

# Fidelity Future Leaders Fund

## Quarterly report

As at 31/03/2023

### 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\$761.04M  
**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 (%)

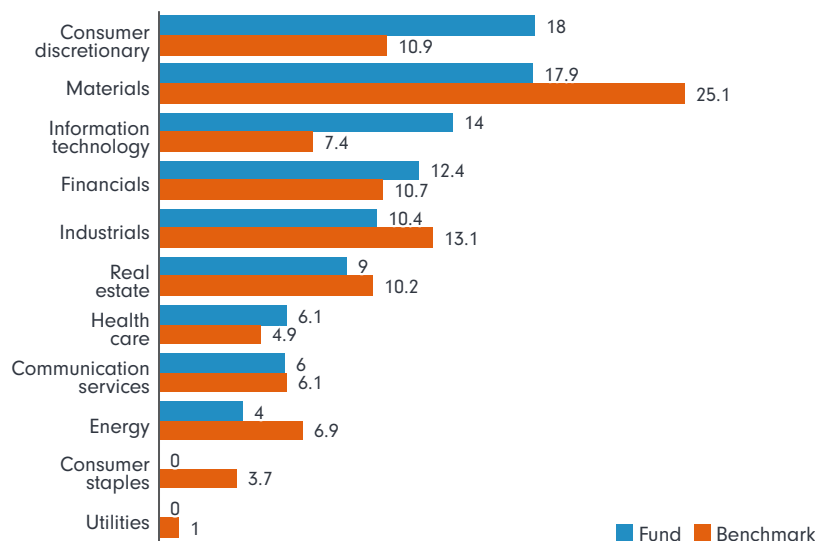
	Fund	B'mark
Altium Ltd	5.7	0.9
Wisetech Global Ltd	5.2	2.3
Steadfast Group Ltd	4.0	1.2
Vicinity Centres	4.0	1.5
Orica Ltd	3.9	1.4
Fisher & Paykel Healthcare Corp	3.8	0.7
Evolution Mining Ltd	3.7	1.2
Igo Ltd	3.5	1.8
Auckland Intl Arpt Ltd	3.3	0.4
Flight Centre Trvl Grp Ltd	3.1	0.6

### 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	-2.20	4.24	8.45	-11.20	9.61	6.37	8.81	10.20
S&P/ASX Mid Small Index	-1.66	0.89	8.32	-8.36	17.79	6.52	9.05	9.19
<b>Excess return</b>	<b>-0.54</b>	<b>3.35</b>	<b>0.13</b>	<b>-2.84</b>	<b>-8.18</b>	<b>-0.15</b>	<b>-0.24</b>	<b>1.01</b>
Growth	-2.2	3.85	8	-15.27	7.63	4.36	7.02	8.36
Income	-	0.39	0.45	4.07	1.98	2.01	1.79	1.84

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 31/03/2023	Active pos.	Contribution
Wisetech Global Ltd	2.0	0.6
Flight Centre Trvl Grp Ltd	2.1	0.5
Whitehaven Coal Ltd	-1.5	0.5
Altium Ltd	4.5	0.5
Fisher & Paykel Healthcare Corp	2.7	0.5

### Major detractors (%)

As at 31/03/2023	Active pos.	Contribution
Liontown Resources Ltd	-0.6	-0.5
Charter Hall Group	1.9	-0.3
Lifestyle Communities Ltd	1.1	-0.2
Megaport Ltd	0.6	-0.2
Dominos Pizza Enterprises Ltd	-0.1	-0.2

**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. Overall positive investor sentiment associated with improving corporate results, low energy prices and the reopening of China supported market performance. Heightened stress in western financial banks capped some gains, but markets bounced back as fears of a wider banking crisis ebbed. At a sector level, consumer discretionary remained the best performer, supported by strong gains in cyclical retailers. Communication services and consumer staples also outperformed, while financials 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 0.50 percentage points during the quarter and highlighted that the board expects further monetary tightening, with the timing and pace dependent on global economic developments, household spending, and the outlook for inflation and the labour market. On the economic front, Australia's GDP for the December quarter was weaker than expected, with real GDP rising by 0.5% quarter-on-quarter. Weaker consumer spending amid high inflation and interest rates resulted in a slowdown in growth. Australia's inflation slowed slightly in February, with the monthly Consumer Price Index rising 6.8% year-on-year from 7.4% year-on-year in January. This marks the second consecutive month of lower inflation rate, indicating that inflation may have peaked in the country. Australian retail sales came in stronger than expected in February, though they slowed from the previous month. Food retail contributed to the increase, while spending on household goods remained weak. The Westpac-Melbourne Institute's Index of Consumer Sentiment remained at a historic low of 78.5 in March. High interest rates, inflation and the economic outlook continues to weigh on sentiment, while confidence in the labour market has also started to weaken. The business confidence index, as measured by the National Australia Bank, fell back to negative territory amid uncertainty around the global economic outlook. Leading indicators, including forward orders and capacity utilisation, eased. The unemployment rate decreased to 3.5% in February, while the participation rate increased to 66.6%.

## Fund performance

Since inception, we have maintained a consistent portfolio construction approach, which leads to a natural tilt towards quality. Simultaneously, we have been cautious about intensifying global debt burdens and its impact on the cost of capital from a long-term perspective. As the global investor community aligned with this view, the search for quality intensified. Against this backdrop, the Fund's persistent conviction in quality supported the outperformance. Preferred holdings in Altium and WiseTech Global contributed to returns. Investors widely appreciated these stocks as they delivered solid results and reaffirmed their outlook in an uncertain market environment. The position in Fisher & Paykel Healthcare also advanced as it upgraded its full-year revenue guidance amid increased Covid-19 related sales of its hospital hardware and consumables in China. Investors preferred shares in REA Group as it remains a long-term compounder with robust margins, significant cash flows and an under-gearred balance sheet. Not holding Whitehaven Coal enhanced relative returns. Shares slid in line with declining thermal coal prices. An improving sentiment towards China and an expected travel rebound supported the position in Flight Centre Travel Group. It also reported strong corporate earnings and announced the acquisition of Scott Dunn, which was well received by the market. The holding in Collins Foods advanced. A decline in real income has shifted consumer dynamics with an increased preference for fast food outlets to cafes and restaurants. Market enthusiasm was also backed by its plans to expand its presence in the Netherlands. 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. A new position was purchased in CSR. It as a stable market position and continues to benefit from active end market activities. We also bought a new holding in Domino's Pizza Enterprises. The correction in its share price reflects attractive earnings improvement prospects as cost pressures are expected to subside. An expected decline in disposable incomes

should aid consumer preference for fast food, making it a defensive opportunity. The allocation to quality holdings in Pro Medicus was increased. Pro Medicus' growth outlook is supported by its expanding share in the US imaging software market. The company has sticky revenue streams linked to US test volumes, coupled with long-term contract wins across prestigious health care institutions. The allocation to Pinnacle Investment Management was trimmed. The holding in PWR was reduced amid valuation concern.

## Outlook

The recent 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, while Australia's business conditions and retail sales are weakening, they still remain strong. However, we remain cognisant that a drift towards softer business investment and employment will likely create downward pressure in the current favourable economic environment. Consumer confidence has already dipped below 2007 levels as increased cost of living amid higher housing costs (increased mortgages/rent) weighed on the consumer psyche. Thus, against the current market backdrop, companies providing earnings growth and certainty, a visible outlook, sustainable margins and management confidence are rewarded. The dispersion between valuation of high-growth and low-growth companies has also widened. Thus, the portfolio'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 will seek and pay a premium for growth, certainty, dividends, asset valuation support and stable cash flow.

Signatory of:



[fidelity.com.au](http://fidelity.com.au)

**This document is intended as general information only. Prior to making any investment decision, retail investors should seek advice from their financial adviser. Please remember past performance is not a guide to the future.** This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ("Fidelity Australia"). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. This document has been prepared without taking into account any person's objectives, financial situation or needs. You should also consider the relevant Product Disclosure Statements ("PDS") for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 044 922 or by downloading it from our website at [www.fidelity.com.au](http://www.fidelity.com.au). The relevant Target Market Determination (TMD) is available via [www.fidelity.com.au](http://www.fidelity.com.au). This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. You should consider these matters and seeking professional advice before acting on any information. While the information contained in this document has been prepared with reasonable care, to the maximum extent permitted by law, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. Past performance information provided in this document is not a reliable indicator of future performance. The document may not be reproduced or transmitted without the prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is Fidelity Australia. © 2023 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.