Fidelity Connects

Aneta Wynimko, Portfolio Manager

Pamela Ritchie, Host

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Voiceover: Hello and welcome to Fidelity Connects – the Fidelity Investments Canada podcast – connecting you to the world of investing and helping you stay ahead.

Today's podcast features Portfolio Manager Aneta Wynimko, who manages Fidelity Global Consumer Industries Fund, for Canadian investors.

In this episode, Aneta will recap some of the biggest changes that impacted consumer markets in 2020 and will discuss what to expect in 2021.

One big change that Aneta outlines to host Pamela Ritchie is that saving rates are at 15%-20% disposable income, which we haven't seen in a long time. This may be due to people worrying about the future or simply not taking their regular vacations.

This podcast was recorded on December 18th, 2020.

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Pamela Ritchie: We all changed this year. For instance, what we value and how we work and in what we consume in terms of goods and services. All of these changes led to opportunity for consumer-oriented companies to innovate and to transform, and for investors to take part in the overall change. On the program today we're going to recap some of the biggest changes that moved consumer markets, discuss what's next. Do we go straight back to old habits while keeping some of the new ones? And what role could consumer companies play in our portfolios? To put the pieces together we're happy to be joined by portfolio manager Aneta Wynimko from London. Aneta manages the Fidelity Global Consumer Industries Fund for Canadian. Globally she also runs a similar mandate which has $1.7 billion in assets under management. Aneta, warm welcome to you. Nice to see you.

Aneta Wynimko: Hello, hello. Very pleased to be here.

Pamela Ritchie: Aneta, let's begin with the future. What do you think we will consume next year and into the future that maybe either will surprise us or not surprise us? What's next?

Aneta Wynimko: I hope next year will be much better for all of us. I think it will be a year of two halves. The first half of the year, we are still going to be dealing obviously with the pandemic but hopefully the second half of the year will be very different. I think we'll be able to socialize, and I think this is what we are missing today in a big way and I expect that we will see that happening globally, people enjoying the human connection.

[03:22]

Pamela Ritchie: That will be nice. I think we all look forward to it. We are obviously in the midst of a holiday season, a crucial season for all kinds of consumer-oriented companies. How are things holding up right now?

Aneta Wynimko: Things are holding up quite well because we all have been saving quite substantially. The saving rates in Europe and in the U.S. are at very high levels, 15-20% of disposable income. We haven't seen that in a long time in the history of consumption. Obviously, a lot of people have saved, a lot of people have saved because maybe they are a bit concerned about the future or maybe because they haven't been able to go on holidays. I think we all want to make each other feel better and loved, so I think this season of gifting is going to be quite big. People are going to be quite generous sending gifts to their loved ones, especially if they don't think it's a good idea to see them in person or they can't see them in person. I think the outlook for the consumption in the immediate future is actually quite positive.

[04:40]

Pamela Ritchie: Are there any examples on the luxury side of thing? It'll often be said that through a recession, in fact, luxury brands tend to hold up. This is a different recession. Everything feels different. Has that tenance continued to march forward?

Aneta Wynimko: Yes. This not a financial crisis. It's a social recession, as someone said, a social crisis. Again, luxury goods are a wonderful way of maybe making yourself feel better by self-gifting or maybe sending someone something special. We all know that those things cost a bit more money, that they preserve their value over time and it's a perfect item to gift. That's why companies, especially those who have been innovating and coming up with good products, are actually doing quite well in this current environment.

[05:41]

Pamela Ritchie: I think when we spoke recently you had an example of the foot traffic discussion – because obviously that has taken a hit – but foot traffic in Harrods, one of the… if you're not in Harrods and you're a tourist in London, even for something little, it's part of the… how has something like that held up?

Aneta Wynimko: I actually spoke to them just this week. Traffic currently in Harrods… they've basically lost all the tourist traffic, but they gained local consumption. Sales are almost flat year-on-year, so you can imagine how much more the local consumers are spending. They're buying watches, they're buying very expensive jewellery, Cartier, Van Cleef is doing really well... We were talking about someone buying whiskey for half a million pounds and this is all to compensate a difficult situation we are in and maybe give someone something special. So they are not doing as well as they would have because obviously all the Chinese tourists, or tourists from the Middle East or the American tourists are not shopping here in London, but they are capturing quite a lot of domestic demand and doing quite well.

[07:05]

Pamela Ritchie: Very interesting. On the supply chain side of things, there are regular items in our lives that we see have actually held up. Are you at all surprised at how well supply chains have held up globally? Or do you think they have?

Aneta Wynimko: They have. They have held up very, very well. Obviously the initial weeks when the pandemic started, we were all afraid there would be shortages basically of everything. We live in a global economy where goods move constantly. Especially the global companies, they have been very good at working from home, at managing the manufacturing in a COVID safe way. So the supply chains have worked really well and have been tested, stress-tested and maybe that's why we are kind of… I am in the UK, in London, and we are living in the uncertainty of Brexit. But I think people are a bit maybe more relaxed than they would have been in case of hard Brexit because we have seen that even in a pandemic the supply chains have worked and everyone had food and everyone was able to get the goods that they needed. So I think that has been a test of globalization in a way and how well it functions.

[08:28]

Pamela Ritchie: Going forward, one of the many pieces of globalization, it seems to be ESG and companies that are global seem to be considering how they can make sure that they're ahead of the game on that front. How important is sustainability to your fund?

Aneta Wynimko: I am spending increasingly more and more time on sustainability, discussing on calls with companies with their sustainability officers, but also the CEOs, the measures that they are taking to make sure that they stay ahead of the game. One of the large positions in the fund, Nestlé, has recently announced that they are going to spend more than $3 billion over five years to substantially improve their sustainability credentials. They will be emissions-free by 2050 and they are going toward more renewable energy. There's really a lot of ambitious things that they are going to do, going as far as trying to help the farmers, the way they manufacture the agriculture products. So there's a lot being done and I'm spending a lot of time thinking and discussing this with companies.

[09:45]

Pamela Ritchie: $3 billion, have you ever heard anything like that? That sounds like a fairly serious investment.

Aneta Wynimko: It's a massive amount of money and it also shows that in today's world, very complex, where you need to stay credible in front of the consumer, you have to do what's needed to say sustainable. It also shows that big companies with the right execution actually are in quite a good position because they can afford to invest so much and those are big investments. I think a lot of companies, those who are maybe not thinking about it today, will have to because regulation will go that way. I'm very comfortable with big companies like Nestlé coming up and saying we're going to spend all this money because I think it just creates an even bigger moat around their business and puts them in a more competitive position versus some maybe smaller brands that are talking a lot about sustainability but they can't really afford to do it in the way Nestlé can do it.

[10:55]

Pamela Ritchie: Very interesting. One of the questions that seems to be everywhere – whether it's the financial world, whatever else – is will we continue to wear jogging pants after this pandemic? The athleisure approach to dressing. People are wearing scarves and various collars to try and be on their Skype calls but jogging pants otherwise. Where does athleisure go when we get out of this?

Aneta Wynimko: Apparently habits get formed only after a few weeks of a situation in which consumers find themselves, and we've been in this situation for almost a year soon. So I'm afraid that we got used to these jogging pants and comfortable sneakers and maybe sometimes more baggy clothes. I think the sportswear trend is here to stay. I don't think we are moving back to men wearing suits and women putting on high heels anytime soon. I think we will stay comfortable, but I think as we move into the next year, it will all become much more fashion driven. I think the combination of streetwear and sportswear is going to become more fashion-driven, and companies which can combine the credibility of being a sportswear brand with coolness and fashion elements are going to do quite well.

[12:22]

Pamela Ritchie: So a bit more fashion laid over the general trend, but sticking with it. It's so interesting. In China, it's a massive consumer market focusing further and further on the domestic market and that's been somewhat planned by the powers that be in China. It wasn't unplanned. But what are you seeing on that front? How do you look for investment there that captures a more domestic market?

Aneta Wynimko: China is obviously of huge interest to me and I do spend quite a lot of time analyzing the Chinese companies, but also the exposure that global companies have to China and the fund benefits from the consumption growth in China in both ways. A lot of the companies that I own, the likes of LVMH, Richemont, L'Oréal or Estée Lauder are very strong in China. They have high exposure. Even though they've lost the tourist business, it has been compensated with very strong growth of the domestic business. They have high competence in terms of online sales, digital communication, so I continue to like that opportunity and continue to invest behind it. On top of that I am finding lots of very interesting smaller Chinese companies – maybe not so small anymore, but when I first look at them they were much smaller. Companies like Li Ning in sportswear. I have a few restaurant companies, which are very specific to the Chinese market but expanding, adding more restaurants and rolling them out. I have quite a lot of exposure to domestic companies. The position sizing in this case tends to be smaller because they're still much earlier in their life, and they maybe haven't been tested as much in terms of more difficult times or consumer preference is changing. So I'm kind of also building my confidence in those companies and their business models. But I find lots of very interesting ideas in domestic China and the fund has a number of them in the portfolio.

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Pamela Ritchie: You mentioned food, more in the context of specific to China. What about food and beverage though?

Aneta Wynimko: In terms of food and beverage I must admit it's quite difficult for me to find good ideas in packaged food because I think the consumer has moved on, eating organic, eating freshly cooked food. We have become all foodies and the food conversations are quite interesting. In terms of food I don't have that much exposure. In terms of beverage I do like spirits and I think the cocktail culture that has been establishing itself before the pandemic just continued. The consumption at home, a lot of people have traded up the Zoom cocktails that have picked up early on I think continue. But I think as opening happens, as we start going out, I think obviously social occasions lead to more consumption. I think, obviously, when you consume spirits in bars or clubs, it is more expensive than if you buy similar quality and do it at home, but I think our palettes have been upgraded by drinking better alcohol at home and I think that will continue. So I actually see quite good outlook for the spirits companies and I have a number of them in the fund.

[16:13]

Pamela Ritchie: So interesting that our taste is getting better, perhaps higher quality demanding. That's fascinating. One of the other things, obviously, that will come back on some level, and I don't know how you look at it, is travel, when we're allowed to move around more freely. What areas do you like within travel, if you like it at all?

Aneta Wynimko: I think travel will come back. I think families are dreaming of planning where will they go on holiday. Again, the money that has been saved will probably lead to maybe upgrading and going to a nicer destination, staying in a nicer hotel or renting a nicer villa. I think in the second half of next year will see quite a bit of travel and the way to have exposure to that is through hotels. They do have quite a big exposure to business travel, and I think the consensus among investors today is that business travel will not come back in the way that it was before and a lot more will happen on Zoom. But I'm not so sure, because I think we are all quite tired of the lack of personal touch and it's very different. I spend a lot of time with my Chinese colleagues talking to Chinese companies, but I really would like to go to China and I really would like to go and walk in the shopping malls the way I did it before and meet some of my local colleagues for dinner in a nice Chinese restaurant. I think even that will be probably coming back. So hotels, the OTAs are a good way, and also restaurants. Maybe not apply on travel, but just apply on socializing. So I've been increasing trying to find companies that give me exposure to this reopening and the social interaction that I think we'll see much more of in the second half of next year.

[18:16]

Pamela Ritchie: Some fascinating questions rolling in here for you. One of them is, will consumers start spending more or actually do they learn a bit the benefits of saving during the pandemic? How do you view that?

Aneta Wynimko: It's a very good question and obviously we don't know. But when everyone has saved quite a bit, and maybe we will see signs of inflation picking up, I think that might lead to people deciding that having money in the bank is of not much use or pleasure, especially when prices are moving up. So I think sooner or later the saving rates will come down quite substantially.

[19:07]

Pamela Ritchie: This is a question coming in from one of the investors, do you anticipate a consistent trend across the globe of a certain type of product, or do you see it varying country to country which is that sort of global brands question. What does it translate *[audio cuts out]* cultures?

Aneta Wynimko: I can see trends that are playing out globally and it really is starting with the big cities. Consumers, especially of a similar age group or kind of similar education level in New York, Shanghai, London, Tokyo are doing more or less the same thing. They like the same brands, what they say on social media is not so different. It obviously is very much different to what their grandparents would say or do. But I think consumers are becoming more in kind of global cohorts than nationality groups. It's all because the social media and just the communication allows us to live in this global world where we all have opportunity to consume. We all watch Netflix, we all play games that are released globally and that shapes tastes and the way people then consume.

[20:34]

Pamela Ritchie: I'm curious in terms of the fund's mandate and just how you've allocated. Has it changed massively throughout the year, or can you notice real shifts and pivots that you've made because you've noticed different things? Can you give us a sense of that?

Aneta Wynimko: The turnover of the funds tends to be around 40% every year, more or less, and that happens quite gradually because I'm always trying to position the fund in a way that benefits from the way I think consumers are going to spend their time and money. Early in the year when the pandemic was starting I have reduced exposure to a lot of companies that have been hit quite dramatically, or I was afraid they would be impacted quite dramatically. But because their share prices actually came down so fast and everything got discounted really quite fast quite soon, or maybe during the summer, I've been building exposure to the fund to companies which I think will benefit from reopening. So today when I look at the fund, around 25% of the fund is invested in companies which I think will benefit from reopening. Here I qualify the travel and leisure where I have around 8% of the fund. The luxury goods, 10% of the fund, because when people travel they spend more on luxury goods, obviously. Spirits, that's another 6-7% of the fund and also OTAs which also obviously benefit from travel.

That exposure I build over time, but I do still have companies which benefit from the stay-at-home because I think they have created such powerful franchisees that that will continue. So in the fund you will still find Netflix, there's still Amazon, there is still Apple. There's a group of smaller companies. There's a company like the Match Group which in a surprising way dating has done okay during lockdown because the social interaction moved online, but obviously as we reopen there will be an easy opportunity to date and go out. So at this point I'm trying to find companies which kind of should do well in both worlds. I like education. I have exposure to education in China, but also globally, and again it's a space that no matter in what environment, it's such a structural trend towards education *[indecipherable]*.

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Pamela Ritchie: What level of education? Is this university or other levels?

Aneta Wynimko: In the fund there's a new Oriental group which is post to extracurricular education in China. But also a new addition to the fund which I bought this year is Pearson which is education, school age education, but they are moving towards education through life and much more direct to consumer business, so quite an interesting development.

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Pamela Ritchie: So interesting to see how education will shift. It will be fascinating. I know through all your demographics work that must be an area of fascination. Two questions, I want to get this one in so from an investor, to what extent are you concerned about defaults, bankruptcies… How do you assess in this environment? There is a lot of discussion of stimulus money pumping through and keeping certain companies alive. To what extent do you bring that in? How does it work into your analysis? Are you concerned?

Aneta Wynimko: It concerns me always from the point of view of the impact on consumers. People losing jobs, and not spending and being in a distressed situation. It doesn't worry me that much in terms of the companies I own because one of the criteria that I use when I look for investments is really the quality of the franchise, the quality of management. Those companies tend to be cash rich. They have the opposite problem – if that might be called a problem in these days. They accumulate cash, they pay dividends, they buy back shares, but most importantly for me, they invest in themselves and they keep growing, so I don't – touch wood – see any of the companies in the fund that is in danger of being anywhere close to being bankrupt. Things can happen when there's regulation or fraud, you never know, but I really pay a lot of attention to the quality of the franchise that I invest behind.

[25:42]

Pamela Ritchie: I know you spend a lot of time paying attention to what consumers will want 10 years out, and that happens to be Generation Z. Tell us a bit about how much time you spend on this and really what you noticed about consumers in the years to come.

Aneta Wynimko: The Generation Z is very interesting. It's inspirational and it's such a huge group of people and it's larger than millennials, so obviously they will shape the way consumption happens in the future. I think there's lots of hope also for the planet, for the world, because they are very ESG aware and they make decisions with ESG in mind. I remember discussing that with actually a friend of mine from Nike. She said that they have realized that a lot of young kids, when they buy the hoodies or other products, they research what is the resale of value of that product. Generation Z doesn't buy to throw away. They invest in pieces and then they sell them and they buy something else. We should all be doing that. How difficult is this? The circular economy is something that I think will become quite big in the future, and I think it will benefit because I see the ESG cause mean that there will be inflation, there will be price inflation. Garments, it should cost more to manufacture them. Food might cost more because there is need for more sustainable farming. What needs to happen as well is the circular economy and reusing of items that kind of allows maybe the less of the consumer as well. I think the Generation Z is going to drive that, they're going to drive the circular economy and I also have some investments which should benefit from that.

[27:44]

Pamela Ritchie: Final question here. Fascinating what you said about inflation there. I mean, it makes sense that if there's less better quality it's going to cost more. This final question from one of the investors, do you have a value or a growth bias? Large-cap, smaller-cap?

Aneta Wynimko: My bias is growth, and that growth I am trying to find irrespective of valuation, so maybe that's not a very consistent statement. But what I am looking for is companies that can grow and that can grow for multiple years. But that means that sometimes I do buy value companies the way I bought Pearson because I thought that this company, after years of struggling, has potential and opportunity to become a growth company. The same way I bought eBay, in investor perception this is an ex-growth kind of digital business of the past, I consider an opportunity for a player in the circular economy that becomes quite powerful, but maybe that will not happen overnight. Maybe that will take time but again, it's an inexpensive company but I hope it's growth. But most of the fund is invested in the likes of LVMH, Nike, which are definitely perceived as growth companies.

In terms of the size bias, it's pretty on the larger side because the execution and globalization puts those companies in a better position, but I am also finding lots of smaller companies, kind of the new business models, but the position sizing is much smaller so they don't really dominate, one single company doesn't really dominate the fund.

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Pamela Ritchie: It's such a pleasure to speak with you always. I'll wish you a Merry Christmas 'cause that tree behind you looks just stunning, and I wish you all the best through the holiday season and into next year.

Aneta Wynimko: Thank you very much and Merry Christmas to everyone. Thank you.

Pamela Ritchie: Thank you very much. That's Aneta Wynimko joining us from London today.

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