, and tight labour markets); sustainability (as credit costs rise and competitive pressures intensify); valuation discipline (given there are high asset prices in many sectors) and duration (what is really driving company growth - is it cyclical or structural). Bottom-up stock picking remains crucial; and viability, sustainability and credibility will be the 'pillars of success'.

Signatory of:



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