A DEDICATED FOLLOWER OF UNFASHION

25 years of contrarian investment

On 17 November 2019, Fidelity Special Values PLC will celebrate its 25th birthday and, at that time, I will be only the third Portfolio Manager to have been responsible for the company, having run the portfolio since 2012.

During my time as manager, I have continued to invest on behalf the company's shareholders using the same value-focused, contrarian approach used since it was established under the care of Anthony Bolton twenty-five years ago. The Board and I hope and believe this is appealing to both existing and potential UK investors alike.

I focus on unloved companies where things can improve, and invest in companies of all sizes. I hope, in doing so, to position the company as the investment of choice for those seeking exposure to UK-listed companies, but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges, in order to enhance shareholder returns.

My investment style is very much in keeping with Fidelity Special Values' heritage and history – looking for companies whose potential for share price growth or recovery has been overlooked by the market.

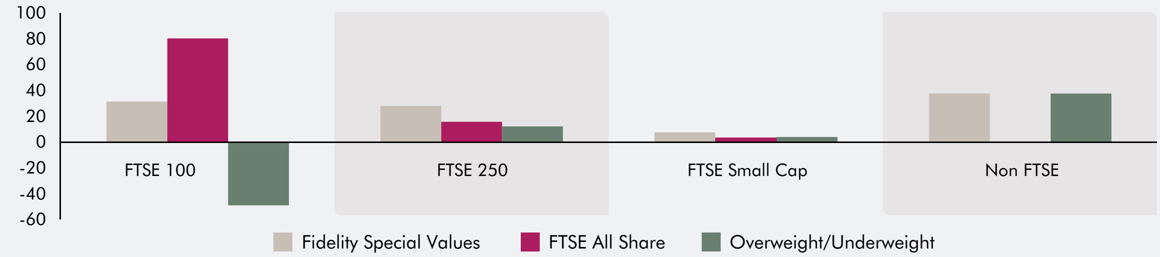
As a contrarian, I'm drawn to unfashionable stocks that trade on cheap valuations. I'm looking for positive change that others haven't seen yet. I also look to invest only in companies where I understand the potential downside risk, to limit the possibility of losses.

For example, for some time now I have been investing in Financials domestically and abroad, including Citigroup, RBS and Aviva. These have been unloved, and in my view undervalued, partially since the reputational damage caused to the sector during the 'credit crunch' financial crisis of 2008. These companies have spent the last 8 years building capital buffers and reducing risk, and although there are limited new growth drivers, these have been over-discounted in share prices considering the robust profitability of the sector today.

Investing against the tide is a psychologically difficult thing to do. Humans are social animals, and behave socially when making investment decisions. It takes a particular mind-set and a highly disciplined approach to execute a contrarian investment process successfully.

Highly differentiated from FTSE All-Share benchmark Source: Fidelity, 28 February 2019

Fidelity Special Values PLC has greater exposure to medium sized (FTSE 250) and small (FTSE Small Cap) companies than its comparative benchmark – the FTSE All Share, as well as having exposure to companies listed elsewhere.



"It takes a particular mind-set and a highly disciplined approach to execute a contrarian investment process successfully."

Central to the long-term success of our approach have been company research and making full use of the insight and expertise of our large team of analysts. Fidelity's philosophy is to base investment decisions on company fundamentals such as competitive position, management strength, growth opportunities, valuation and so on. Overarching trends in the economy (top-down factors) play a supplementary rather than primary role in our investment decisions.

Our investment team spend many thousands of hours meeting company management, speaking to suppliers, competitors and customers in order to build up a picture of the true state of a company's fundamentals. It is this work that allows us to form a view of the company's future profitability and ultimately decide whether we consider it an attractive investment for our shareholders.

Ideally, I want to invest in companies that are exceptionally cheap on relevant measures, or which have some kind of asset that should prevent their share prices falling below a certain level. This can be anything from inventory to intellectual property that gives a margin of safety.

I look for companies where I believe perception by the wider market may shift due to changes in the company's competitors or market, a new product line or an expansion into new business areas. I also impose a strict sell discipline on myself once the recovery has taken place.

Within the investment trust structure, I am able to take positions in smaller and less-liquid companies; its closed-ended structure and stable pool of assets allow me to establish larger weights, which would not be possible if I had to worry about flows into and out of the fund. In fact – the portfolio of the trust is only about 30% invested in companies within the FTSE 100 and has nearly 40% invested in companies which aren't part of FTSE at all. (See chart on previous page showing the highly differentiated nature of the Trust compared to the FTSE All-Share benchmark).

The relative illiquidity of holdings can sometimes make their share prices more volatile, but I am not a forced-seller in downward markets (indeed I often view them as opportunities to buy more shares at good value), and I believe in the long-term rewards of smaller companies.

Within the trust, I can also use gearing to enhance long-term capital growth – and to take advantage of shifts in market valuations. I use Contracts for Difference to gear, as these represent the most flexible and cost-effective option, and also occasionally to short stocks if I feel they are significantly overvalued. ■

Important information: *Past performance is not a reliable indicator of future results. The value of investments can go down as well as up so investors may get back less than they invest. Overseas investments are subject to currency fluctuations. This fund uses financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations. This fund invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a personal recommendation for any investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Investors should note that the views expressed may no longer be current and may have already been acted upon. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. The latest annual reports and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity.*

Fidelity INTERNATIONAL

Alex Wright

Portfolio Manager
Fidelity UK

Alex Wright (Portfolio Manager from 1 September 2012) joined Fidelity in 2001 as a research analyst and has covered a number of sectors across the market cap spectrum both in the UK as well as developed and emerging Europe. He has been portfolio manager of Fidelity UK Smaller Companies Fund since its launch in February 2008. He took over responsibility for the Company's portfolio on 1 September 2012 and was also appointed as manager of Fidelity Special Situations fund in 2013. Alex has a BSc (Economics) from Warwick University, where he graduated with First Class Honours, and he is also a CFA Charterholder.