



From the desk of

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Welcome to our inaugural update for the Fidelity Global Future Leaders Fund: 'From the desk of James Abela and Maroun Younes'. We started the pilot fund almost a year ago last December, and launched to market in September 2020, so we thought now would be a good opportunity to share some of our thoughts and experiences from the last 12 months. We'll be providing regular updates on the Fund, including performance and positioning, stocks in the universe and interesting insights from future leaders all over the world.

Why global mid-caps?

When we're asked, 'Why global mid-caps?', the answer is simple. The future leaders of tomorrow can be found in global mid-caps today. Peter Lynch famously said, 'Big companies have small moves, small companies have big moves.'¹ Price dispersion outcomes in mid- and small-caps can be large; indeed, it's where we see a lot of the '100-baggers' – stocks that return \$100 for every dollar invested over a 10-year period, usually due to the adoption of an innovative new product, industry leadership, or earnings growth.

Locally, REA group, Australia's largest on-line real estate portal, rose from 10 cents in 2001 to over \$100 today. CSL, an Australian biopharmaceutical and plasma business, has risen from \$12 in 2001 to nearly \$300 and represents a market cap of \$134 billion. The dream of the 100-bagger is not just a dream – it's a reality.

To illustrate this, let's look at the performance of the Fund's current top ten absolute positions over the last ten years (Table 1).

It's important to note this isn't the Fund's performance as it was launched on 28 September 2020, but it does provide a powerful representation of the growth potential for companies in the universe.

It's high-quality, compounding stocks like these that we'll be looking to include in the Fidelity Global Future Leaders Fund. Companies that have strong viability (high ROEs, market penetration and growth options); strong sustainability (unique product or offering, respected by customers and the industry, cash generating, ESG compliant) and strong credibility (accounting and management represent good quality and a fair and true representation of reality).

There's literally a world of opportunities.

Table 1. The power of compounding: Fidelity Global Future Leaders Fund top ten absolute positions

Company	Fund (%)	Sector	Region	Total returns over a decade [^]
VZ Holding	4.4	Financials	Switzerland	415%
Techtronic Industries	4.1	Industrials	Hong Kong	1430%
Icon	3.4	Health care	Ireland	784%
Arthur J Gallagher and Co	3.3	Financials	United States	443%
Sonova	3.3	Health care	Switzerland	122%
Ametek	3.0	Industrials	United States	400%
Leidos Holding	2.9	Information technology	United States	274%
Nice	2.7	Information technology	Israel	626%
DCC	2.6	Industrials	United Kingdom	321%
Evolution Mining	2.6	Materials	Australia	267%

Reference to specific securities is for illustration purposes only and should not be construed as a recommendation to buy or sell these securities.

Source: Fidelity International, Refinitiv DataStream as at 30 September 2020. [^]Calculated on a daily basis from 30 September 2010 – 30 September 2020 in local currency terms. *Since IPO listing. Reference to specific securities should not be taken as recommendations to the investor to buy or sell the same and may not represent actual holdings in the portfolio at the time of viewing. Performance of the security is not a representation of the Fund's performance.

Where are tomorrow's global future leaders?

Currently we're looking at a number of 'future leader' themes for potential buying opportunities to add to our existing holdings:

Table 2. Tomorrow's global future leaders?

Sector	Future Leaders themes	Company examples in the portfolio
Technology	<ul style="list-style-type: none"> ■ Software as a service ■ Data centres and Cloud ■ Subscriber content models ■ Connectivity enablers and 5G ■ Artificial Intelligence 	<ul style="list-style-type: none"> Cadence Arista Networks OBIC
Energy	<ul style="list-style-type: none"> ■ Solar ■ Wind ■ Hydro ■ Geothermal ■ Other Renewable 	
Consumer	<ul style="list-style-type: none"> ■ Online clicks retailers ■ Environmentally conscious ■ Plant-based foods ■ Social gaming ■ Mass market luxury 	<ul style="list-style-type: none"> Moncler Ferrari Best Buy
Financials	<ul style="list-style-type: none"> ■ Fintech services ■ Virtual banking ■ Global exchanges ■ Trust and advisory ■ Customised insurance 	<ul style="list-style-type: none"> CBOE Global Markets Nasdaq VZ Holding AG

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Technology presents a wave of opportunities as the world searches for new ways to increase productivity at the personal, corporate, government and societal levels. There are many trends here, such as artificial intelligence, that will fundamentally change the way we live, work, interact, communicate, transform ideas into products, listen to music and even order food.

While big names such as Facebook, Amazon, Google, Apple and Microsoft dominate the large-cap arena, there are many mid- and small-caps players looking to capitalise on these trends. Semiconductors, outsourced services, online ordering, software as a service, cybersecurity, data centres and electronic design automation are all areas where tomorrow's leaders are still being determined.

Energy is another sector where we're seeing rapid change as the world transitions towards cleaner alternatives. We've seen a number of smaller players in renewables deliver significant returns for investors, a trend which is only likely to increase as high social expectations, concern for the environment across generations and a move by many governments towards zero emissions accelerates the shift.

One of the biggest changes we've seen over the last five years is the shift in consumer behaviour towards online shopping. Be it clothing, music, furniture or food, the way we purchase goods has changed and transformed value chains around the world. Some retailers have embraced the online platform while others have found innovative ways to navigate the threats posed by a host of new entrants. Post-COVID, we may see some of this roll back, but increasingly we're seeing the digitisation of many aspects of consumption and we'll continue to watch closely as future leaders emerge.

Financials is another sector evolving very quickly, particularly in credit, consolidation trends in global exchanges, and trust industries where low-cost scale or personalisation are driving in different directions. The reality is that the needs and beliefs of the millennial generation are very different from the baby boomer generation. Just who the future leaders will be in the next ten years is likely to be dynamic, given the increasing use of technology and the ease of replication in business models (such as 'buy now, pay later').

Up next...

We'll be back later in the year to deliver a brief market wrap and a look at what lies ahead for 2021. Until then, may we deliver returns that improve the financial future of our clients through finding the future leaders of tomorrow, today.

1. One Up on Wall Street. Peter Lynch, John Rothchild. Simon & Schuster, 2000. Information is at 31 October 2020 unless otherwise stated.

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