

# Fidelity Future Leaders Fund

## Quarterly report

As at 30/09/2022

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### 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\$764.91M  
**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 (%)

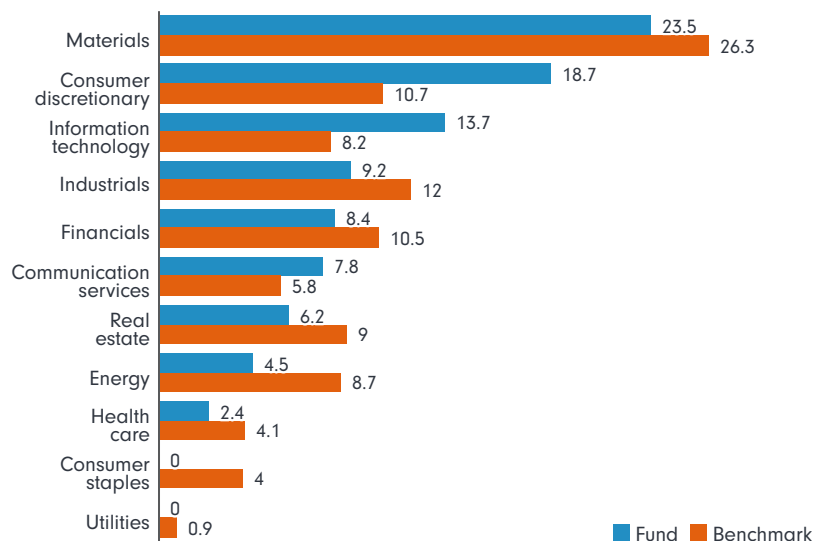
	Fund	B'mark
Igo Ltd	5.8	2.0
Pilbara Minerals Ltd	5.0	2.6
Altium Ltd	4.6	0.9
Rea Group Ltd	4.0	1.3
Allkem Ltd	3.5	1.8
Idp Education Ltd	3.5	1.2
Wisetech Global Ltd	3.3	2.0
Als Ltd	3.3	1.1
Collins Foods Ltd	3.1	0.2
Charter Hall Group	3.0	1.2

### 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	-8.47	3.13	-18.12	-22.91	-0.45	7.14	9.31	9.81
S&P/ASX Mid Small Index	-9.23	2.53	-15.40	-15.06	3.87	6.83	9.62	8.76
<b>Excess return</b>	<b>0.76</b>	<b>0.60</b>	<b>-2.72</b>	<b>-7.85</b>	<b>-4.32</b>	<b>0.31</b>	<b>-0.31</b>	<b>1.05</b>
Growth	-8.47	0.79	-21.55	-26.28	-2.18	5.11	7.55	7.93
Income	-	2.34	3.43	3.37	1.73	2.03	1.76	1.88

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 30/09/2022	Active pos.	Contribution
Pilbara Minerals Ltd	1.4	1.2
Igo Ltd	2.7	1.1
Altium Ltd	3.6	0.9
Pwr Holdings Ltd	2.2	0.5
Avz Minerals Ltd	-0.4	0.5

### Major detractors (%)

As at 30/09/2022	Active pos.	Contribution
Whitehaven Coal Ltd	-1.4	-0.9
Viva Energy Group Ltd	0.8	-0.5
Restaurant Brands Nz Ltd	1.1	-0.5
Collins Foods Ltd	3.0	-0.4
Flight Centre Trvl Grp Ltd	1.8	-0.4

**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 stocks increased during a quarter that was marked by a global equity market selloff. Gains in the first two months of the quarter were capped by investor concerns over a hawkish US Federal Reserve and a worsening global economic outlook towards the end of the period. At a sector level, energy remained the best performer, led by strength in coal prices and a bumper interim dividend declared by sector giant Woodside Energy. The defensive healthcare sector also rose. However, utilities remained the worst performer as investors materially derated the sector. Mid-cap equities outperformed their large-cap and small-cap peers. The interest rate-sensitive real estate sector also lagged the market. The Reserve Bank of Australia (RBA) raised interest rates by 1.50 percentage points during the quarter and indicated that further hikes would be guided by incoming data and the outlook for inflation and the labour market. On the economic front, Australia's GDP for the quarter ending June expanded by 0.9%. Growth was led by strong household consumption, notably from spending on services, including hotels, cafes and restaurants, transport services and recreation and culture. Australia released its first monthly inflation indicator, which depicted a slight easing of inflation to 6.8% in August from 7.0% in July, broadly driven by a decrease in prices for automotive fuel. The Westpac-Melbourne Institute's Index of Consumer Sentiment rose to 84.4 in September from 81.2 in August. The marginal improvement was led by the strength in the labour market, despite rising interest rates and inflation headwinds. Retail sales topped forecasts and continued to increase in August, broadly driven by strong demand for household goods and dining out services. The business confidence index, as measured by the National Australia Bank (NAB), continued to rebound from June lows and reached +10 points in August. NAB noted that demand remained robust in August, with strong capacity utilisation and positive near-term outlook as forward orders rose. The unemployment rate increased marginally to

3.5% in August, but remained at historically low levels.

## Fund performance

### Renewed uptrend in lithium prices supported selected EV players

Lithium prices reached record levels as supportive electric vehicle (EV) policies globally continued to underpin demand, while recent heat wave driven power cuts in China negatively impacted supply in an already tight market environment. Consequently, a renewed uptrend in lithium prices led holdings in lithium and tantalite mining company Pilbara Minerals, clean energy focused miner IGO and specialty lithium chemicals company Allkem higher.

### Robust earnings underpinned selected positions

Conviction quality positions proved rewarding, as evidenced by the allocation to automobile parts manufacturer PWR Holdings and electronic circuit boards manufacturer Altium. These long-term structural growth compounders with strong outlooks have robust market shares and product offerings, which was reaffirmed by their solid results during the recent reporting season. Strong earnings also supported the performance of fast fashion jewellery retailer Lovisa Holdings. Lovisa exhibits encouraging structural growth prospects, underpinned by its scalable business model with high returns on capital, low capital investment and significant store rollout opportunities.

### Short-term weakness amid detractors

The lack of exposure to coal miner Whitehaven Coal held back relative returns as its shares advanced in light of surging coal prices. The manager continues avoid the stock given its less favourable sustainability backdrop. Fuel refiner and retailer Viva Energy declined amid concerns over peak margins. Elsewhere, inflationary pressures and a weak macroeconomic backdrop weighed on selected consumer discretionary holdings, including restaurant franchise operator Restaurant Brands New Zealand and restaurant franchise operator Collins Foods.

## 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, as evidenced by buoyant restaurants, traffic, theatres and travel activity. However, the prospective outlook is weak as higher rates and inflation are likely to weigh on spending trends. Higher mortgage payments is expected to pressure disposable incomes; and weaker housing market and asset value can curtail consumption. Companies delivered solid results during the August 2022 reporting season; however, earnings expectations have weakened amid rising cost pressures and increasing competition. As such, valuation discipline has become crucial in investment decision making. The investment portfolio is positioned to include high quality and growth names with strong market structures, visible outlook and unique services, which should 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 should be the 'pillars of success' over the next 12 months.

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