

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

AT A GLANCE

Investment Objective
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 US companies (those domiciled, incorporated or having significant business in the US and those which are listed in the US). The Investment Manager will choose companies it believes are undervalued and whose growth potential is not fully recognised by the market. It is not restricted in terms of size or industry. The Fund is actively managed without reference to a benchmark.

Inception Date	10 th November 1980
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR050AU

Management	
Manager Name	Start Date
Angel Agudo	1 st July 2019
Ashish Bhardwaj	1 st July 2019

FUND PERFORMANCE

Performance from 1st January 2016 to 31st March 2021:

	2016	2017	2018	2019	2020	2021
Fidelity American Special Situations Fund	33.16%	-0.83%	-0.51%	7.34%	0.66%	12.04%
S&P 500	33.55%	11.28%	1.56%	26.41%	14.74%	5.19%

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

	1 year	3 years	5 years	Since fund manager inception
Fidelity American Special Situations Fund	38.44%	30.37%	55.76%	9.24%
S&P 500	40.52%	61.92%	121.59%	28.63%

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.

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Tracking Error	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
5.40	89.52	92.08	95.03	38.89	0.97	-1.01	Value/Large

Volatility Measurements	
3-Yr Std Dev (volatility)	17.14%
3-Yr Mean Return (average)	9.24%

Investment Style Details	
Giant	15.87%
Large	38.61%
Medium	40.13%
Small	4.09%
Micro	0.00%

Top 5 Holdings – 44 Holdings		
Berkshire Hathaway Inc Class B	Financial Services	5.82%
Marathon Petroleum Corp	Energy	4.22%
Oracle Corp	Technology	4.02%
Wells Fargo & Co	Financial Services	3.78%
Morgan Stanley	Financial Services	3.47%

Top 5 Sectors	
Financial Services	24.39%
Technology	18.30%
Healthcare	15.10%
Communication Services	10.64%
Consumer Defensive	8.43%

UPDATE....

This would be a fund that would not come onto many people's radars and for good reason. Over the past ten years investors would likely have been better to buy the index. Not holding names like Apple, Microsoft, Amazon, Alphabet and Facebook would have put you at a disadvantage, and then there is a style bias where everything has been about growth. This strategy is a value strategy and therefore it has been hit by two negatives. However, the managers believe things are changing, especially since early November, and the rotation to value is benefiting their fund.

One of the debates we have is whether buying the index is the right thing for the next 10 years. It is unlikely that the big growth companies will peg back but they could tread water and therefore returns could be driven through other areas.

If this is the case, then the question is where you create returns in this market. This strategy looks for those companies that have had periods of underperformance, are unloved, and appear to have no recovery potential. On a stock specific basis, they look at companies that have strong upside potential but also they look at the downside.

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This means they are long term holders, holding stocks for between 3 and 6 years, and this gives time for a company to recover. Identifying beaten up companies is a mix of screening and specific Fidelity research. They look at what a company does, the opportunity set, the risk / reward, management teams etc before producing a portfolio of 50 to 60 names. The highest conviction names are 5 to 6%, mid-range is 2 to 3% and then 1% is normally when they are building a position or selling out.

We discussed how ESG could impact companies and they explained that this is very much part of the downside risk. With energy they still see the risk / reward benefits. As an example, Marathon is a globally diversified energy company.

They are not active shareholders and many companies do not want to engage with them. Down the market cap some companies do engage but this is about the companies and understanding them. If they lose faith in the management turnaround story they will sell out, or if the economic cycle goes against a company they will sell (so for example where there is significant debt).

In summary, this is an interesting strategy because it offers investors a crossroads. If investors believe that what we have seen will continue then this is not the strategy for them. If investors think that the past will not repeat itself then this is something to consider.

We call this a crossroads because it would be very easy to follow the past, but equally just because performance has picked up investors have to believe that the movement towards value will continue long term. If investors see this as a long-term trend, then the question is whether this team are the right team. Fidelity manages over \$40 billion of US assets and have teams across value to growth and small to large cap. They have specialists covering sectors and therefore they have the support network. For us we would want to add this to a watch list to see if the current rotation is sustainable long-term, or a short-term correction.

The source of information in this note has been provided by Fidelity and is correct as at April 2021. 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.