

# Fidelity Future Leaders Fund

## Quarterly report

As at 30/06/2023

### 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\$743.64M  
**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 (%)

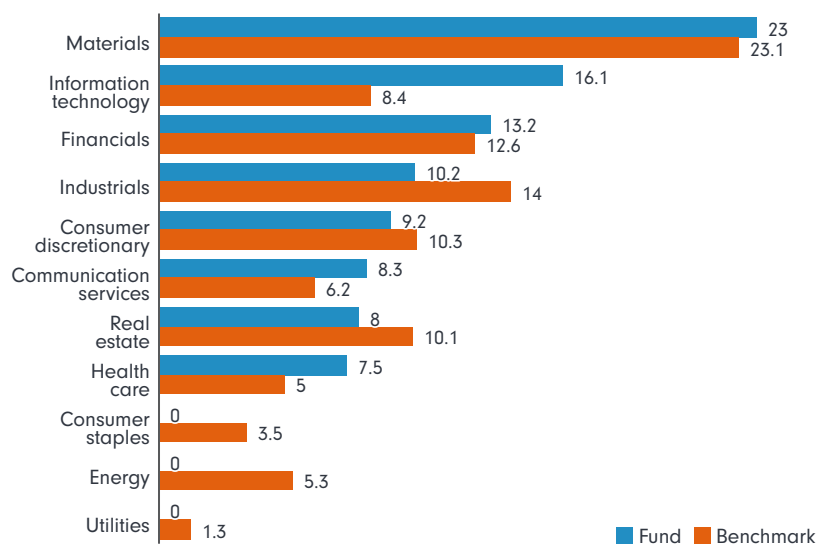
	Fund	B'mark
Wisetech Global Ltd	5.0	2.8
Igo Ltd	4.8	2.1
Allkem Ltd	4.6	1.9
Altium Ltd	4.5	0.9
Rea Group Ltd	4.0	1.5
Steadfast Group Ltd	4.0	1.3
Orica Ltd	3.9	1.4
Aub Group Ltd	3.3	0.6
Carsales.com Ltd	3.0	1.8
Pro Medicus Ltd	2.9	0.7

### 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	0.87	2.78	7.14	14.96	3.69	4.72	8.11	10.24
S&P/ASX Mid Small Index	0.58	2.13	3.04	13.44	9.43	5.66	8.49	9.18
<b>Excess return</b>	<b>0.29</b>	<b>0.65</b>	<b>4.10</b>	<b>1.52</b>	<b>-5.74</b>	<b>-0.94</b>	<b>-0.38</b>	<b>1.06</b>
Growth	0.87	2.7	6.66	11.79	1.79	2.73	6.33	8.43
Income	-	0.08	0.48	3.17	1.9	1.99	1.78	1.81

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 30/06/2023	Active pos.	Contribution
Allkem Ltd	1.7	0.5
Megaport Ltd	0.9	0.5
Wisetech Global Ltd	2.4	0.4
Igo Ltd	2.2	0.3
Pinnacle Investment Management Group Ltd	1.4	0.3

### Major detractors (%)

As at 30/06/2023	Active pos.	Contribution
Idp Education Ltd	1.2	-0.4
Imdex Limited	1.5	-0.3
Gold Road Resources Ltd	0.5	-0.3
Agl Energy Ltd	-1.1	-0.3
Lovisa Holdings Ltd	1.2	-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 advanced over the quarter. The information technology (IT) sector delivered solid gains in line with the strength in their Wall Street peers. This was broadly driven by optimistic growth prospects for companies involved in artificial intelligence (AI). The consumer discretionary sector was weighed down by recessionary fears, while the materials sector was negatively impacted by demand concerns from China. Mid-cap equities outperformed their large-cap peers. The Reserve Bank of Australia (RBA) raised interest rates by 0.50 percentage points during the quarter. The board noted that although inflation in Australia has passed its peak, the decision was based on its focus to return inflation to target levels within a reasonable timeframe, and indicated that further tightening measures may be warranted. On the economic front, Australia's GDP for the March quarter eased further, increasing slightly by 0.2% quarter-on-quarter vs. 0.5% quarter-on-quarter in the December quarter. Weakness in household consumption drove the bulk of the slowdown as cost-of-living pressures weighed on real disposable incomes. Australia's monthly Consumer Price Index (CPI) indicator rose by 5.6% year-on-year in May 2023 vs. 6.8% year-on-year in April, reflecting a clear downtrend in inflation, but still above the RBA's target range. The Westpac-Melbourne Institute's Index of Consumer Sentiment rose slightly to 79.2 in June from 79.0 in May. Sentiment has steadied near recession lows, with inflation being a dominant drag on confidence. The business confidence index, as measured by the National Australia Bank (NAB), remained in negative territory. Forward orders fell sharply, particularly from the consumer sector in both retail and wholesale. Australian retail sales came in stronger than expected in May, with retailer discounts and promotional activities driving strong sales. Australia's labour market remained strong, with the unemployment rate decreasing to 3.6% in May, and the participation rate increasing to 66.9%.

## Fund performance

The Fund outperformed the index over the quarter, which contributed to its strong relative performance over the six months and one year periods. Robust stock picking within

materials and an overweight stance in the IT sector contributed to returns. Conversely, selected consumer discretionary holdings held back gains. The IT sector benefited from the broad-based market strength stemming from positive news flows around developments in AI. Thus, our preferred positions in on-demand connectivity provider Megaport and cloud-based end-to-end logistics software provider WiseTech advanced. Megaport also delivered solid corporate results and profit guidance, which led to an earnings upgrade. Positions in lithium miner Leo Lithium, specialty lithium chemicals company Allkem and clean energy miner IGO tracked the strength in lithium prices amid robust structural demand prospects supported by a global decarbonisation theme and a transition to electric vehicles (EVs). These gains were partially offset by the holding in gold miner Gold Road Resources as it lowered its annual production guidance. Its management cited issues related to the availability and utilisation of production drill and blast crews. Nonetheless, the company's structural thesis remains intact. Shares in international student placement provider IDP Education declined. Investor sentiment was subdued after the Canadian government approved four additional English language tests for its visa application programme, which narrows IDP's competitive moat. Meanwhile, the holding in fashion jewellery and accessories retailer Lovisa was pressured amid concerns over the pace of consumer spending. 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. The Fund's exposure to lithium assets were increased amid structural demand prospects, supported by a global transition to EVs. As such, we bought new holdings in lithium miners Leo Lithium and Core Lithium and increased the allocation to Allkem and IGO. Within gold miners, we took some profits in Evolution Mining following its recent strong stock price performance and bought a new holding in Gold Road Resources given its transparent operations, solid balance sheet and consistent cash flow

profile. A new position was purchased in leading self-storage provider National Storage. The real estate investment trust (REIT) is a fundamentally solid company with robust growth prospects supported by a structurally growing theme in storage facilities. We took some profits in electronic circuit board manufacturer Altium and cloud-based end-to-end logistics software provider WiseTech Global following their recent share price rally. Elsewhere, we sold our positions in energy distributor and retailer Ampol and leisure and entertainment company Tabcorp.

## Outlook

The banking crisis in the West and concerns about global economic development have shifted investor focus on re-pricing of risk amid tighter liquidity conditions and a higher cost of debt. Investors' attention has gravitated from short-term earnings to the long-term realities of business models and market structures. Encouragingly, the Australian banking system remains well capitalised, with conservative business activities and strong regulations. On the economic front, consumer confidence has dipped below 2009 levels as increased cost of living amid higher housing costs (in the form of increased mortgages and rent) weighed on the consumer psyche. The drift of data towards softer business investment and employment is likely to create a downward pressure on the economic conditions for the remainder of the year. Thus, against the current market backdrop, companies providing earnings growth and certainty, a visible outlook, sustainable margins and management confidence are likely to be rewarded. The dispersion between valuation of high-growth and low-growth companies has also widened. Thus, the Fund's strategic tilt toward quality (software, healthcare, global consumer services, defensives, insurance brokers) and transition or value (real estate, airports, travel, global industrials, gold) names should provide a higher-than-average growth outlook with a low valuation premium to navigate through a volatile year. Bottom-up stock picking remains crucial; the market is expected to seek and pay a premium for growth, certainty, dividends, asset valuation support and stable cash flow.

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