30 June 2022 – Factsheet

Centuria Lifegoals

Fidelity Future Leaders Fund

Centuria

The Fund seeks to achieve returns in excess of the S&P/ASX Mid Small Index over the suggested minimum investment time period of five to seven years.

Investment manager

FIL Investment Management (Australia) Limited

Investment strategy

The Fund provides investors with the potential for long-term capital growth by investing in a portfolio of listed mid- and small-cap Australian shares. It delivers significant diversification benefits by investing in 40 to 70 Australian companies. Through in house, bottom up company research, Fidelity aims to uncover the opportunities that it believes offer the greatest scope for outperformance.

Target allocation

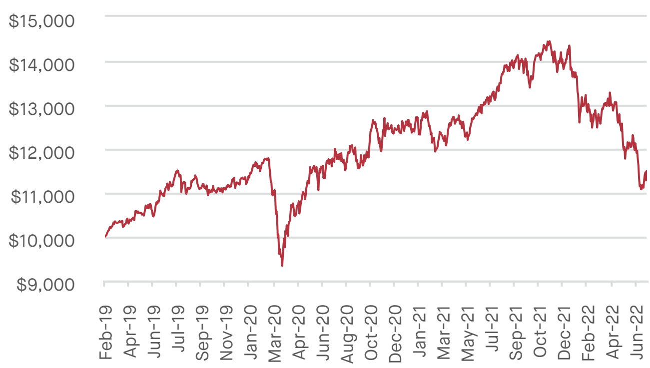
Australian equities	90-100%
Cash	0-10%

Performance returns

RETURNS TO 30/06/2022	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]
Net returns (%)[2]	-6.12%	-12.40%	-19.19%	-12.80%	-0.23%

1. Periods greater than 1 year are expressed in annualised terms.
2. Past performance is not a reliable indicator of future performance.

Performance graph



A $10,000 investment in Centuria Fidelity Future Leaders Fund made at inception is worth $11,494 as of 30 June 2022 after all fees and taxes paid within the Investment Option.

Key features

APIR code	OVS5444AU
Minimum initial investment	$500
Minimum additional investment plan	$100
Minimum switching amount	$500
Minimum balance	$500
Contribution fee	Nil
Annual management fee[1]	1.14%
Suggested timeframe	Minimum 5 years

1. Refer to PDS for fee breakdown.

Fund commentary

Fund performance

Selected materials holdings engaged in the electric vehicle (EV) value chain detracted from returns, while conviction defensive positions contributed to performance. Lithium prices declined amid market concerns about peak metal pricing as a leading broker highlighted that its supply outsized demand trends. Consequently, the position in lithium and Pilbara declined. The weakness in lithium prices also led to concerns over related market players engaged in the EV life cycle and impacted holdings in IGO and IMDEX. These companies offer structural growth opportunities and are well placed to gain from favourable demand dynamics in the global EV space.

The position in Evolution Mining declined amid a weaker profit outlook for the company. It lowered its production guidance amid a delay at its Red Lake asset and cited inflationary pressures as revised its cost guidance upwards. Elsewhere, the holding in Breville Group declined amid inflation concerns and expectations of weakening consumer spending. It continues to provide attractive long-term structural growth opportunities, driven by deeper penetration into existing markets, coupled with entry into new countries and new product launches.

Conviction positions in companies with defensive revenue streams contributed to performance in an environment of rising rates and high inflation. Positions in Collins Foods and Vicinity Centres are further supported by resilient consumer demand trends. The holding in Auckland International Airport is underpinned by expectations of a rebound in travel as economies reopen globally.

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 cyclicals 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. We increased the exposure to defensive stocks amid an uncertain market environment of rising interest rates, high inflation and concerns over an economic slowdown. A new position was purchased in Worley. Its shares are supported by its exposure to high margin complex green energy projects and its operations are sheltered from the negative impacts of rising rates and high inflation. A new holding was added in Ampol and the exposure to Viva Energy was increased. Both companies have defensive earnings stream and are well placed to benefit from an earnings recovery following Covid disruptions. A new position was bought in toll road operator Atlas Arteria as a defensive play. The allocation to Netwealth was increased as it offers longterm structural growth opportunities.

We took some profits by reducing the exposure to Allkem, Oz Minerals, and lithium and Pilbara Minerals following their strong share price performance.

Outlook

The RBA increased its benchmark interest rates sooner than expected and by a larger than anticipated margin as inflation in Australia surged past multi-decade highs. Inflationary pressures are arising from rising labour costs, higher commodity prices, supply side disruptions and an end to the era of lowcost debt.

The ensuing risk-off sentiment has resulted in equity markets trending downwards, with investors becoming acutely focused on valuations. Nevertheless, consumer demand has remained resilient given strong households balance sheets and pent-up demand for discretionary consumption. However, the potential impact of increasing interest rates on household spending trends needs to be closely monitored as mortgage payments weigh on disposable incomes.

Rising rates are also cooling down the housing market and asset value, which can curtail consumption. In the current market backdrop, low-beta names and defensives are exhibiting strong price performance. As such, the portfolio will likely remain balanced between a blend of quality at reasonable price, defensives, industrials and resources.

Australia's favourable exposure to lithium, copper and nickel mines, which are crucial in the EV supply chain, favours a structural and opportunistic growth outlook, despite recent market concerns over their peak pricing and valuation.

Some of the crucial considerations over the next 12 months include pricing power (given rising input costs, inflation, tight labour markets); sustainability (as credit costs rise and competitive pressures intensify); valuation discipline (given there are either high or record asset prices in many sectors) and duration (what is really driving company growth - is it cyclical or structural?). Bottom-up stock picking remains critical as valuation discipline returns across the market.

Disclaimer: this commentary has been directly sourced from Fidelity's quarterly factsheet available on their website.

Contact Information

Ashton Magg

Relationship Manager
Email: ashton.maggs@centuria.com.au

Sean Cole

Relationship Manager
Email: sean.cole@centuria.com.au

Centuria Investor Services | 1300 50 50 50 | enquiries@centuria.com.au | **centuria.com.au**

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