Fidelity Special Situations W Acc

April 2024

Source: Square Mile and Refinitiv, Data as at: 31st March 2024.

Overview

The focus of the fund is on growing the capital value of investments over time through a portfolio of UK equities. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Square Mile's Expected Outcome

We believe that the fund should be able to outperform the FTSE All Share index by 2% per annum over a market cycle, which we consider to be at least five years in length.

Square Mile's Opinion

Supported by Jonathan Winton, Alex Wright manages this fund with a contrarian mindset and will invest in all sizes of company, although we would note that the portfolio tends to maintain a bias to medium and smaller sized firms. He will also allocate to overseas listed companies where a compelling opportunity exists and/or a similar investment is not available in the UK market.

Although the manager has only been at the helm of this fund since the start of 2014, his experience dates back to 2001, with portfolio manager duties dating from 2008. He was appointed as manager of the Fidelity Special Values investment trust in September 2012, which he manages in the exact same manner as this fund. His record on these other mandates is impressive.

The contrarian approach applied and the fund's bias towards the lower end of the market capitalisation scale will undoubtedly be important drivers of return, a fact that has been borne out in relative performance, and can also lead to higher levels of volatility when compared to the wider market at times. The manager may also make occasional use of derivatives, though we do not expect these to exert undue influence.

In our opinion, this fund is a compelling proposition run by a highly motivated and passionate investor. This is also a flagship fund for Fidelity and we feel Mr Wright's appointment to such a high profile strategy at a relatively early point in his career reflects the firm's view of his capabilities. Ultimately, there is a lot to like here, especially the fact that the manager has remained consistently true to his investment style. He is supported by one of the UK's most substantial equity research teams and we believe that this style of investment can continue to add value relative to its FTSE All Share benchmark but, given the impact that the approach applied can have on returns, it may be better suited to investors with a longer term investment horizon.

Fund Manager's Formal Objective

The fund aims to increase the value of your investment over a period of five years or more.

Outcome: Capital Accumulation	**Domicile:** UK
Active/Passive: Active	**Benchmark:** FTSE All Share
Asset Class: Equity	**IA Sector:** IA UK All Companies
Yield: 3.34%	**Fund size:** £2,842 M
Fund Manager: Alex Wright, Jonathan Winton	**Distribution Pay Date:** April
Fund Price: 47.7 Pounds	**Dividend Frequency:** Annual
Currency of Share Class: GBP	**Share Class Launch Date:** 15/10/2012

Source: Square Mile and Refinitiv, Data as at: 31st March 2024

Asset Manager Overview

This fund has been managed by Alex Wright since January 2014, though his tenure with Fidelity dates back to 2001, when he joined the group as a pan European equity analyst rotating across a number of sectors. Mr Wright started his investment management career by taking charge of the Fidelity UK Smaller Companies fund, a strategy that began as an in-house pilot in 2008 before fully launching to the UK retail market in 2011. He was co-manager of the strategy until April 2019, when he passed on responsibility to Jonathan Winton, a change which has allowed him to focus solely on the other mandates within his remit, including the Fidelity Special Values investment trust, which he has managed since September 2012.

In February 2020, Mr Winton was announced as co-manager of both this fund and the Fidelity Special Values Investment Trust as part of Fidelity's group-wide exercise to expand the co-manager structure. Mr Wright and Mr Winton work within the experienced and well-resourced UK equities team, and are supported by a dedicated mid/small cap analyst, a specialist shorting analyst, and Fidelity's substantial pan European research team. As lead manager of this fund, Mr Wright follows in the footsteps of some of the firm's fairly illustrious previous managers, such as Anthony Bolton and Sanjeev Shah, with whom he worked closely.

With a view that the market can be slow to react to a changing situation, Mr Wright searches for unloved and out of favour stocks that are entering a period of positive change. He is ultimately looking to purchase companies before the market has recognised their improving growth prospects and as such, he has a value and contrarian investment style. This is an all cap strategy, meaning that the manager will invest in medium and smaller sized companies, as well as the largest.

In terms of the investment process, ideas are generated from a number of sources including quantitative screens, company meetings and research analyst input. Once a potential investment has been uncovered Mr Wright analyses two key aspects in more detail; the downside risk and a company's potential for change. In understanding the downside risk, he aims to uncover what a company could be worth in a worst-case scenario and if there is a tangible asset or defensive earnings stream that could provide some downside protection for the shares. However, to make it into the portfolio a company must also have clear potential for positive change, which could either be driven internally by management or externally by changing industry dynamics.

During their market research, the team members occasionally uncover shares that appear significantly overvalued and, to capture these opportunities, short positions are established to enhance returns for fund holders. A short position involves selling a share that is not owned in the anticipation that its price will fall. These exposures can often be generated through specialist derivative products.

The portfolio tends to be well diversified with c.100 holdings but, in-line with the manager's contrarian philosophy, there are no limits as to how much can be in each sector, thus the fund's sector positioning could be very different to the market. Mr Wright is also able to invest up to 20% outside the UK market and short up to 10%. He may make use of derivatives, including more complex instruments or strategies, and these may result in a degree of leverage in the fund.

ESG Integration

Asset Manager ESG Integration

Fidelity International (FI) became a signatory to the UN's Principles for Responsible Investment (PRI) in October 2012 and scored 4 (out of 5) for Investment & Stewardship policy at its latest review. As one of the largest investment managers globally, the firm works with policy makers and is involved with industry initiatives to improve sustainability behaviours. FI is also a signatory to the UK Stewardship Code, the Task Force on Climate-related Financial Disclosures and the Net Zero Asset Managers Initiative.Sustainable investment forms part of Fidelity's strategic initiatives and is supported by a dedicated sustainable investment team, formed of
over 40 dedicated professionals, and split into 3 pillars: Stewardship & Research, Strategy Product & Governance, and Client Engagement. Additionally, the Sustainable Investing Operating Committee, which comprises of senior executives from across the firms different business units, sets the policies & objectives and provides oversight for the development of ESG integration across the underlying investment teams.FI believes that sustainable investing is essential to protecting and enhancing returns to clients' portfolios, thus their integrated ESG approach touches all asset classes, sectors and markets. Since 2019 it has developed a proprietary sustainability rating which combines data from external resources with qualitative analysis from the firm-wide fundamental corporate research team and their engaging with companies. The enhanced V2 ratings measure absolute long term negative and positive impacts to generate a forward-looking assessment of a company's sustainability performance and future trajectory. FI continues to take steps to ensure its sustainability research forms an integral part of the overall investment research effort as well as looking to enhance their reporting in this area.FI also believes that the most effective way to improve investors' outcomes is by influencing corporate behaviour through engagement and therefore uses its scale and to company management to positively influence corporate behaviour and continue to increase the quality and number of engagements.

Fund ESG Integration

Fidelity ultimately believes that companies that are managed to a high standard of corporate responsibility have the ability to magnify, as well as protect investment returns. However, although there are dedicated environmental, social and governance (ESG) analysts in place, who provide views and scores on companies, it is in effect up to each fund manager as to how much they use this material.

ESG is incorporated into all levels of research throughout Fidelity, though its importance will vary depending on each individual company, with more of a focus upon when failures in this area could potentially undermine the investment case. It is important to note that the manager of this fund is not precluded from investing in a company that scores poorly on traditional ESG screens. In fact, as a contrarian investor who is looking for relatively unloved companies that are entering a period positive change, a business may often seem poor on ESG grounds but, crucially, is improving. Although environmental and social factors, such as the risk of an industrial disaster or poor working conditions which could lead to an investment loss, are scrutinised, on balance corporate governance is more important for the manager as he believes that companies that have poor governance in place will underperform compared to companies with good governance.

Risk Summary

This fund invests in UK equities and, as such, the main risk is that these, as higher risk assets, can be volatile investments. However, we would note that the manager tends to be contrarian in his views and seeks to invest in companies that are out of favour with the market. Moreover, the he is a high conviction investor and will seek opportunities across the market cap spectrum, often investing a significant amount in medium and smaller sized companies, which tend to be more volatile than their larger peers. Consequently, at times, the fund can look, and act, very differently to the wider market, and so may be better suited to investors with a longer time horizon and who are willing to tolerate some variability in returns over shorter time frames. The manager can make use of derivatives, including more complex instruments or strategies, which may result in a small degree of leverage in the fund. Investors should also be aware that he also has the ability to short up to 10%, although more recently this element has been reduced.

Additional Information

Annualised Return: 7.67%

Annualised Volatility: 13.43%

Max Drawdown: -12.91%

Max Gain: 10.11%

Max Loss: -11.61%

Sharpe Ratio: 0.52

Sortino Ratio: 0.50

(3 years data to last month end unless otherwise stated)

Qualitative Risk Assessment

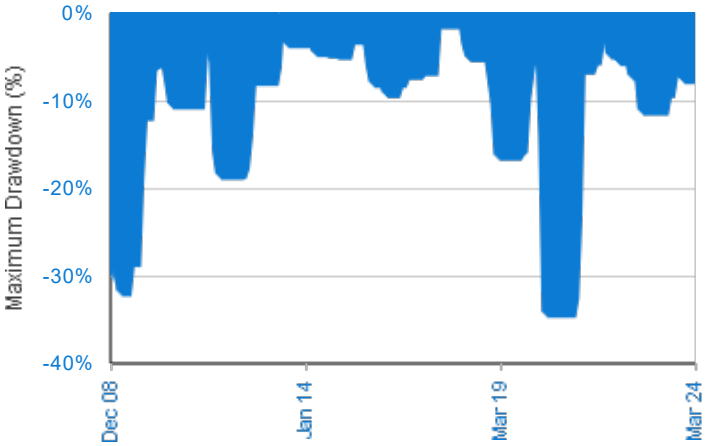
	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk		●	
Manager Risk	●		

For the full summary of the risks, click here

3 Year Rolling Sector Outperformance

Source: Square Mile and Refinitiv, Data as at: 13th March 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 8th April 2024

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	6.3	7.2
2022	-0.5	-9.3
2021	23.7	17.1
2020	-12.0	-6.3
2019	21.7	22.4

Source: Square Mile and Refinitiv, Data as at: 14th April 2024

Value for Money

The fund's ongoing charge figure (OCF) is slightly above the peer group median. The fund's transaction costs, however, are below the peer group median, which has pushed down the total cost of investment to a competitive level. Overall, we believe that this strategy offers reasonable value for money as it provides access to well-established and regarded UK equity franchise, managed by a highly experienced investor, with a contrarian investment approach and a bias to companies further down the market cap spectrum. We would note here that the fund's recent performance has been impacted by the manager's value investment style, which has, in the main, been out of favour.

In line with the MiFID II regulations, Fidelity absorbs all of the costs associated with its research, which should slightly reduce the overall fee paid by investors.

OCF v Peer Group

0.91%

Transaction Costs v Peer Group

0.16%

TCI v Peer Group

1.07%

Source: Square Mile and Refinitiv, Data as at: 31st March 2024.

The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, click here.

For a full list of all Square Mile rated funds, click here.

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