Fidelity Special Values (FSV)

Kepler INCOME 2025

FSV has delivered impressive returns over both the short and long term.

Update
11 December 2025

Overview

Fidelity Special Values (FSV), managed by Alex Wright and Jonathan Winton, applies a contrarian approach to the UK equity market, focussing on overlooked and undervalued companies with the potential to enter a period of positive change, and investing across the entire market-cap spectrum. This approach has yielded impressive results over the past five years, with FSV significantly outperforming not only the FTSE All-Share Index and all its peers in the AIC UK All Companies sector, but also the US tech-heavy NASDAQ Composite Index. The trust's NAV **Performance** has also been robust since the beginning of the year, delivering double-digit returns, notably driven by bank holdings such as Standard Chartered and defence-related names such as Babcock International Group.

Alex and Jonathan note that UK large-caps have now reverted to their long-term average valuations, but they continue to find undervalued opportunities in the small- and mid-cap (SMID) space, particularly among companies exposed to domestic consumption. Since the beginning of the year, they have introduced names such as Frasers Group and Travis Perkins into the **Portfolio**. The trust has also continued to benefit from M&A activity this year, with several holdings having been subject to takeover offers. These include, for example, financial services company Just Group, which has agreed to be acquired by Canada's Brookfield Wealth Solutions, pending regulatory approval.

Gearing has been significantly reduced since the start of the year, standing at c. 3.4% at the end of October, as the managers often lower leverage following periods of strong performance. FSV is also expected to pay a **Dividend** of 10.2p for FY 2025, representing an increase of c. 7% year-on-year and resulting in a prospective yield of c. 2.5%.

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Analyst's View

We think FSV's outstanding performance, across various market environments, demonstrates the effectiveness of its contrarian strategy. It's particularly impressive that the trust has outperformed the NASDAQ Composite Index both over the past five years and year to date, with Alex and Jonathan demonstrating their ability to deliver outstanding returns despite all the negative sentiment around UK equities. Interestingly, it has actually been a strong period for UK equities, with the FTSE All-Share Index roughly keeping pace with standard global equity indices over the past five years, now that the strong rally in tech and ecommerce of the first wave of the pandemic has fallen out of the five-year numbers.

While UK equities have re-rated to their long-term valuation averages, they still trade at a discount to their international peers. Alex and Jonathan therefore argue that UK equities continue to offer a more attractive starting point than overseas equity markets. Moreover, the managers keep finding undervalued opportunities in the SMID space, as UK small- and mid-caps have not benefitted from the same re-rating as large-caps. The managers have notably built positions in companies exposed to UK consumption, highlighting that UK consumers, on aggregate, hold robust savings and have dry powder to spend. That said, it is important to note that consumption in the UK has remained subdued since 2022, and SMIDs tend to be more sensitive to macroeconomic conditions.

Finally, while not an income-focussed trust, FSV is on track to deliver its 16th consecutive year of dividend increase. Dividends contribute to total returns and may provide a cushion when share prices are flat or volatile. Moreover, FSV holds sufficient reserves to support further dividend increases.

BULL
Strong performance over both the short and long term
UK equities continue to trade at a discount compared to their international peers
Track record of dividend increases

BEAR
May lag peers in growth-driven markets
Bias toward small- and mid-caps increases sensitivity to macroeconomic conditions
Currently trading at a narrow discount, offering limited potential for further discount narrowing

Portfolio

Fidelity Special Values (FSV), managed by Alex Wright and Jonathan Winton, applies a contrarian approach to the UK equity market, investing in overlooked and undervalued companies that have the potential to enter a period of positive change. Their approach results in a portfolio that often looks very different from the FTSE All-Share Index, with it typically having an active share of c. 80%. In addition, Alex and Jonathan usually hold between 80 and 120 stocks to ensure diversification and liquidity.

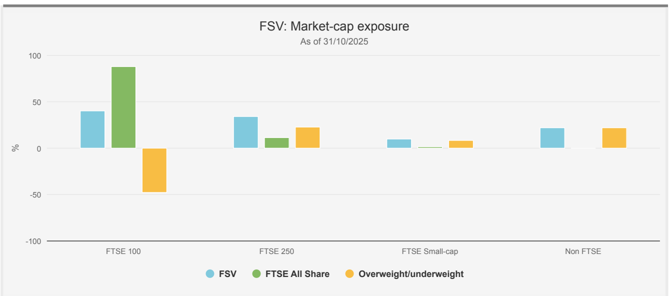
Investment ideas can be sourced through Fidelity's research team, as well as through quantitative screening and company meetings. Once an investment opportunity is identified, Alex and Jonathan perform downside analysis to help ensure that potential losses are limited. For this purpose, they consider earnings risk to understand volatility and key risk drivers, financial risk to make sure that a company is in sound financial health, and valuation risk to ensure that the price paid offers a margin of safety. They then look for potential drivers of positive change, whether internal or external. Once a company is selected, its position size in the portfolio is determined by the managers' level of conviction, its risk/reward profile, the strength of its franchise and balance sheet, and the liquidity of its shares.

Alex and Jonathan do not aim to hold a stock indefinitely and will sell once it has reached a share price close to their upside target. Typically, their investee companies go through three stages: the first is when positive changes are beginning to occur; the second is when the market starts to recognise these changes, and the third is when they are fully reflected in the share price, at which point Alex and Jonathan trim or even exit their position. For example, Babcock International, a provider of engineering and support services primarily to the defence sector, was introduced in the portfolio during the trust's FY 2020 after the company had experienced a range of challenges, including lower government orders. The company then underwent a turnaround under a new management team, improving its balance sheet, while surging geopolitical tensions and the resulting increase in defence expenditure since 2022 have supported organic growth. As a result, Alex and Jonathan have been progressively trimming their position, noting that defence stocks have become fashionable and that this is now reflected in valuations. In general, Alex and Jonathan hold their investee companies for three to five years, reflecting the time often required for a turnaround situation to play out.

In addition to recovery situations, another route to generating returns can be M&A activity, which has intensified since 2021. Alex and Jonathan believe this reflects the value available in the UK equity market, although they do not invest in companies specifically on the expectation that they will be acquired. Rather, this is a by-product of their contrarian approach, which focusses on overlooked companies trading on low multiples, making them attractive targets for domestic consolidators, overseas acquirers, or private equity firms. Since the beginning of the year (to 31/07/2025), ten of FSV's holdings have received takeover bids, with five of these resulting in completed deals. This includes, for example, Just Group, a financial services company specialising in retirement and pension-related products and services, which is being acquired by Canada's Brookfield Wealth Solutions, with the deal still subject to regulatory approval, and expected to be completed in the first half of 2026.

The managers also have the flexibility to invest across the full market-capitalisation spectrum, with FSV typically overweight in mid- and small-cap stocks (SMIDs) relative to the FTSE All-Share. As the FTSE 100 Index (UK large-caps) has performed strongly over the past five years, with valuations reverting to long-term averages, Alex and Jonathan have been further adding to SMIDs, particularly those exposed to domestic consumption. They note that many of these businesses have struggled since 2022, as consumption in the UK has been weak due to concerns about interest rates, inflation, and ongoing geopolitical conflicts, while investors have favoured large-caps, which tend to be more exposed to the global economy. While Alex and Jonathan highlight that it is difficult to predict when sentiment in the domestic economy will improve, they highlight that UK consumers, in aggregate, are sitting on robust savings and therefore have the capacity to spend. They also believe that select holdings could benefit from idiosyncratic factors. As such, Alex and Jonathan built new positions in retailer Frasers Group (which notably owns Sports Direct) and Travis Perkins, a distributor of building materials, in the first half of the year. These names come in addition to DFS, a furniture retailer, which was introduced into the portfolio late last year.

Fig.1: Market-Capitalisation Exposure



Source: Fidelity International

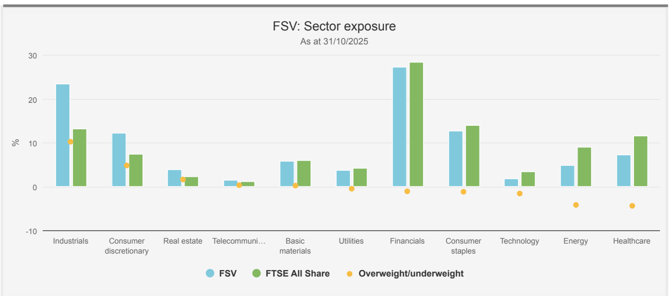
Alex and Jonathan can also allocate up to 20% of the portfolio to companies listed outside the UK. At the end of September 2025, their largest non-UK holding was

French oil company TotalEnergies, which was introduced into the portfolio in late 2024, with the managers taking advantage of the share price weakness caused by political turmoil in France. That said, energy remained FSV's largest underweight sector allocation relative to the FTSE All-Share Index, with Alex and Jonathan highlighting a challenging demand and supply backdrop for oil.

The trust holds its largest absolute sector weight in financials, although it represents a small relative underweight relative to the FTSE All-Share Index. Since the beginning of the year, Alex and Jonathan have sold their holding in Barclays and trimmed their position in AIB Group, as both stocks have rallied strongly. However, they remain constructive on banks, noting that many UK banks are cash-generative businesses with excess capital. As such, they have redeployed some of the proceeds into Lloyds Banking Group, following a more constructive outlook on the motor finance review, which weighed down the stock. That said, the allocation to the financials sector is not limited to banks, but also includes insurance companies such as Aviva, and asset managers.

Since last year, Alex and Jonathan have also built positions in names related to real estate, having identified several contrarian investment opportunities. In the past, this was a sector where they had limited exposure, given tight yields and an oversupply of office space due to the rise of remote working. However, they believe this dynamic has started to unwind, and they have been increasing exposure to areas offering higher yields and rising rental growth, favouring smaller companies to enhance the potential to benefit from consolidation. For example, they built positions in Empiric Student Property and Warehouse REIT last year, both of which have been taken over this year – the former by a larger player in the student accommodation market, and the latter by US alternative investment manager Blackstone. More recently, they have introduced Derwent London, a property and development company, into the portfolio.

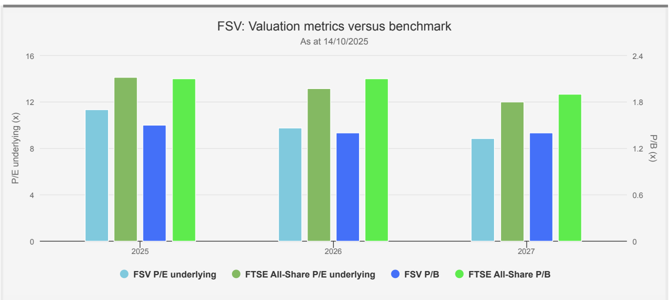
Fig.2: Sector Allocation



Source: Fidelity International

While UK equities have delivered strong returns since the beginning of the year, Alex and Jonathan note that they still trade on lower multiples than peers in other developed markets. As such, they believe UK equities offer investors a compelling starting point. In addition, FSV's portfolio itself trades at a discount to the FTSE All-Share Index, with lower forward P/E and P/B ratios, as the bar chart below shows.

Fig.3: Valuations



Source: Fidelity International

Meanwhile, FSV is expected to deliver stronger sales and operating profit growth than its benchmark over the next two years, alongside lower net debt/EBITDA. Meanwhile, return on equity and return on invested capital are expected to be only slightly below those of the FTSE All-Share Index. In other words, FSV offers a portfolio of companies trading at more attractive valuations than the benchmark, with stronger growth potential, less leverage, and broadly similar efficiency (i.e. how effectively its investee companies use their capital to generate profits).

Growth And Returns Metrics

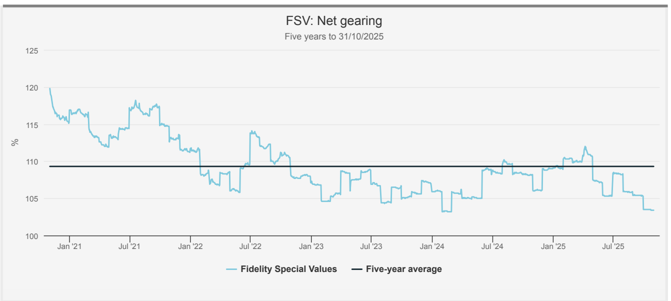
	FIDELITY SPECIAL VALUES			FTSE ALL-SHARE		
	2025	**2026**	**2027**	**2025**	**2026**	**2027**
Growth						
Sales growth (%)	-0.4	3.6	5.1	-1.7	2.3	3.5
Operating profit growth (%)	2.5	11.3	10.3	-2	6.7	6.7
Returns						
ROE (%)	13.8	14.9	16	15.6	16.1	16.7
ROIC (%)	11	11.9	12.8	11.4	11.9	12.9

Source: Fidelity International, as at 14/10/2025

Gearing

FSV's gearing has been progressively reduced since the beginning of the year, falling from c. 9% at the end of 2024 to c. 3.4% at the end of October 2025. This reflects the elevated level of M&A activity since the start of the year, which has resulted in significant cash inflows back into the portfolio, thereby reducing the level of gearing. That said, in the annual report the board has stated that it expects gearing to increase again over the medium term, particularly as Alex and Jonathan continue to find attractive investment opportunities, notably in the small- and mid-cap space.

Fig.4: Net Gearing



Source: Morningstar

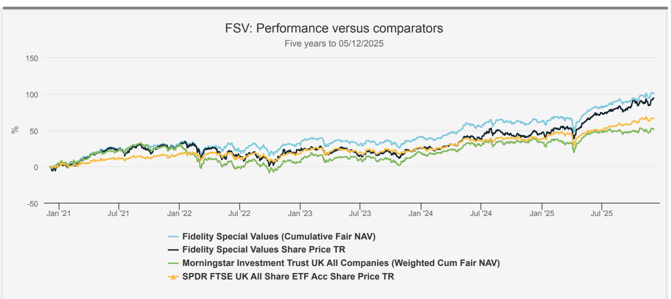
Unlike many investment trusts, FSV uses derivatives – such as contracts for difference (CFDs) – to gear the portfolio rather than traditional borrowing facilities. This allows Alex and Jonathan to gear specific positions rather than the portfolio on a pro-rata basis.

Performance

FSV's contrarian approach to the UK equity market has delivered exceptional returns over the past five years (to 05/12/2025). The trust has not only outperformed its benchmark and all its peers in the AIC UK All Companies sector, but has also delivered slightly higher returns than the US tech-heavy NASDAQ Composite Index. Over that period, FSV generated NAV and share price total returns (TRs) of 100.7% and 93.6% respectively, compared to 68.3% for the FTSE All-Share Index, 51.7% for the Morningstar Investment Trust UK All Companies sector, and 98.2% for the NASDAQ Composite Index. In fact, despite the negative sentiment, this has not been a bad period for UK equities, with the FTSE All-Share Index having kept pace with standard global equity indices; for example, the FTSE All-World Index returned 74.4% over the same period.

According to Morningstar, FSV's beta relative to the FTSE All-Share Index over the five years to 30/11/2025 was 1.06, while its annualised alpha was 4.10, indicating

Fig.5: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

that outperformance was achieved through strong stock selection and sector allocation combined with a slightly higher market risk exposure. The trust has benefitted from a stylistic tailwind, given the value factor – which the trust is most exposed to – has largely outperformed the growth factor in the UK equity market.

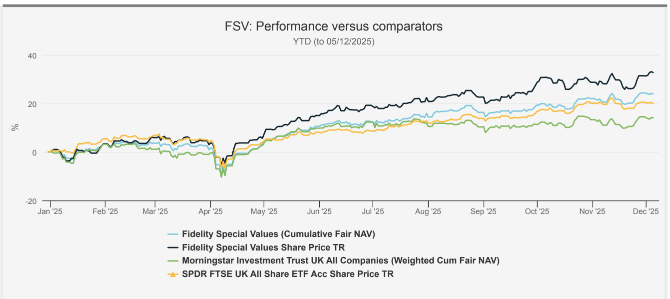
Since the beginning of 2025 (to 05/12/2025), FSV has delivered NAV and share price TRs of 24% and 32.7% respectively, compared to 20.8% for the FTSE All-Share Index and a weighted average return of 14% for the Morningstar Investment Trust UK All Companies sector. Interestingly, the NASDAQ Composite Index has generated returns of 15.3% over that period, meaning that FSV has also outperformed the US tech-heavy index over that timeframe.

Several bank names contributed to relative performance (versus the FTSE All-Share Index), including Standard Chartered, which reported a large increase in annual pre-tax profits and unveiled a substantial share buyback programme at the beginning of the year, as well as AIB Group, which delivered results ahead of consensus expectations. As a result of the strong performance of bank stocks, Alex and Jonathan have exited or trimmed their positions in some of these names, such as AIB Group, for instance. However, they remain constructive on banks and have introduced Lloyds Banking Group, a more domestically oriented UK bank, into the portfolio this year.

Defence-related names such as Babcock International Group and Serco Group were also important contributors to relative returns, notably due to higher defence spending commitments from governments and positive sentiment surrounding the sector. However, Alex and Jonathan believe that defence stocks have become 'fashionable', which is reflected in higher valuations, having led them to reduce their allocation. In addition, not holding some of the larger consumer staples constituents of the FTSE 100 Index, such as Unilever and Diageo, also supported relative returns. Both companies have experienced weaker earnings, while Diageo is seen as facing structural challenges stemming from reduced alcohol consumption and shifting consumer preferences in emerging markets. M&A activity contributed to FSV's absolute returns. Shares of companies being acquired are typically bought at an attractive premium. One example is Just Group, whose shares have surged nearly 70% since the end of July following the announcement of an acquisition deal with Canada's Brookfield Wealth Solutions. The transaction is expected to be completed in the first half of 2026.

Conversely, not holding HSBC and BAE Systems, as well as an underweight position in Rolls-Royce, had a negative impact on relative returns. HSBC is one of the UK-listed banks commanding the highest valuation multiples, while BAE Systems, as one of the most direct plays on the defence theme, is also trading on high multiples. Meanwhile, Alex and Jonathan used to hold a more significant position in Rolls-Royce but trimmed it early, acknowledging that its recovery had been stronger than they had expected. The portfolio managers have exited the position in Rolls-Royce following its strong run. In our view, this reflects the strategy, with Alex and Jonathan trimming or even exiting positions once their investment thesis has played out, rarely letting their winners run. Some holdings also hurt relative returns. One example is advertising holding company WPP, which has faced cyclical headwinds and market share losses, resulting in profit warnings this year.

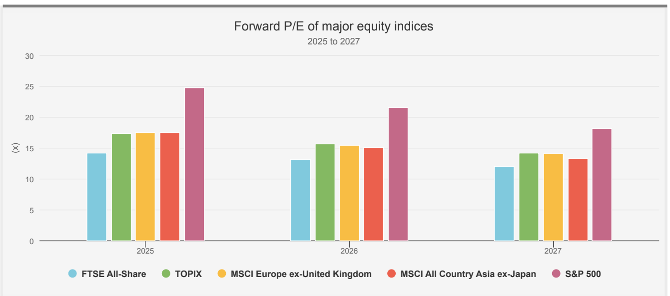
Fig.6: YTD Performance



Source: Morningstar
Past performance is not a reliable indicator of future results.

While valuations of UK equities have reverted to levels close to their long-term averages, Alex and Jonathan note that they are still trading at a discount not only to their US counterparts but also to continental European and Japanese peers, as the table below shows. As such, they argue that UK equities may offer a more attractive starting point than their international peers. Moreover, Alex and Jonathan continue to find overlooked opportunities in the small- and mid-cap space, which has not experienced the same level of re-rating. As such, FSV's portfolio is trading at a discount to the FTSE All-Share Index, with lower forward P/E and P/B ratios, while offering stronger growth potential, less leverage, and broadly similar efficiency (see **Portfolio section**).

Fig.7: Valuations



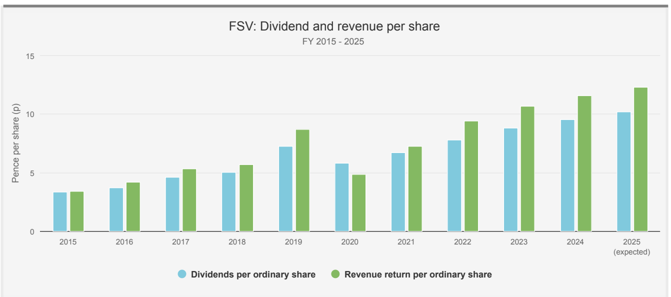
Source: Fidelity International, as at 14/10/2025

Dividend

FSV's dividend is distributed in two instalments each financial year. In its FY 2025, FSV paid an interim dividend of 3.36p, while the board has proposed a final dividend of 6.84p, subject to shareholders' approval, to be paid in January 2026. This should bring the total dividend for FY 2025 to 10.2p, representing a c. 6.9% year-on-year increase and marking the trust's 16th consecutive year of dividend growth, solidifying its place among the AIC's next generation of dividend heroes – a group of investment trusts that have increased their dividends for at least ten consecutive years, but fewer than 20. This also results in a prospective yield of c. 2.5%.

Earnings per share for FY 2025 were 12.28p, indicating that the dividend should be covered, which has been the case in most of the trust's past ten financial years. The only exception was 2020, when the trust used reserves to pay its dividend, as many companies reduced or cut dividends due to the turmoil caused by the COVID pandemic. As of 31/10/2025, marking the end of FY 2025, FSV's revenue reserves were sufficient to cover c. 1.7× the dividends paid during that year, giving the board flexibility to support further dividend increases in the event of a revenue shortfall.

Fig.8: 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 £3.9bn 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.

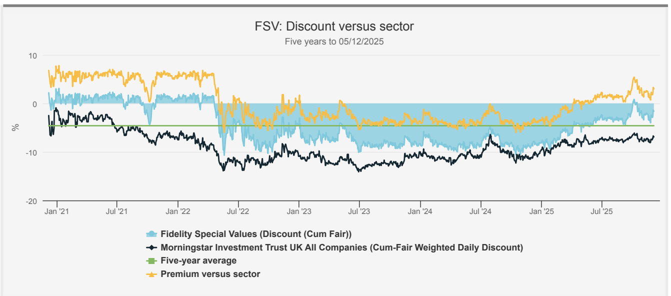
Discount

FSV has seen a significant narrowing of its discount over the past 12 months, moving from 8.8% to 1.6% as of 05/12/2025, with the trust even having commanded small premiums in early October. This may reflect the trust's strong long- and short-term performance track record, which could have attracted investors. FSV is also trading at a significantly narrower discount than the c. 7% average for the Morningstar Investment Trust UK All Companies sector. In fact, FSV has generally traded at a premium to its sector peers over the past five years, as the yellow line in the chart below shows, coinciding with a period of significant outperformance of its peers.

We believe FSV could see further demand for its shares, as investors have shown greater interest in equity markets outside the US this year. Moreover, we think the trust's contrarian philosophy, combined with a multi-cap approach, offers a differentiated take on the UK equity market, with few alternative options available. Meanwhile, with a market capitalisation of c. £1.3bn, FSV offers sufficient liquidity for a broad range of investors, including wealth managers and institutions.

The board aims to manage the trust's level of premium and discount, seeking to maintain a single-digit discount under normal market conditions. To that end, for the first time since October 2020, the board repurchased shares in the first quarter of 2025, buying back c. 0.3% of the shares in issue since 29/01/2025. That said, the board believes that raising the trust's profile is equally important for maintaining a narrow discount, through press coverage for example. The board is also authorised to issue shares when the trust is trading at a premium.

Fig.9: Discount



Source: Morningstar

Charges

In its last annual report (dated 31/08/2025), FSV reported an ongoing charges figure (OCF) of 0.68%, representing a reduction of c. 2 bps from last year . This compares with the AIC UK All Companies sector's average of c. 0.59%. We note that the impact of the OCF is already in the NAV and not a cost deducted from the price paid for the shares.

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.

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 that can execute a turnaround and part of this requires strong management teams that 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.

Morningstar has rated FSV as two out of five globes on its sustainability rating, with 95.15% of the portfolio covered as of 30/09/2025.

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