Fund Perspective

Quarterly Update:
Fidelity Global Demographics Fund (Managed Fund)

Oliver Hextall, Portfolio Manager

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Key points

- 2022 was a challenging period for global markets; however, this year offers the prospect of easing inflation and reducing pressure from rate hikes, even if the impact of these changes is yet to be fully felt in economic activity.
- In the Fund we continue to focus on high-quality businesses with long-term, structural support from demographic trends around the world in what remains an uncertain market backdrop.
- We break down the Fund into three main segments: Longer lives, Better lives and More lives.
- Longer Lives is a play on the ageing population globally, which drives increased healthcare needs and creates pressure on healthcare systems worldwide. As a result, we are overweight healthcare in the Fund, with some of our larger holdings in the medical technology segment.
- Better Lives is a play on the emerging middle class through exposure to sectors such as luxury goods, travel, and financial services. This year this area is benefitting from the faster-than-expected re-opening of the Chinese economy.
- More Lives is a play on the growth of the global population and how companies can mitigate the pressure this puts on what are already scarce resources. This theme has been strengthened over recent years as we have seen increasing government support for decarbonisation initiatives across the world.

Fund performance

Performance – Fidelity Global Demographics Fund (Managed Fund) (net of fees)

Standard period excess returns (%)

Net of Fees (%)	3 month	1 year	3 year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
Fund	13.70	4.74	11.03	10.43	14.98
MSCI AC World (NR)	8.65	3.78	11.95	9.87	12.95
Excess returns	**5.05**	**0.96**	**-0.92**	**0.56**	**1.48**

Source: Fidelity International, 31 March 2023. Performance is for Fidelity Global Demographics Fund (Managed Fund). Basis nav-nav, net of fees in AUD terms, with gross income reinvested. Comparative Index: MSCI AC World (NR). Date of inception: 30/11/2012. Totals may not add up due to rounding.

The Fidelity Global Demographics Fund returned 4.74 per cent over the 12 months to the end of March 2023, outperforming its benchmark, which returned 3.78 per cent.

Market backdrop

In 2022, we witnessed several market shocks, with stubbornly high inflation and aggressive rate hikes. Markets also endured geopolitical challenges, such as the war in Ukraine. This year the backdrop is different. For instance, inflationary expectations are moderating and although still a factor, interest rate rises are starting to slow and may peak at some point this year.

Regarding the Fund's positioning, slowing rate rises or falling borrowing costs should reduce the pressure on our longer-term growth holdings relative to last year. However, we also feel that the further tightening measures we have seen thus far will impact economic activity. Banking turmoil in the US and Europe will also likely lead to tighter financial conditions even if it doesn't develop into a full systemic crisis. In these circumstances, our focus on quality businesses with high levels of profitability, strong free cash flow generation and structural top line support should be beneficial. Meanwhile, some of the Fund's previous headwinds – for example, our exposure to Chinese consumer names – are changing course to become tailwinds amid the country's re-opening.

Longer lives – the health of the global population

We are living through a period of unprecedented ageing that will continue for several decades.

In 2022, the United Nations (UN) doubled its probability of the global population peaking this century. A growing elderly population will pressure healthcare systems tremendously and reduce the available workforce in many parts of the world, creating the need for significant productivity improvements.

This plays strongly into our ageing population theme and also automation, which can plug labour supply gaps from a shrinking workforce and deliver cost savings. Notably, we see both labour and general inflation as improving the economics of investing in automation. Following the pandemic, companies are also diversifying their supply chains, bringing some of these closer to home, which is another automation driver.

The Fund has prominent exposure to the healthcare sector, with a specific bias towards medical technology companies, many of which serve the biotech and pharma industries with essential services. Some endured difficult conditions during the pandemic when clinical procedures were deferred, but since then, demand has recovered, but roadblocks, such as inflationary pressures, have remained.

Looking ahead, we believe that inflation-related challenges are receding, and many medical technology names possess resilient and visible top lines. This is an attractive climate for such firms, especially in an uncertain world.

Better lives – growing affluence and consumer quality

Turning to the better lives segment, we see higher middle-class spending in emerging markets, which will be a significant driver for many years. For instance, consumer spending in Asia Pacific is expected to triple in the 15 years to 2030.

From a Fund perspective, there are opportunities in China's re-opening, such as exposure to luxury goods companies, where spending should increase as affluence grows. In addition, financial services and travel-related businesses are in scope, given people can now move freely either for tourism or to visit friends and relatives they haven't seen in several years. This could involve gifting, playing into the luxury goods segment.

At some point, people should resume long-haul travel with Chinese tourists, in particular, returning to popular destinations such as Milan or Paris. In these cities, pre-COVID tourist spending represented around 70-80 per cent of all transactions in some stores.

More lives – the sustainable use of global resources

The third segment, more lives, centres on global population growth. However, this is less about the pace of change than its absolute level. Given expanding populations, we must efficiently use already scarce resources, such as food, energy and water, but we must do this sustainably to ensure something remains for future generations.

This theme has been strengthened over the past few years as we are seeing increasing government support for the transition to a lower-carbon economy, with several significant policies introduced, such as the Inflation Reduction Act in the US.

Within the Fund, we have increased our exposure to auto suppliers which are benefiting from increased content per vehicle on electric vehicles (EV) relative to traditional autos. Auto-production forecasts look manageable despite demand risks, given a low starting base in the wake of supply-chain issues and other roadblocks over the past few years, and valuations of suppliers still look relatively attractive.

Overall, we retain a firm conviction in all these segments, which are long-term in nature and highly visible. The Fund invests in high-quality, resilient businesses that we believe should prosper even if the economy weakens.

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