

# Fidelity Future Leaders Fund

## Quarterly report

As at 30/06/2022

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### 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\$799.23M  
**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 (%)

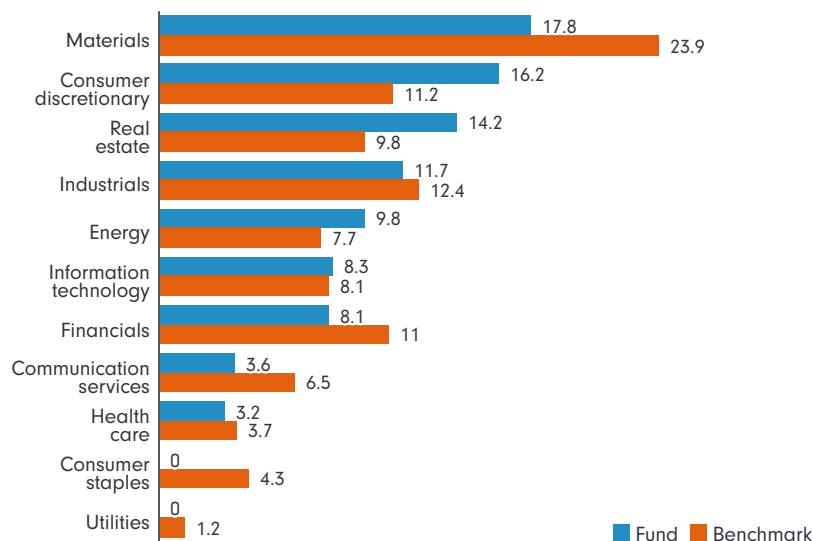
	Fund	B'mark
Vicinity Centres	4.3	1.6
Ampol Ltd	4.1	1.8
Altium Ltd	3.8	0.7
Auckland Intl Arpt Ltd	3.8	0.3
Igo Ltd	3.5	1.5
Als Ltd	3.4	1.2
Collins Foods Ltd	3.2	0.2
Viva Energy Group Ltd	2.8	0.5
Atlas Arteria Ltd	2.8	1.7
Charter Hall Group	2.7	1.1

### 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	-12.43	-20.61	-28.53	-20.62	-0.61	7.19	9.12	9.72
S&P/ASX Mid Small Index	-11.66	-17.50	-20.27	-14.10	4.11	6.63	8.87	8.72
<b>Excess return</b>	<b>-0.77</b>	<b>-3.11</b>	<b>-8.26</b>	<b>-6.52</b>	<b>-4.72</b>	<b>0.56</b>	<b>0.25</b>	<b>1.00</b>
Growth	-12.43	-22.16	-30.07	-22.42	-1.81	5.46	7.35	8.06
Income	-	1.55	1.54	1.8	1.2	1.73	1.77	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 %



### Major contributors (%)

As at 30/06/2022	Active pos.	Contribution
Vicinity Centres	2.3	0.4
Viva Energy Group Ltd	1.3	0.3
Collins Foods Ltd	2.4	0.3
Auckland Intl Arpt Ltd	3.1	0.2
Lake Resources NI	-0.4	0.2

### Major detractors (%)

As at 30/06/2022	Active pos.	Contribution
Breville Group Ltd	2.4	-0.4
Pilbara Minerals Ltd	1.8	-0.4
Evolution Mining Ltd	1.3	-0.4
Igo Ltd	2.4	-0.4
Imdex Limited	2.1	-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](http://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.

# Quarterly report

## Market performance

Australian equities declined during the quarter as investors remained cautious about rising inflationary pressures and subsequent monetary tightening, as well as a deteriorating economic growth outlook. The Reserve Bank of Australia (RBA) raised interest rates by 0.75 percentage points during the quarter, which was larger than expected and warranted further rate hikes amid rising inflationary pressure. Large-cap companies outperformed their mid-cap and small-cap peers. Information technology remained the worst performer amid valuation multiple de-ratings for growth stocks globally. Materials declined amid weaker industrial metal prices and rising cost pressures, and rising rates were a headwind for the real estate sector. Consumer discretionary also declined as increasing inflationary pressure dimmed investor sentiment. Australia concluded its Federal election in May, with the Labor Party's victory. On the economic front, Australia's GDP for the quarter ending March expanded by 0.8%, driven broadly by the rise in household consumption and government spending. Retail sales beat market forecasts and increased in May, broadly due to increased spending on eating out and departmental stores. The unemployment rate remained firm at 3.9% in May, the lowest level in almost 50 years, while the participation rate remained at a record high of 66.7%. However, the Westpac-Melbourne Institute's Index of Consumer Sentiment declined to 86.4 in June from 90.4 in May. Concerns over rising inflation and the increase in interest rates, coupled with a weaker economic outlook, undermined consumer confidence. Australia's business confidence index, as measured by the National Australia Bank (NAB), fell 4 points to +6 points in May, just above the long-run average. NAB noted that business confidence remained healthy but highlighted the risk from higher inflation and increased interest rates for businesses. The S&P Global Australia manufacturing Purchasing Managers' Index remained in expansionary territory in May, supported by strong domestic and foreign demand conditions.

## Fund performance

Selected materials holdings engaged in the electric vehicle (EV) value chain detracted from returns, while conviction defensive

positions contributed to performance. Lithium prices declined amid market concerns about peak metal pricing as a leading broker highlighted that its supply out-sized demand trends. Consequently, the position in lithium and Pilbara declined. The weakness in lithium prices also led to concerns over related market players engaged in the EV life cycle and impacted holdings in IGO and IMDEX. These companies offer structural growth opportunities and are well placed to gain from favourable demand dynamics in the global EV space. The position in Evolution Mining declined amid a weaker profit outlook for the company. It lowered its production guidance amid a delay at its Red Lake asset and cited inflationary pressures as revised its cost guidance upwards. Elsewhere, the holding in Breville Group declined amid inflation concerns and expectations of weakening consumer spending. It continues to provide attractive long-term structural growth opportunities, driven by deeper penetration into existing markets, coupled with entry into new countries and new product launches. Conviction positions in companies with defensive revenue streams contributed to performance in an environment of rising rates and high inflation. Positions in Collins Foods and Vicinity Centres are further supported by resilient consumer demand trends. The holding in Auckland International Airport is underpinned by expectations of a rebound in travel as economies reopen globally. 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 cyclical with strong cash flows at reasonable valuations. During the quarter, we continued to strengthen the exposure to companies that are long-term winners, where valuations remain reasonable. We increased the exposure to defensive stocks amid an uncertain market environment of rising interest rates, high inflation and concerns over an economic slowdown. A new position was purchased in Worley. Its shares are supported by its exposure to high margin complex green energy projects and its operations are sheltered from the negative impacts of rising rates and high inflation. A new holding was added in Ampol and the exposure to Viva Energy was increased. Both companies have defensive earnings stream and are well placed to benefit from an earnings recovery

following Covid disruptions. A new position was bought in toll road operator Atlas Arterial as a defensive play. The allocation to Netwealth was increased as it offers long-term structural growth opportunities. We took some profits by reducing the exposure to Allkem, Oz Minerals, and lithium and Pilbara Minerals following their strong share price performance.

## Outlook

The RBA increased its benchmark interest rates sooner than expected and by a larger than anticipated margin as inflation in Australia surged past multi-decade highs. Inflationary pressures are arising from rising labour costs, higher commodity prices, supply side disruptions and an end to the era of low-cost debt. The ensuing risk-off sentiment has resulted in equity markets trending downwards, with investors becoming acutely focused on valuations. Nevertheless, consumer demand has remained resilient given strong households balance sheets and pent-up demand for discretionary consumption. However, the potential impact of increasing interest rates on household spending trends needs to be closely monitored as mortgage payments weigh on disposable incomes. Rising rates are also cooling down the housing market and asset value, which can curtail consumption. In the current market backdrop, low-beta names and defensives are exhibiting strong price performance. As such, the portfolio will likely remain balanced between a blend of quality at reasonable price, defensives, industrials and resources. Australia's favourable exposure to lithium, copper and nickel mines, which are crucial in the EV supply chain, favours a structural and opportunistic growth outlook, despite recent market concerns over their peak pricing and valuation. Some of the crucial considerations over the next 12 months include pricing power (given rising input costs, inflation, tight labour markets); sustainability (as credit costs rise and competitive pressures intensify); valuation discipline (given there are either high or record asset prices in many sectors) and duration (what is really driving company growth - is it cyclical or structural?). Bottom-up stock picking remains critical as valuation discipline returns across the market.

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