

Fidelity Special Situations W Acc

November 2021
Investment Research



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.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

Square Mile Expected Outcome

We believe that the fund should be able to outperform the FTSE All Share index by 3% to 5% per annum over a market cycle, which we consider to be at least five years in length.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Equity	IA Sector: IA UK All Companies
Launch Date: 17/12/1979	Fund Size (as at 30 Sep 2021): £3055.3m
Yield: 1.72%	Distribution Pay Date: Mar 01 (Final)
Fund Manager: Alex Wright, Jonathan Winton	Ongoing Charge Figure: 0.90%
	Transaction Cost ex Ante: 0.13%



Fund 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 Description

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 over 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.

Risk Summary

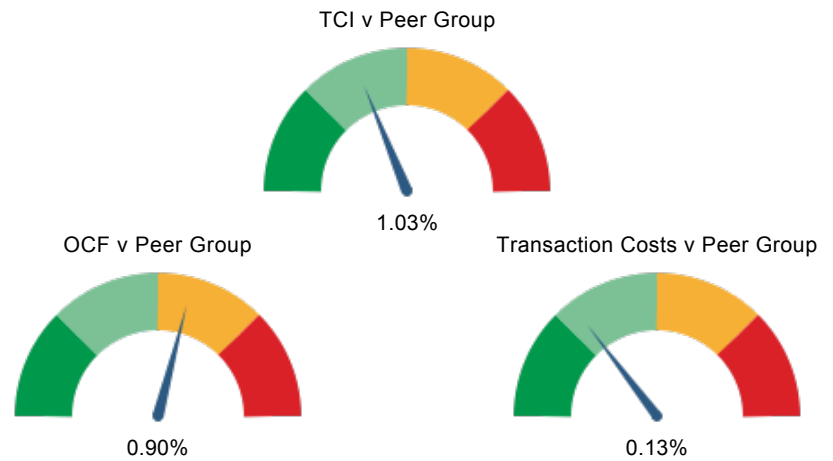
This fund invests in UK equities and, as such, the main risk is that these, as higher risk assets, can be volatile investments. However, we would note that the manager tends to be contrarian in his views and seeks to invest in companies that are out of favour with the market. Moreover, the he is a high 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.

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.



ESG Integration

Company Assessment	0	1	2	3
ESG factors are considered formally but are not instrumental within all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	5.76%
Annualised Volatility	21.52%
Max Drawdown	-40.19%
Max Gain	18.42%
Max Loss	-38.35%
Sharpe Ratio	0.23
Sortino Ratio	0.21

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

4287.0 pence

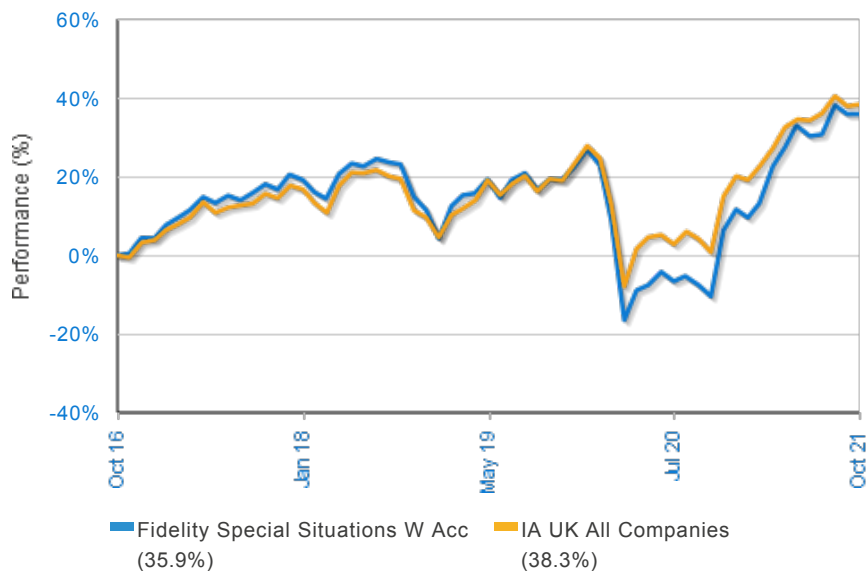
Benchmark

FTSE All Share

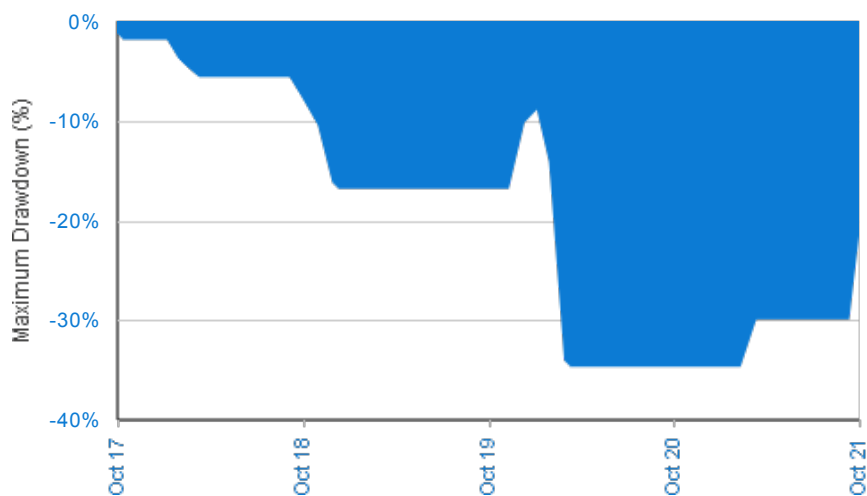
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	47.0	32.4	1
12-24m	-22.5	-12.8	4
24-36m	-3.1	0.0	4
36-48m	6.3	5.5	2
48-60m	19.1	13.6	1

Capital Growth



Maximum Drawdown (Rolling 12 Months)



Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
LEGAL & GENERAL GROUP	5.3
ROYAL DUTCH SHELL PLC	4.2
AVIVA	3.8
INCHCAPE PLC	3.2
PHOENIX GROUP HLDGS	3.1
SERCO GROUP PLC	2.9
DCC	2.6
SANOFI	2.5
VISTRY GROUP PLC	2.4
AIB GROUP PLC	2.4

Sector Breakdown

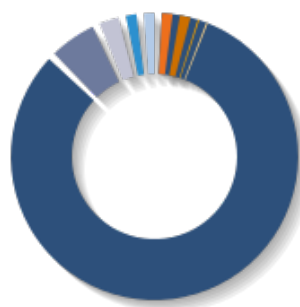
(Data as at 30 Sep 2021)



- Industrials (25%)
- Financials (25%)
- Consumer Discretionary (22%)
- Health Care (7%)
- Energy (7%)
- Telecommunications (6%)
- Consumer Staples (5%)
- Basic Materials (4%)
- Utilities (3%)
- Other (-4.2%)

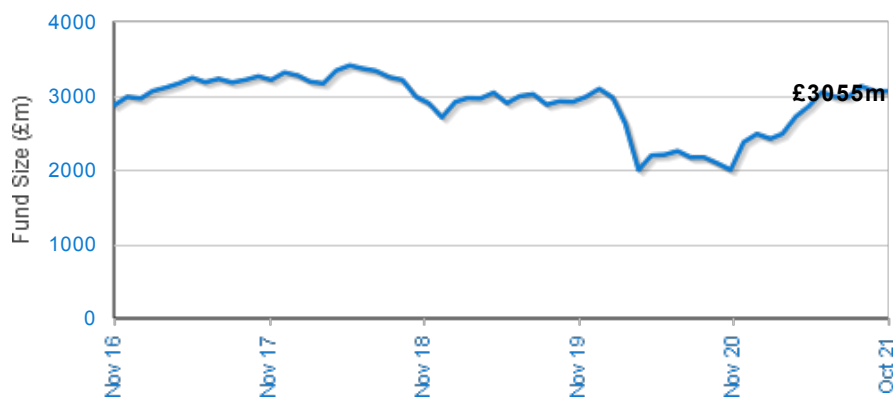
Geographic Breakdown

(Data as at 30 Sep 2021)



- UK (86%)
- Ireland (6%)
- Others (3%)
- France (2%)
- Greece (2%)
- Switzerland (2%)
- Sweden (2%)
- Australia (1%)
- USA (1%)
- Other (-6.0%)

Assets Under Management



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	●		

Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

Credit Risk

This fund does not have significant exposure to corporate debt.

Exchange Rate Risk

The fund is predominantly invested in domestic assets.

Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

Derivative Risk

The fund employs derivatives as part of its investment strategy.

Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 109.00

SRRI: 6

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