

**SHINING A LIGHT ON THE.....  
Fidelity Special Situations Fund**

**AT A GLANCE**

<b>Investment Objective</b>	
The Fund aims to increase the value of your investment over a period of 5 years or more. The Fund will invest at least 70% in equities (and their related securities) of UK companies (those domiciled, incorporated or having significant business in UK and those which are listed in the UK). The Investment Manager will focus on companies it believes to be undervalued and whose recovery potential is not recognised by the market. It is not restricted in terms of size or industry.	

<b>Inception Date</b>	17 <sup>th</sup> December 1979
<b>Fund Factsheet Link</b>	<a href="https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=FOGBR04S23">https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=FOGBR04S23</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Alexander Wright	1 <sup>st</sup> January 2014
Jonathan Winton	3 <sup>rd</sup> February 2020

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	18.68%
Large	19.36%
Medium	19.40%
Small	30.55%
Micro	12.01%

<b>Top 10 Holdings</b>			
<b>Total number of holdings</b>		73	
<b>Assets in Top 10 Holdings</b>		41.82%	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>	
Fidelity ILF - USD A Acc	-	6.35%	
CRH PLCCFD	-	5.55%	
Roche Holding AG Dividend Right Cert.	Healthcare	5.46%	
Royal Dutch Shell PLC B	Energy	4.22%	
BP PLC	Energy	3.86%	
Phoenix Group Holdings PLC	Financial Services	3.48%	
Meggitt PLC	Industrials	3.48%	
John Laing Group PLC	Industrials	3.28%	
Serco Group PLC	Industrials	3.13%	
Legal & General Group PLC	Financial Services	3.01%	

<b>Volatility Measurements</b>	
<b>3-Yr Std Dev (volatility)</b>	12.05%
<b>3-Yr Mean Return (average)</b>	12.16%

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## FUND PERFORMANCE

Performance from 1<sup>st</sup> January 2014 to 31<sup>st</sup> January 2020:

	2014	2015	2016	2017	2018	2019	2020
<b>Fidelity Special Situations Fund</b>	-1.49%	11.62%	13.53%	14.50%	-14.12%	20.77%	-3.25%
<b>FTSE All Share Index</b>	1.18%	0.98%	16.75%	13.10%	-9.47%	19.17%	-3.25%

Performance over 12 months, 3 years, 5 years, and since fund manager inception:

	1 year	3 years	5 years	Since fund manager inception
<b>Fidelity Special Situations Fund</b>	8.32%	15.06%	44.30%	43.42%
<b>FTSE All Share Index</b>	10.67%	18.44%	35.61%	40.81%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

## UPDATE....

The Fidelity Special Situations Fund is a well-known investment that has been running for many years. The current manager has run the fund for 6 years and sees himself as a contrarian value manager in a UK market, where less than 10% of funds have a value slant. He has been managing money for over a decade, and in line with funds across Fidelity, a co-manager has recently been appointed.

The fund is not a traditional deep value fund but is looking to invest in those companies where change is present. This way Alex believes he can avoid those value traps. The fund has a skew to mid-caps, and he believes that stock picking is where the outperformance comes from. Our concern on this is that over the last three years the fund has underperformed, and since the fund manager inception, it has only slightly outperformed.

There are potentially two reasons for this. Firstly, mid-caps have been unloved and being skewed towards this is likely to have held back performance. The second point is that this is a value fund and value has been out of favour for some time. If these are the factors, then any investor has to consider whether value will come back into play as much as the potential from the mid-cap space.

In terms of stock picking Alex wants to avoid the value traps and this means considering the downside as much as the upside. One holding they like is John Laing. This is a global infrastructure play and the market prices it as an infrastructure fund. Alex believes the market is looking at it in the wrong way, as they self-manage assets as well as creating new assets. It is also becoming a more US focused business. On current values they see the downside at around 15% but the upside between 36% and 45%. One point raised in the meeting is that much of this assumes the market realises it is not an infrastructure fund, Alex believes at some point they will, and this will release the value. He is prepared to be patient and wait for this to happen.

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The fund has three stages of investments. Stage 1 is the beginning of change and Imperial Brands falls under this. A mix of poor execution and marketing on next generation products has damaged the profitability in this part of the business. The CEO has left, and they believe the new team have the ability to turn this around. They started buying in six months ago and although this has got cheaper, they have been adding to the position.

Stage 2 is the market recognizing change and this includes the likes of Shell and BP, which have seen big cost cutting exercises. They are now cash generative and are using this to pay dividends rather than investing in expensive new fields. A question was raised on whether there is an ESG headwind for companies like this and clearly over the long term the answer is yes, but in the short-term Alex believes he can extract value for the fund.

The final stage is where change is fully priced in and they begin to sell down. My slight concern, which we didn't cover in the meeting are some of the small holdings like AIB and Barclays, where they have sold down but not sold out, and it is a concern that the fund has lots of smaller holdings which are a drag on overall performance.

The fund is overweight financials with Alex seeing value in companies like Aviva, Phoenix and Legal and General. They don't have a high exposure to banks as interest rates are damaging the profitability of these businesses. For this reason they sold off Lloyds and reduced the weighting in Barclays. They still have RBS as they believe there remains value with the stock.

The fund can invest overseas and currently about 15% is invested outside of the UK. Alex believes valuations are low and therefore the UK is attractive compared to other markets. Where the fund is positioned it does benefit from M&A activity.

Our concern with the fund is that this is a very crowded space and the manager hasn't delivered any significant outperformance. We know that mid-caps have been hampered but this turned around in 2019 and the fund didn't significantly outperform. We also understand this is a value fund, the question is whether value exists and whether waiting 5 years for John Laing to return 36% to 45% on the upside is worth doing. There are also questions on the tail of stocks. Fundamentally the question for a potential investor is whether they believe value is coming back and if so whether this is the fund for them. We like the process and the manager, and it appears there is something different with what is on offer, but is a very difficult decision to invest based on the performance since the fund manager came in.

*The source of information in this note has been provided by Fidelity and is correct as at February 2020. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.*