Fidelity Special Values (FSV)

FSV offers a differentiated approach to the UK equity market...

Kepler INCOME 2025

Update
20 May 2025

Overview

Fidelity Special Values (FSV) has been the stand-out performer in the AIC UK All Companies sector over the past five years. Portfolio manager Alex Wright and co-portfolio manager Jonathan Winton take a contrarian approach to the market, seeking undervalued companies across the full market-cap spectrum that have the potential for a turnaround. This strategy has delivered strong returns over the period, with the trust outperforming its four sector peers and FTSE All-Share benchmark by a considerable margin.

The trust has also outperformed the benchmark over the past 12 months, despite a challenging market environment marked by trade tensions, in which UK equities have shown stronger resilience than their global peers. In light of potentially subdued global growth, Alex and Jonathan have increased exposure to areas of the UK equity market they believe could better weather the storm. They have increased exposure to companies that are more closely tied to the domestic economy, such as Frasers Group, which was added toward the end of last year.

Alex and Jonathan are also encouraged by improving corporate earnings and consider valuations to remain attractive, with UK equities trading at a discount to other major equity markets and FSV's portfolio offering even more attractive valuations than the index. However, the extent to which corporate earnings are impacted by the uncertain environment is unclear. As a result, Gearing has marginally increased to 6.0% (as of 30/04/2025), up from 5.2% a year before, reflecting the opportunity set they are seeing.

FSV also raised its **Dividend** for the 15th consecutive year during its 2024 financial year, reinforcing its position among the AIC's next generation of dividend heroes. Based on our estimates, FSV offers a historic yield of approximately 2.8%.

Analysts:
Jean-Baptiste Andrieux
Jean-Baptiste@keplerpartners.com

Analyst's View

In our view, recent market volatility—driven by trade tensions and uncertainty over global growth—could create a favourable backdrop for UK equities. As investor scepticism toward the notion of American exceptionalism grows, we believe markets may reappraise the merits of other equity markets, including the UK. Arguably, the UK equity market is supported by several compelling dynamics: a stable political environment, attractive dividend yields, record share buybacks, increased M&A activity, and undemanding valuations—all of which could make it an attractive destination for capital.

As Alex and Jonathan focus on overlooked and undervalued companies, FSV's portfolio trades at even more attractive valuations than the broader UK market, despite offering stronger growth prospects and lower leverage. Their contrarian approach also results in a tilt toward the value factor which, when combined with the trust's broad exposure across the UK market-cap spectrum, provides investors with a differentiated and comprehensive investment proposition that has historically delivered strong returns.

Moreover, the portfolio is aligned with themes that the managers believe could prove resilient in a context of weak global growth and trade tensions. This includes defensive sectors—such as healthcare, utilities, and consumer staples—that provide essential goods and services regardless of economic conditions, as well as selective exposure to domestically oriented companies, including housing-related names. The managers view UK consumers as a particularly resilient theme, supported by significant aggregate savings, which could help cushion the impact of global economic headwinds.

BULL
UK equities are trading at attractive valuations and could benefit from several supportive dynamics
A contrarian approach with a multi-cap portfolio provides significant differentiation from the benchmark
Exposure to defensive sectors and domestically oriented companies may offer resilience if global growth remains subdued

BEAR
May struggle on a relative basis in growth-driven markets
Exposure to SMIDs adds risk
Gearing can increase losses as well as amplify upside

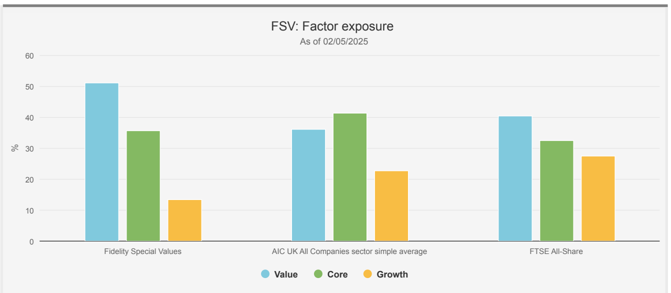
Portfolio

Fidelity Special Values (FSV) takes a contrarian investment approach to the UK equity market, with portfolio manager Alex Wright and co-portfolio manager Jonathan Winton focussing on overlooked and undervalued companies across the full market-cap spectrum. They invest in those with the potential to turn around their fortunes and aim to sell them when their valuations are fully priced in. Investment ideas are often sourced through Fidelity's well-resourced research team, company meetings, and quantitative screens, with the portfolio typically holding 80 to 120 stocks, providing diversification and liquidity.

To avoid potential pitfalls, Alex and Jonathan conduct rigorous downside analysis, assessing earnings, financial, and valuation risks. They also look for clear catalysts that could drive a company's turnaround. These may be internal—such as a new management team or corporate activity—or external, including an improving competitive landscape or regulatory concerns that may be overstated. Once an investment opportunity is identified, they size the position based on the company's upside and downside potential, balance sheet strength, and liquidity.

As a result of this investment approach, FSV typically has a high active share—generally above 80%—and a strong bias towards the value factor. In fact, the trust has the largest exposure to value stocks than both its sector peers and its benchmark, as the chart below shows. In our view, these characteristics provide investors with a differentiated exposure to the UK equity market compared to an index tracker or other active strategies focussing on growth or quality names. Another distinctive and long-standing feature of the strategy is its bias towards small- and mid-cap stocks—a less efficient part of the equity market offering greater potential to uncover mispriced opportunities and enhancing the managers' ability to generate alpha. We note that both Alex and Jonathan have extensive experience managing UK small-cap strategies, which we believe gives them an edge in this segment of the market.

Fig.1: Factor Exposure



Source: Morningstar

FSV's portfolio is divided into four 'supersectors' to help analyse where the managers are taking exposure: financials, defensive, resources, and other GDP sensitive.

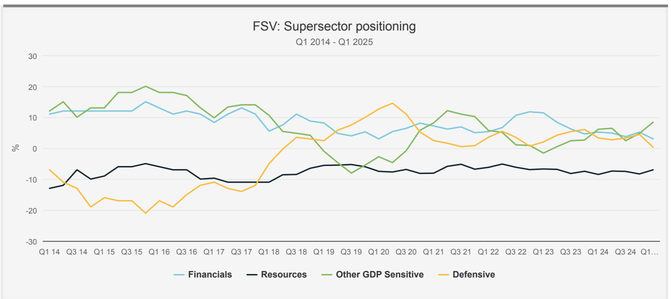
During calendar year 2024, allocation to the defensive supersector increased, notably with the introduction of Tesco in Q2 2024 - as discussed in **our previous note** - and AstraZeneca in Q4 2024. In addition, Alex and Jonathan added to existing positions in Reckitt Benckiser and National Grid over the year. The managers believe that sectors such as consumer staples and utilities could offer resilience in an environment of weak global growth and ongoing trade tensions, as they tend to sell goods and services that remain in demand regardless of the economic environment. However, this year, the portfolio managers have reduced the allocation to the defensive supersector given it's an area that has done well and the risk-reward is less attractive.

Alex and Jonathan have continued to add names in the 'other GDP-sensitive' supersector, targeting companies that are well positioned to benefit from UK domestic consumption. They see this theme as particularly resilient, as UK consumers have saved more and cut back on consumption since 2022 amid concerns about inflation, interest rates, and the war in Ukraine. They notably added Frasers Group to the portfolio in Q4 2024, as the company provides broad exposure to UK consumer spending through its retailer chains Sports Direct, Evans Cycles, and House of Fraser. The managers have also added to housing-related names, including Crest Nicholson (introduced in Q1 2024) and Genuit. They believe that a downward shift in interest rates—driven by concerns over global growth—could lead to lower mortgage rates, which would support access to housing.

Whilst financials remain the largest absolute weight, its exposure has reduced since the beginning of the year. The sector, particularly banks, has been a strong source of performance since 2022, supported by higher interest rates and share buybacks. Alex and Jonathan reduced their position in Barclays and AIB largely due to valuations. They remain constructive on banks arguing they are better positioned to withstand a potential recession than the market expects, given the relative strength of corporate and consumer balance sheets. In contrast, Alex and Jonathan exited four holdings in the energy supersector during 2024, including Shell and Schlumberger in the fourth quarter. They believe valuations within this sector are not attractive and rising trade tensions could weigh on economic growth, dampening demand for commodities. Typically, earnings in this supersector tend to fall in periods of slow growth or recession.

Whilst UK-listed companies are not immune to trade tensions, Alex and Jonathan believe they are relatively well positioned, notably due to the defensive characteristics of the UK equity market. They also note that about a quarter of the revenues generated by the UK equity market are earned domestically, offering opportunities to partly offset negative trends in the global economy. Interestingly, FSV has an even greater domestic bias—with nearly 40% of the revenues of its portfolio companies generated within the UK—making it more sensitive to domestic factors and less to the global economy, relative to the index.

Fig.2: Supersector Positioning



Source: Fidelity, as of 31/03/2025

UK equities also continue to trade at attractive valuations compared to other major equity markets. We think this presents a potentially compelling entry point for investors, particularly if the market begins to reappraise the merits of UK assets. For instance, with capital flowing out of the US, we believe some of it could be redirected to the UK, thanks to favourable dynamics such as a stable political environment (a government with a large majority and some years to the next election), attractive dividend yields, record share buybacks, and an uptick in M&A activity. In fact, takeover offers have been a recurring theme for FSV since 2022, offering an additional potential source of alpha—even though Alex and Jonathan do not invest in a company with the expectation that it will be acquired. Since the start of 2025 (to the end of March), four of FSV's holdings have received takeover bids: internet services company Team Internet Group, engineering and consulting firm John Wood, food manufacturer Bakkavor, and Warehouse REIT, although none of these bids have been completed as of 03/05/2025.

In addition, FSV offers an even more attractive valuation than the FTSE All-Share Index. As the table below shows, the trust's portfolio trades on lower price-to-earnings ratios for 2025 and 2026, despite exhibiting stronger growth metrics—such as higher sales and operating profit growth—alongside lower leverage, which implies lesser financial risk. In our view, these characteristics position FSV as a compelling opportunity to gain exposure to the UK equity market, offering attractive valuations with better growth potential than the index, and a differentiated approach that sets it apart from other active strategies.

Gearing

FSV's gearing has increased marginally to 6.0% (30/04/2025), below its five-year average of 10%. Whilst valuations and the opportunity set remain attractive, markets have bounced back strongly since the tariff announcements and they believe markets are not fully discounting the impact. The 6.0% is within the 0% to 25% range in which the board expects gearing to remain under normal market conditions, although the policy permits a maximum gearing level of 40% of net assets.

A distinctive feature of FSV's approach to gearing is its use of derivatives—such as contracts for difference (CFDs)—rather than traditional borrowing facilities. This enables the trust to adjust gearing quickly and efficiently, without the need to negotiate credit lines, and allows for a more granular approach by gearing specific positions rather than the whole portfolio on a pro-rata basis.

Portfolio Characteristics

	FIDELITY SPECIAL VALUES			FTSE ALL-SHARE		
	2024	2025	2026	2024	2025	2026
Growth						
Sales growth (%)	1.9	2.5	5.3	-1.0	0.2	3.0
Operating profit growth (%)	7.8	7.8	10.1	-3.4	2.8	6.1
Valuation						
P/E underlying (x)	10.6	9.3	8.1	12.6	11.9	11.1
Price/book (x)	1.5	1.4	1.3	1.9	1.8	1.8
Returns						
ROE (%)	13.7	15.2	16.4	15.4	15.9	16.3
ROIC (%)	10.8	11.3	12.4	11.6	11.9	12.7
Leverage						
Net debt / EBITDA (x)	0.7	0.7	0.8	1.0	0.9	1.0

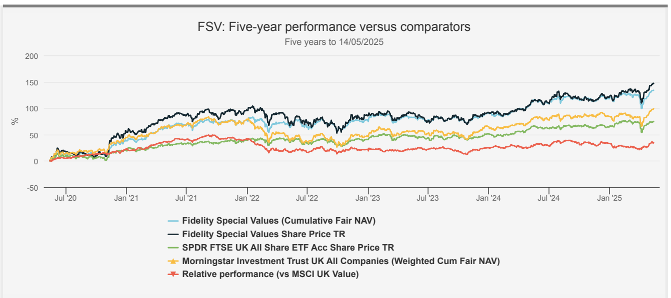
Source: Fidelity, data as 25/04/2025

Performance

FSV has been the best-performing investment trust in the AIC UK All Companies sector over the five years to 14/05/2025, successfully navigating a challenging environment characterised by rising interest rates, geopolitical tensions, and domestic political instability. Over this period, FSV delivered a NAV total return (TR) of 133.9% and a share price TR of 146.8%, significantly outperforming the Morningstar Investment Trust UK All Companies sector, which returned 98.8%. The trust also outperformed its benchmark, the FTSE All-Share Index, which generated a 74.5% return over the same timeframe.

The higher interest rate regime since 2022 has led to a rotation from growth to value in the UK equity market, a factor to which Alex and Jonathan tend to be strongly exposed due to their contrarian investment style, focussing on out-of-favour stocks trading on low valuations. That said, FSV's outperformance of the MSCI UK Value NR Index over the past five years—indicated by the red line in the chart below—demonstrates that the strong returns generated by the trust were not solely due to a stylistic tailwind, but also to other factors such as Alex and Jonathan's stock selection and sector allocation.

Fig.3: Five-year performance



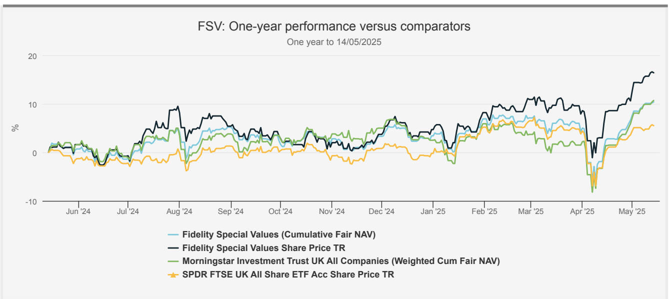
Source: Morningstar

Past performance is not a reliable indicator of future results.

FSV has also outperformed its benchmark over the past 12 months (to 14/05/2025), delivering a NAV TR of 10.4% and a share price TR of 16.4%, which compare favourably with the 5.5% return of the FTSE All-Share Index. The trust's bank holdings such as Standard Chartered, NatWest, and AIB Group notably supported performance. The banking industry has been benefitting from the higher interest rates environment, enabling them to increase their profits, notably because the difference between the interest they earn on loans and the interest they pay on deposits increases. FSV is now neutral to banks relative to the FTSE All-Share, reflective of the sector performing strongly and more attractive ideas elsewhere. However, FSV's performance was also supported by stocks outside of the banking industry, such as Imperial Brands. The increase in tobacco pricing enabled the cigarette maker to more than offset the decline in selling volumes, whilst the company has also seen an increase in the sales of next-generation products (NGPs), such as vapes or nicotine pouches. Alex and Jonathan believe in the transformational potential of the company but have moved some of the exposure to its peer, British American Tobacco (BAT) given its more attractive revenues in NGPs.

In terms of detractors, FSV's relative performance was impacted by underweight positions, notably HSBC and Lloyd Banking Group, which are not held in the portfolio. We note that these are the two largest banks in the FTSE All-Share Index and command higher multiples than most of FSV's bank holdings. However, some holdings also had a negative impact on performance, such as Wood Group, which saw a sharp decline in its share price following the announcement of a division review and significant write-downs related to legacy projects.

Fig.4: One-Year Performance

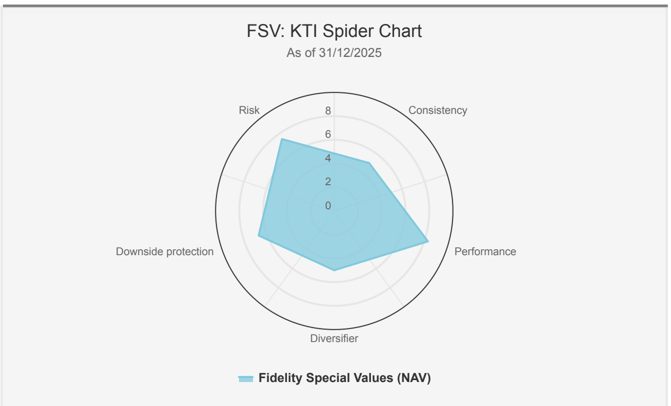


Source: Morningstar

Past performance is not a reliable indicator of future results.

Our proprietary KTI spider chart is shown below. This shows how FSV has performed versus a peer group of six UK All Companies investment trusts over the past five years, in some key categories. Each category is scored out of ten and scores are normalised to the peer group, with a higher score indicating a superior characteristic. FSV scores highly for performance, underscoring its good risk-adjusted performance versus sector peers over the period

Fig.5: KTI Spider Chart



Source: Morningstar, Kepler calculations

Past performance is not a reliable indicator of future results.

under review. However, its average score for consistency reflects the contrarian nature of the strategy, with FSV experiencing periods of strong outperformance as well as phases of underperformance. That said, the trust also scores highly on risk, as indicated by a strong Calmar proxy ratio, suggesting that investors have been well compensated for the level of risk taken.

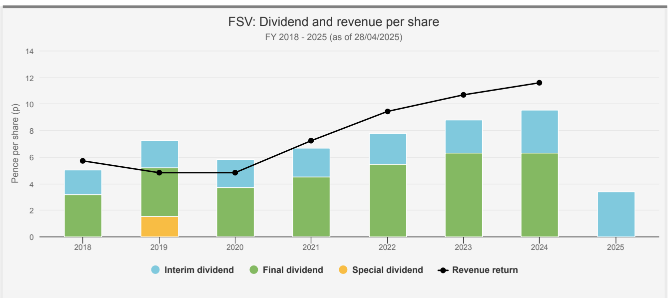
Dividend

The board recognises that dividends are an important component of TRs and can be beneficial during periods of subdued market conditions. Therefore, although FSV's primary aim is to achieve capital growth, the trust also pays a dividend.

The board's policy is to pay one interim and one final dividend each financial year to provide smoother dividend payments. An interim dividend for the 2025 financial year of 3.36p will be paid on 19/06/2025, representing a c. 3.7% increase compared to the interim dividend paid in the previous financial year. This means that FSV offers a historic yield of c. 2.8% at the time of writing, which compares with the AIC UK All Companies sector's simple average of 2.7%.

In addition, FSV has a 15-year track record of annual dividend increase—being as such part of the AIC's next generation of dividend heroes—and based on our calculations, the trust's dividend has increased at a compound annual growth rate of c. 11.8% between its financial years 2009 and 2024, significantly faster than UK inflation over the same period. In addition, FSV's dividend has been covered in every financial year since 2021 (inclusive), and as of 31/08/2024, its revenue reserve was sufficient to cover c. 1.5x the dividends paid by the trust during its 2024 financial year.

Fig.6: DPS & EPS



Source: Fidelity

Past performance is not a reliable indicator of future results.

Management

FSV has been managed by Alex Wright since September 2012. He has over 20 years' experience of investing in UK and European equities, having originally joined Fidelity in 2001 as a research analyst. In his time at the firm, he has rotated through a variety of sectors, including leisure, emerging European and African banks, alcoholic beverages, and UK small-cap stocks. He holds a first-class economics degree from the University of Warwick. Alex also manages the open-ended Fidelity Special Situations fund, which has around £2.8bn in assets, and is largely similar in approach to FSV. Alongside Alex is co-manager Jonathan Winton. They have worked closely together since 2013 in the UK equities team, before Jonathan formally became co-manager in February 2020.

Alex and Jonathan have access to Fidelity's global equity research team, consisting of 135 equity analysts covering the US, Europe, Pan-Asia, and Emerging Markets. This team also have specialists in shorting and quant analysis, as well as a team of ESG specialists. Overall, Fidelity has over 360 investment professionals and research staff working within its global research platform, where collaboration is strong across regions. Fidelity has long-term incentive plans in place that reward analysts for successful stock picking.

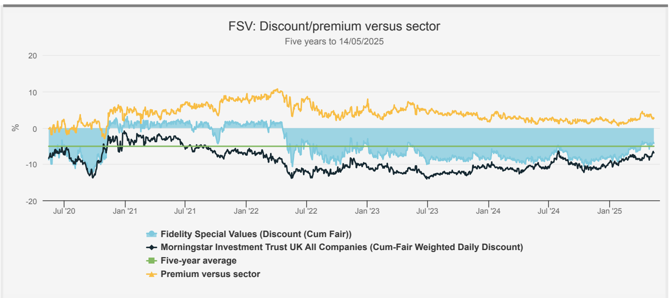
Discount

FSV's discount has more than halved over the past 12 months (to 14/05/2025), narrowing from 9.1% to 4.3%—below its five-year average discount of 5.1%. We believe this may reflect investors recognising the trust's strong performance in recent years. As a result, FSV now trades at the narrowest discount in the AIC UK All Companies sector, commanding a 3.5% premium over the peer group's weighted average discount.

Moreover, in 2025, the board has repurchased shares for the first time since October 2020, buying back c. 0.3% of the shares in issue since 29/01/2025. These share buybacks occurred amid a deteriorating market environment, related to trade policy uncertainty and signs of slowing economic growth. The board's discount management policy aims at keeping the discount to NAV in single digits under normal market conditions.

As the chart below shows, FSV traded at a premium until the second half of April 2022 but has since moved to a discount, reflecting a challenging environment for UK equities—notably due to higher interest rates, macroeconomic uncertainty, and lack of interest in the asset class amid a period of US exceptionalism. However, the Bank of England is expected to continue cutting interest rates in 2025, with the IMF forecasting three cuts this year—the most recent occurring on 08/05/2025. This could ease pressure on companies, especially small- and mid-caps, to which FSV has significant exposure and which tend to be more sensitive to monetary policy changes. Furthermore, with US equities falling out of favour, UK equities may benefit as capital could be redirected into the domestic market. As such, we believe FSV's discount could narrow further going forward.

Fig.7: Discount



Source: Morningstar

Charges

In its last annual report (dated 31/08/2024), FSV reported an ongoing charges figure (OCF) of 0.70%, which compares with the AIC UK All Companies sector's simple average of c. 0.68%.

The OCF includes a single-tier management fee of 0.6%, introduced in January 2021, and is based on net assets. FSV does not charge a performance fee.

Following regulatory changes to cost disclosure rules, FSV has not declared a KID RIY in its most recent publication of the document (dated 31/12/2024). There are imminent regulatory changes around KID RIYs, and whilst their phase-out appears likely, the outcome remains uncertain.

ESG

There are no formal ESG restrictions for Alex to consider when he is constructing his portfolio, though he remains cognisant of the risks each element may bring. He does believe that the consideration of governance factors is very important though, and this has always been a key part of the approach. The process looks to identify companies which can execute a turnaround and part of this requires strong management teams which are capable of delivering on the recovery strategies.

For assessing the environmental and social factors of a firm, Alex analyses how a firm's business operations are exposed to government policy goals. Where a firm's activities are likely to conflict with these, Alex and the team will engage with their holdings to find a solution that won't lead to friction, rather than using this as a way of excluding companies. Alex notes that companies are unlikely to operate in a way that actively goes against regulation, but using this approach is a good guide for identifying potential risks, as was the case with previous holdings in the gambling sector. The manager noted a clear increase in problem gambling and, as such, expected an increase in regulatory pressure. Alex reduced his allocation to the sector accordingly, although consolidation in the industry was also a driver of this reallocation.

Morningstar rates the trust as below average for sustainability when compared to a universe of open- and closed-ended peers, awarding it two out of five globes.

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.