

# Fidelity Future Leaders Fund

## Quarterly report

As at 30/09/2023

### 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\$718.12M  
**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 (%)

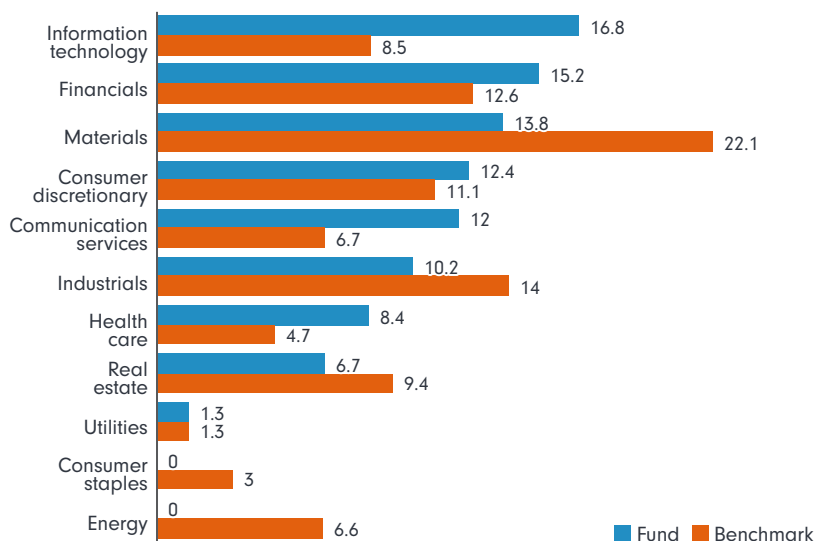
	Fund	B'mark
Carsales.com Ltd	4.9	2.1
Rea Group Ltd	4.5	1.6
Altium Ltd	4.4	1.1
Pro Medicus Ltd	4.3	0.9
Steadfast Group Ltd	3.9	1.2
Igo Ltd	3.3	1.7
Hub24 Ltd	3.2	0.5
Aub Group Ltd	3.0	0.6
Megaport Ltd	2.9	0.4
Worley Ltd	2.9	1.3

### Performance %

	1 mth	3 mth	6 mth	1 yr	3 yrs p.a.	5 yrs p.a.	7 yrs p.a.	10 yrs p.a.	Since Inception p.a (22/07/2013)
Fidelity Future Leaders Fund	-6.04	-0.73	2.03	10.65	1.56	3.95	7.23	9.46	9.89
S&P/ASX Mid Small Index	-4.34	-1.80	0.30	8.64	6.89	4.77	7.06	8.37	8.75
<b>Excess return</b>	<b>-1.70</b>	<b>1.07</b>	<b>1.73</b>	<b>2.01</b>	<b>-5.33</b>	<b>-0.82</b>	<b>0.17</b>	<b>1.09</b>	<b>1.14</b>
Growth	-6.04	-1.2	1.47	9.58	-0.35	2.45	5.46	7.63	8.09
Income	-	0.47	0.56	1.07	1.91	1.5	1.77	1.83	1.8

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 30/09/2023	Active pos.	Contribution
Megaport Ltd	2.1	0.9
Pro Medicus Ltd	2.4	0.7
Hub24 Ltd	2.3	0.6
Altium Ltd	3.2	0.5
Carsales.com Ltd	2.0	0.4

### Major detractors (%)

As at 30/09/2023	Active pos.	Contribution
Leo Lithium Ltd	1.6	-1.0
Allkem Ltd	1.9	-0.6
Igo Ltd	2.0	-0.4
Ampol Ltd	-1.6	-0.3
Seven Group Holdings Ltd	-0.8	-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 declined over the quarter. The higher for longer interest rate indication from the US Federal Reserve's (Fed) drove bond yields to multi-year highs and negatively impacted equity market performance. As such, rate-sensitive information technology (IT) and real estate sectors declined. The energy sector posted notable gains as oil prices rallied due to persistent supply concerns following the announcement of extended production cuts by Saudi Arabia and Russia until the end of the year. Large-cap equities outperformed their mid-cap and small-cap peers. The Reserve Bank of Australia (RBA) held its cash rate steady at 4.10% during the quarter as it took the time to assess the impact of the tightening it has already delivered. The board noted that although inflation in Australia has passed its peak, the focus is 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 June quarter increased modestly by 0.4% quarter-on-quarter. Household consumption growth continued to slow as cost-of-living pressures weighed on real disposable incomes. The August monthly Consumer Price Index (CPI) indicator rose by 5.2% year-on-year, in line with market expectations. The rise in crude oil prices was a major driver of inflation, while the cost of food and rent also increased. The Westpac-Melbourne Institute's Index of Consumer Sentiment remained deeply pessimistic at 79.7 in September. While fears of rising interest rates eased, consumers remain worried about family finances amid rising rent, petrol prices and cost of electricity. Retail sales in Australia increased modestly in August and came in below market

expectations as consumers cut back spending on food and clothing amid increasing cost of living pressures. The business confidence index, as measured by the National Australia Bank (NAB), edged up in August but remained below historical averages. The retail sector continues to be a major drag on confidence. Australia's labour market remained steady in August, with the unemployment rate at 3.7%. The participation rate increased to 67.0%.

## Fund performance

Our conviction in the portfolio's quality holdings across sectors underpinned consistent outperformance despite a volatile quarter. Holdings in financial services company Hub24 and automotive classifieds business Carsales.com were rewarded as they delivered solid results, which reaffirmed their long-term structural growth prospects and strong outlooks. Within the IT sector, the conviction holding in electronic circuit boards manufacturer Altium continued to add value. It was a clear winner during the August reporting season, as it delivered better-than-expected results, exhibiting the robust structural growth of its business and the industry. The position in health imaging technology company Pro Medicus advanced. It announced a record contract win with Baylor Scott & White Health, which led to a significant earnings upgrade and underpinned a robust long-term growth outlook. Our momentum holding in the on-demand connectivity provider enhanced gains as it meaningfully upgraded its FY24 guidance. Weak lithium prices coupled with concerns over broad-based cost pressures in the resources sector weighed on positions in clean energy miner IGO, specialty lithium chemicals company Allkem and lithium miner Leo Lithium.

## Outlook

The equity market outlook remains uncertain

as the Fed's 'higher for longer' narrative has reignited market fears about the pace and trajectory of interest rates and the global economic outlook. The August reporting season in Australia was better than feared, with some very stock-specific share price reactions. Investors rewarded companies that delivered earnings growth and certainty, a visible outlook, sustainable margins, and management confidence. However, they remained cautious over the sustainability of improving expectations. Elsewhere, consumer stocks that have failed to deliver results continue to remain weak. Consumer confidence remains 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. Nonetheless, Australia has not witnessed any material economic weakness. The drift of data towards softer business investment and employment may create downward pressure on the economic conditions for the remainder of the year. The dispersion between valuation of high-growth and low-growth companies has widened and equity market valuation remains in a lower range of historical averages. The portfolio's strategic tilt towards quality (technology, software-based fintech, healthcare, communication services, and insurance) and transition or value (electric vehicle resources, real estate, airports) 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; we believe the market will seek and pay a premium for growth, certainty, dividends, asset valuation support and stable cash flow.

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