

Fidelity American Special Situations Fund

Opportunities in the US stock market

June 2017

Angel Agudo
Portfolio Manager

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1. Portfolio manager & team

Angel Agudo – a background with depth and breadth

12 years investment experience in a variety of sectors



Angel Agudo
Portfolio Manager

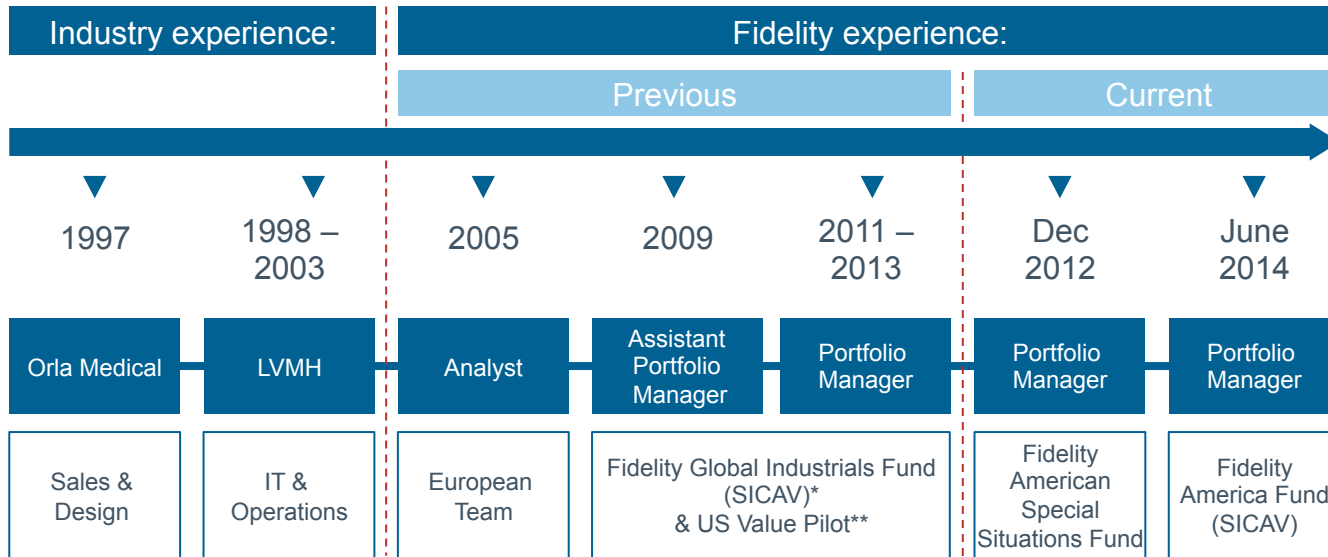
Based in: London

Years of investment experience: 12

Education:

MBA (IMD Business School)
(2004)

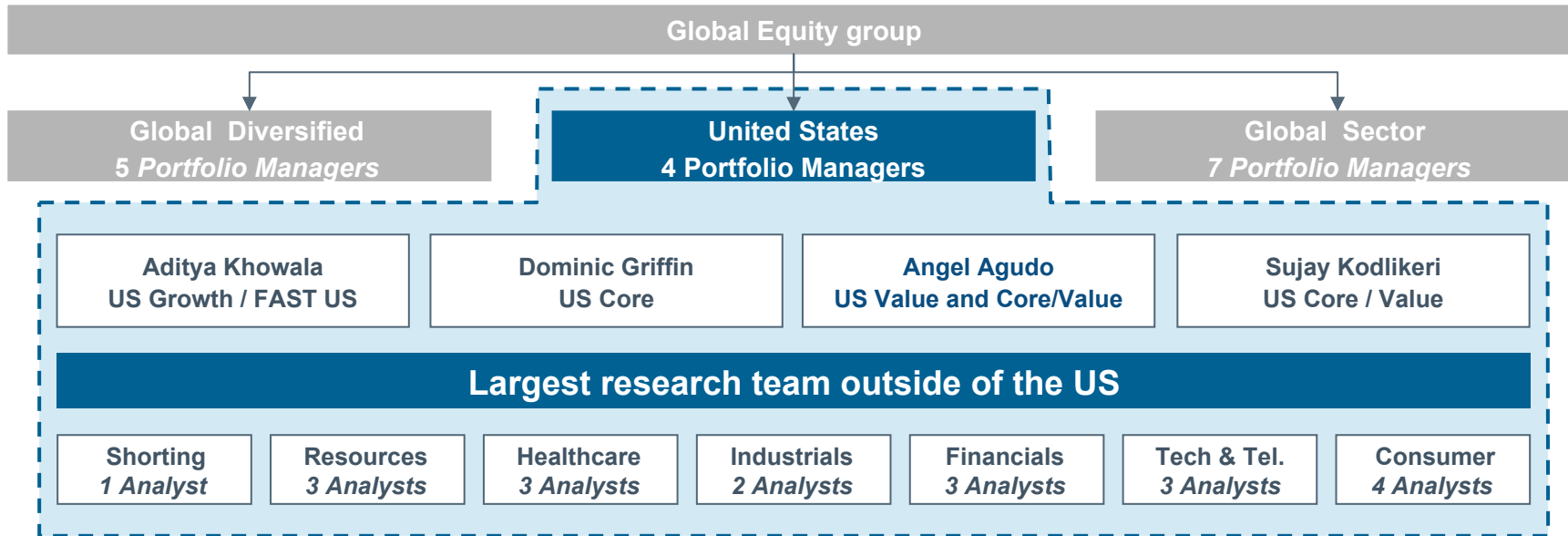
MSc Mechanical Engineering
(ICAI)



* Managed Fidelity Global Industrials Fund (SICAV) until December 2012 **Managed using same approach as Fidelity American Special Situations Fund.

Fidelity US equity capabilities

Working closely with the broader Global Equity group



Source: Fidelity International. Breadth of coverage Chart shows analyst positions. 31 May 2017.

Fidelity American Special Situations Fund – performance & risk vs. IA North America

Risk-return over manager's tenure vs. IA North America sector



Performance

Fidelity American Special Situations Fund (W Acc)	1y	3y Ann.	Tenure Ann.	5y Ann.
Return (%)	26.9	20.2	21.5	20.7
% of peers Beaten	10	87	90	91
Ann. Alpha	-3.7	1.5	2.0	2.3
% of peers Beaten	6	82	87	93
Information Ratio	-0.9	0.1	0.3	0.4
% of peers Beaten	16	86	91	95
Beta	1.00	0.96	0.97	0.97
% higher than	90	25	27	23
Tracking Error	5.3	6.2	5.5	5.2
% higher than	49	51	49	46

Top quartile ranking

Fund	Morningstar Star rating (overall)	Lipper - Consistent Return rating	Rayner Spencer Mills Rating
Fidelity American Special Situations Fund			

Source: Performance & risk metrics: Morningstar Direct. Basis: bid-bid, income reinvested in Pound Sterling to 31/05/2017, net of fees. Sector is IA North America. The tenure start date of the Fidelity Manager is 21/12/2012. Excess return, alpha, IR, Beta and Tracking Error for competitor funds were calculated against the S&P 500 NR index regardless of each fund's individual primary prospectus benchmark. Returns are net of fees. Tenure risk metrics calculated using full months performance only.

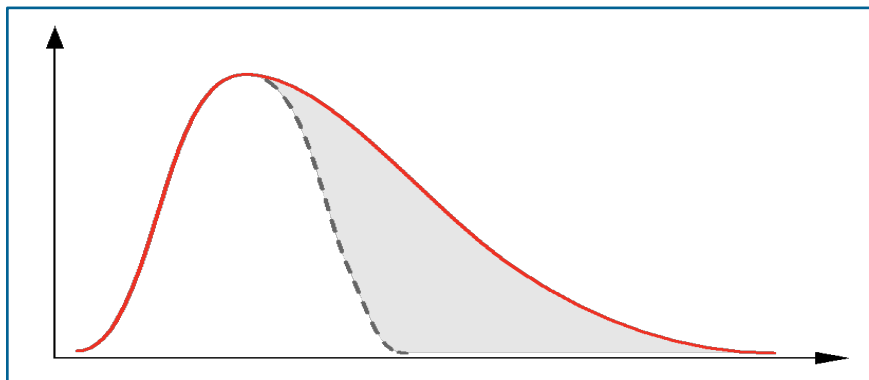
2. Investment philosophy & process

Investment philosophy

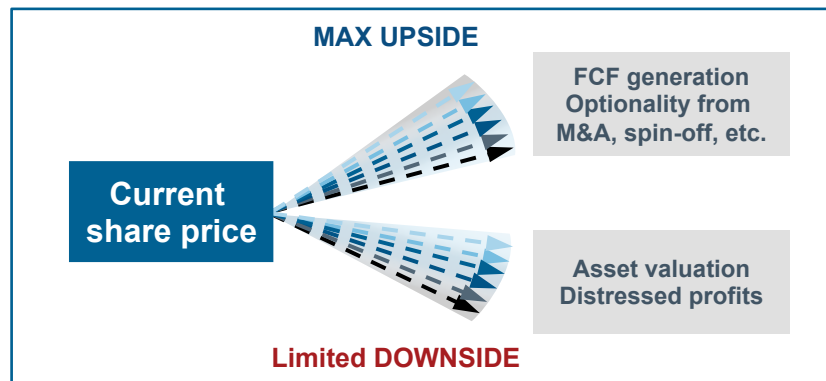
A strategy underpinned by value beliefs

- Focus on trying to know what could happen rather than what will happen by investing in a range of outcomes.
- Favour companies that have gone through a period of underperformance, where little value is ascribed to their recovery possibility, thus have a strong relative upside / downside potential.

Invest in a range of outcomes



Strong relative upside / downside potential

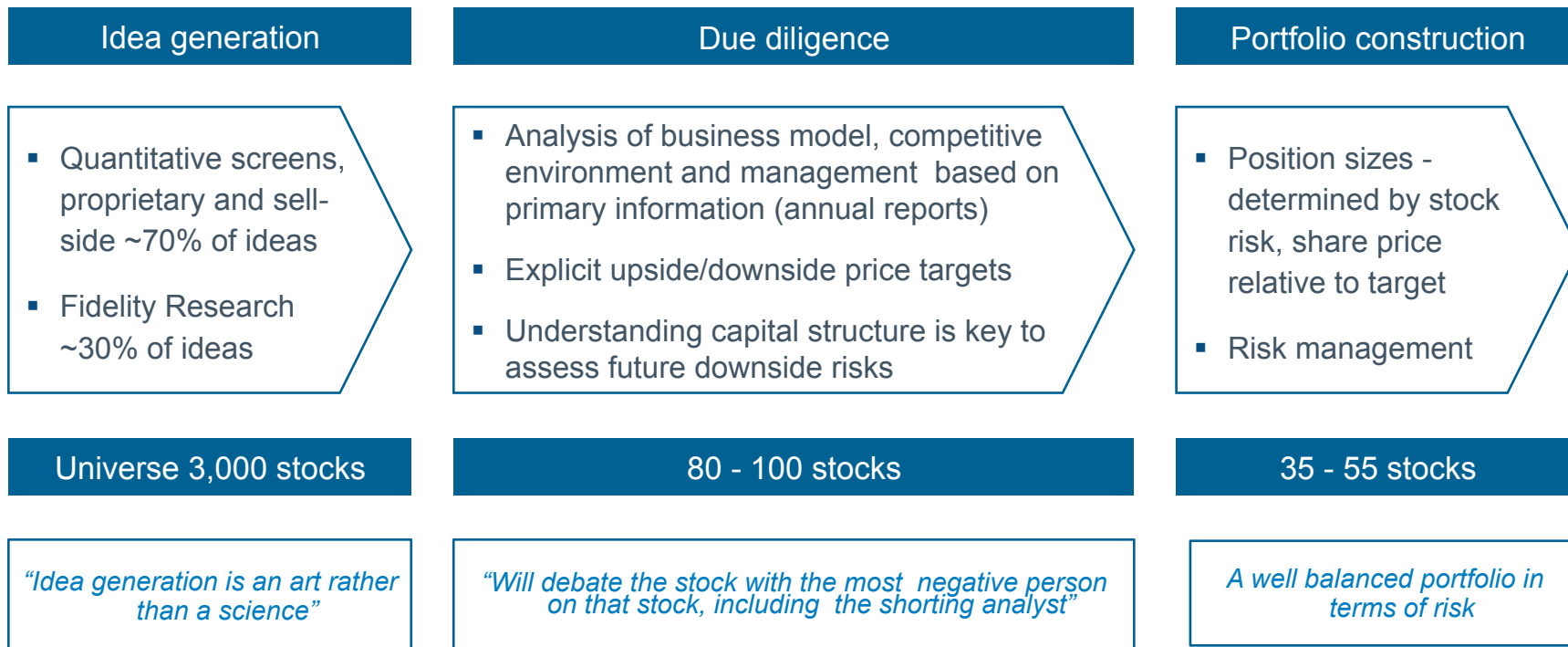


“Risk means more things can happen than will happen” Elroy Dimson

Source: Fidelity International.

Investment process

Focused and concentrated effort

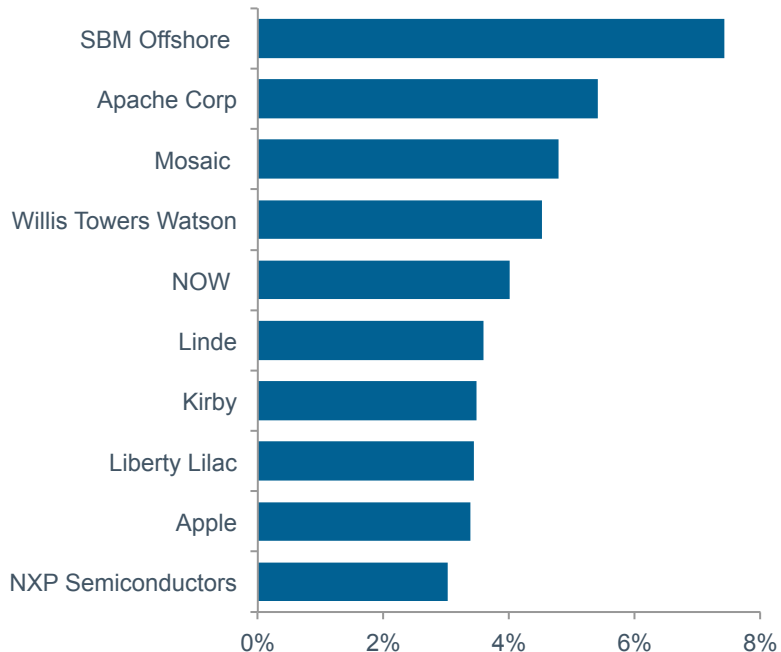


Source: Fidelity International.

Risk management

Portfolio construction and risk management

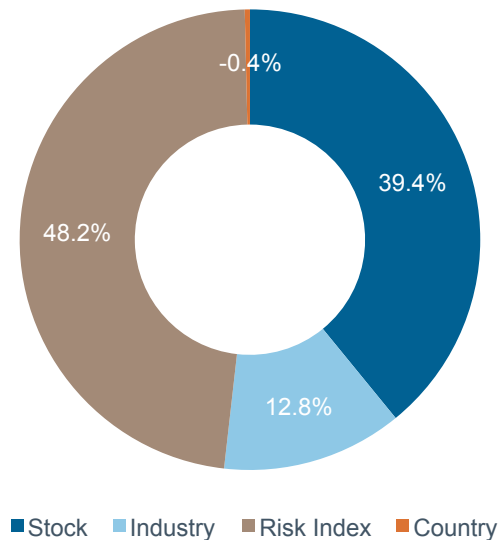
Top 10 risk contributors (% of TE)



Source: Fidelity International. 31 May 2017.

Stock specific risk is a key contributor

Representative tracking error decomposition relative to the S&P 500



Source: MSCI Barra & Fidelity International, 31 May 2017. Reference to security is for illustration purposes only and is not a recommendation to buy or sell.

Understanding upside analysis

Stock example: L3 Technologies

- Prime contractor in C3ISR systems, aircraft modernization and maintenance, and govt. services.

Reasons behind the underperformance

- Perceived to have disorganised assets with no clear focus
- Badly perceived management

Downside assessment: 95 USD

- Failure to successfully reshape its portfolio
- Reduced Govt. spending

Upside assessment: 162 USD

- Successful portfolio reshaping improves asset base, mix, top-line, margins and multiple.
- Efficient capital usage
- Strong free cash flow yield



Share price



Source: Fidelity International, Datastream, 31 May 2017. L-3 Communications changed its name to L3 Technologies, Inc., effective 31 December 2016.

Understanding upside analysis

Stock example: Mattel

- Multinational toy manufacturing company. Owner of Barbie, Hot Wheels and Fisher-Price.

Reasons behind the underperformance

- Company underperformed after it lost toy licences of Disney's Frozen and Princess brands to its rival.

Downside assessment: 16 USD

- Decline in sales of core brands
- Management's inability to re-infuse creativity
- Balance sheet stress, dividend cut and FX headwinds

Upside assessment: 45 USD

- Core brands stabilise and maintain positive growth
- Continued growth in international markets
- Margins are close to trough and there is huge scope for margin expansion
- Successful new product launches



Source: Fidelity International, Datastream, 31 May 2017.

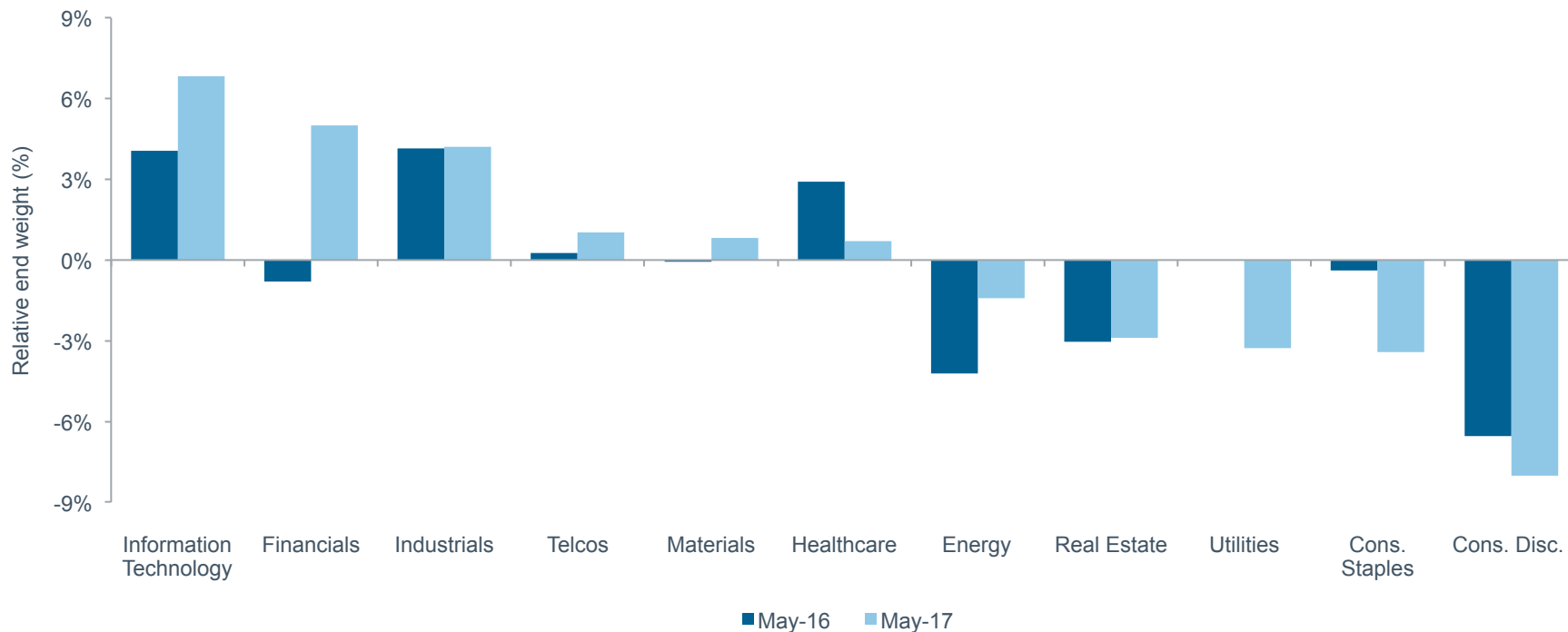
Share price



3. Positioning

Sector evolution - last 12 months

As at 31 May 2017



Source: Fidelity International as at 31 May 2017. Index used for comparison is the S&P500 Index, excluding cash. Where derivative instruments are held they are represented within the categories. Key trades have been mentioned.

Top 10 absolute positions

As at 31 May 2017

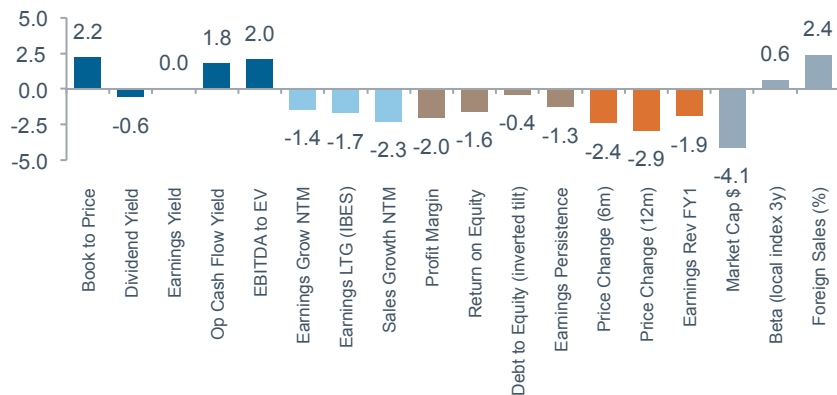
Holding	Sector	Fund (%)	Index (%)	Relative (%)
Oracle	I.T.	5.5%	0.7%	4.9%
Willis Tower Watson	Financials	4.5%	0.1%	4.4%
Berkshire Hathaway	Financials	4.2%	1.5%	2.7%
L3 Technologies	Industrials	3.6%	0.1%	3.5%
NXP Semiconductors	I.T.	3.5%	0.0%	3.5%
Verizon Communications	Telecoms.	3.2%	0.9%	2.3%
Molson Coors Brewing	Cons. Staples	3.0%	0.1%	3.0%
Pfizer	Health Care	2.9%	0.9%	2.0%
Bank of New York Mellon	Financials	2.8%	0.2%	2.6%
Abbott Laboratories	Health Care	2.4%	0.4%	2.0%

Source: Fidelity International as at 31 May 2017.

Where derivative instruments are held they are represented within the categories. Totals may not add due to rounding.

Portfolio characteristics

Characteristics tilt chart



Morningstar style map



Fund	Strategy	Index
Number of holdings	55	500
Average market cap	GBP 52.4bn	GBP 121.8bn
P/E ratio	15.4	17.8
P/B ratio	2.2	3.1

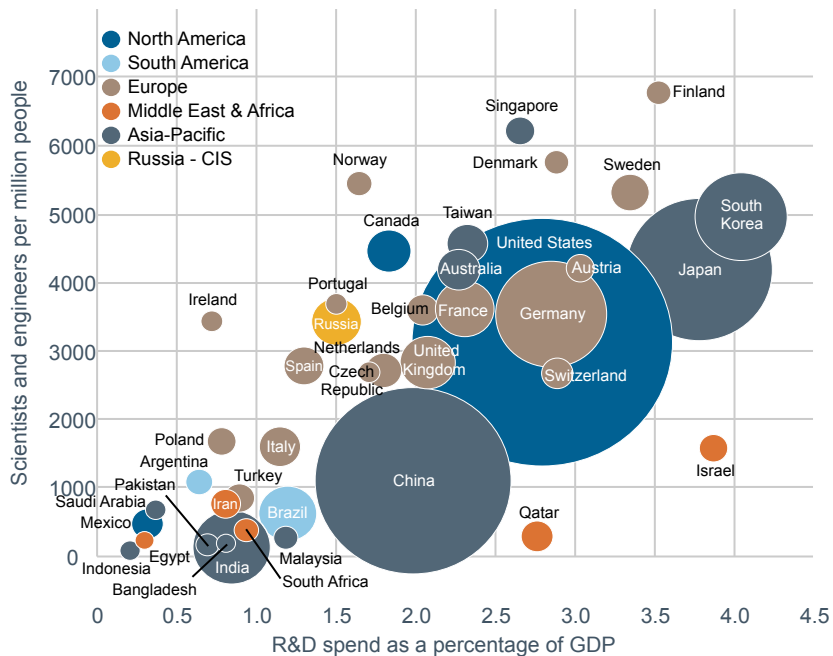
Fund	Strategy	Index
Annual turnover	30%	-
Active money	88%	-
Tracking error (ex ante)	38.24%	-
Beta (ex ante)	24.68	-
Volatility (ex ante)	17.0%	54.0%

Source: Fidelity International . Portfolio Skyline using Factset data as at 31 May 2017. Morningstar Style Map as at 30 April 2017. Portfolio characteristics as at 31 May 2017.

4. Market views

Innovation leader with strong margins and ROIC

Annual R&D spending 2016E



Source: ¹ 2016 Global R&D Funding Forecast, R&D magazine; ² As of August 2016

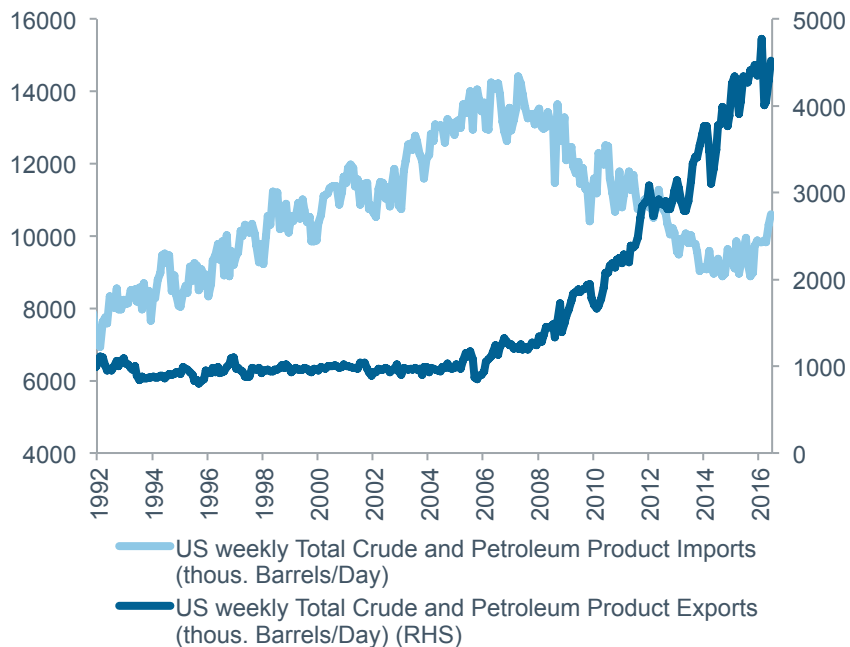
Regional sector valuation

		US	Europe	Japan	A-Pac	GEMs
Health Care	EV/NCI	2.85	2.39	1.39	4.62	2.27
	CROCI	18.6%	14.4%	9.8%	19.1%	11.3%
	Ec PE	15.3	16.5	14.3	24.2	20.2
Industrials	EV/NCI	2.26	1.72	0.95	1.02	0.95
	CROCI	11.7%	8.0%	4.8%	4.6%	4.5%
	Ec PE	19.3	21.6	19.8	22.0	21.2
I.T.	EV/NCI	3.71	2.54	0.85	1.58	1.58
	CROCI	25.7%	8.0%	3.6%	9.9%	9.9%
	Ec PE	14.4	31.6	23.5	16.0	16.0

Source: Deutsche Bank, CROCI report, March 2013

Energy independence

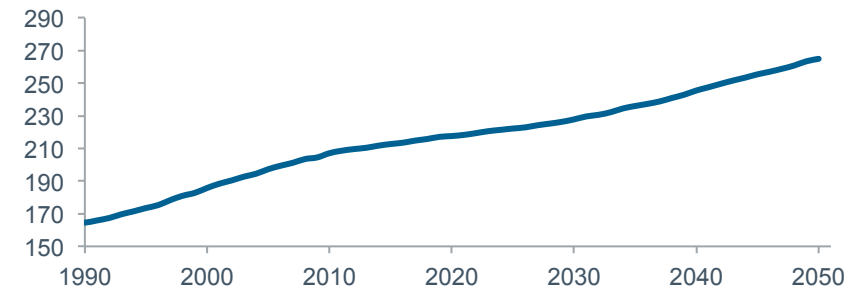
US's declining reliance on imported energy



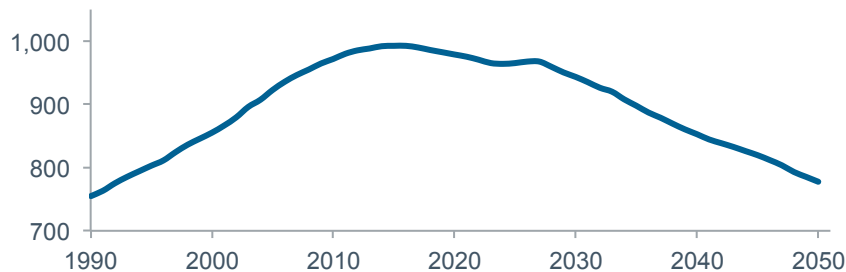
Source: EIA/Haver Analytics, December 2016

Positive demographics

US: population of working age (millions)














China: population of working age (millions)



Source: US Census, ISI Group. January 2015.
Note: Figures in millions of persons.

Impact of Trump's key policies

Policies	Market reactions
<p data-bbox="382 263 666 301">Fiscal spending</p> 	<p data-bbox="1122 263 1406 301">Infrastructure +</p>  <p data-bbox="1499 263 1686 301">Defense +</p> 
<p data-bbox="266 503 454 541">Tax reform</p>  <p data-bbox="575 503 803 541">Deregulation</p> 	<p data-bbox="1054 503 1222 541">Energy +</p>  <p data-bbox="1296 503 1518 541">Financials +</p>  <p data-bbox="1570 503 1783 541">Telecoms +</p> 
<p data-bbox="430 743 620 781">Healthcare</p> 	<p data-bbox="1161 743 1329 781">Pricing +</p>  <p data-bbox="1503 743 1682 781">Volume -</p> 

Source: Fidelity International. December 2016.

Aggregate margins near high

S&P 500: Operating Profit Margin



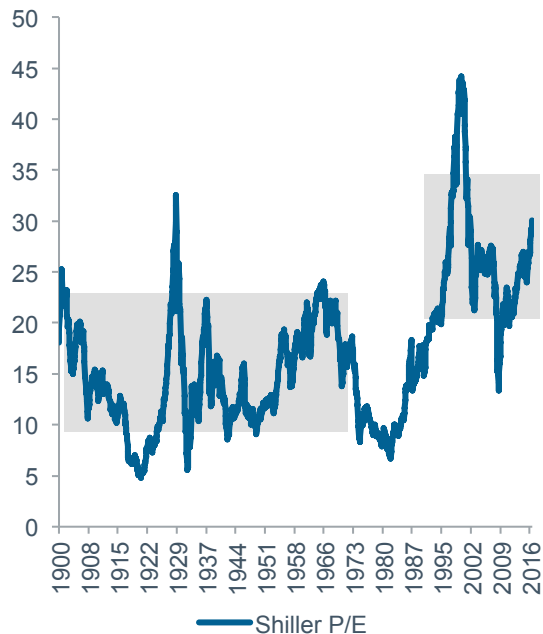
Margins for most sectors close to 25 yr highs

	Index Weight (%)	Current Op. Margin	Since 1990	
			Median	Percentile
I.T.	23.2	21.0	13.0	91%
Financials	13.7	21.1	16.6	86%
Cons Disc.	12.5	10.7	7.2	84%
S&P 500	-	13.0	11.9	79%
Materials	2.8	11.7	10.4	78%
Industrials	10.2	12.0	11.0	76%
Telecom	2.2	17.4	15.8	72%
Cons Staples	9.4	9.6	9.7	41%
Health Care	13.9	10.7	13.9	16%
Utilities	3.3	14.8	17.0	12%
Energy	6.0	-0.1	9.8	6%

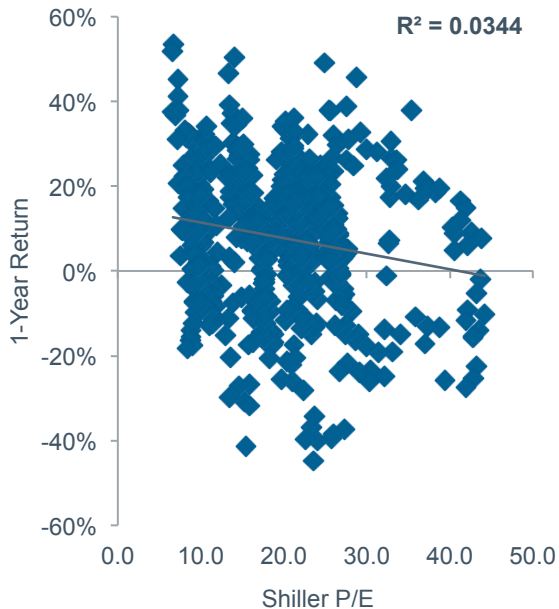
Source: Fidelity International. Bloomberg, 31 May 2017. RHS table excludes Real Estate with data as at 31 May 2017.

Relationship between P/E levels and returns

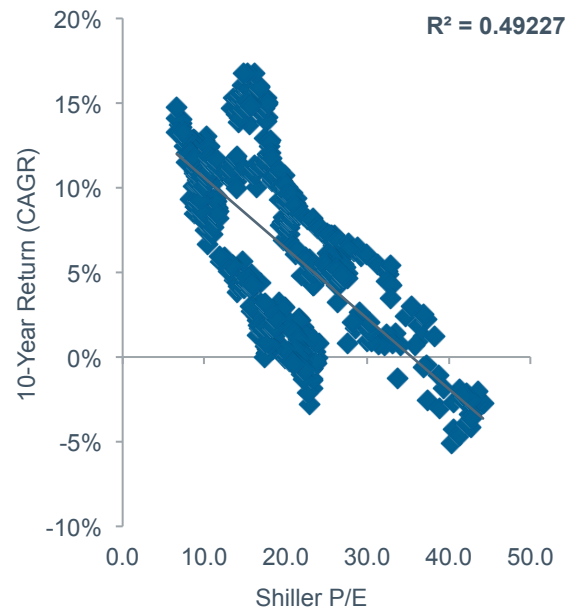
Shiller P/E¹



Shiller P/E vs. S&P 500 1-Year forward return²



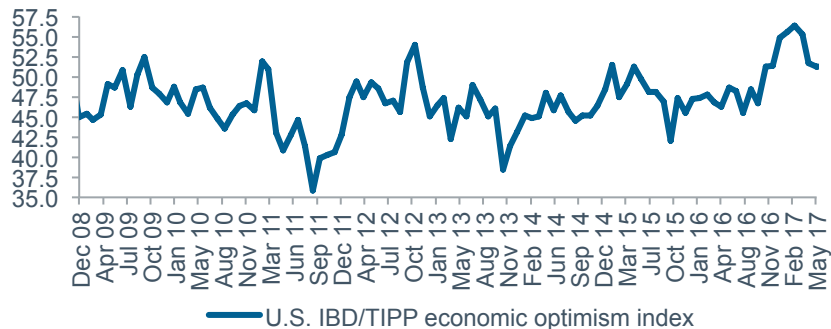
Shiller P/E vs. S&P 500 10-Year forward CAGR³



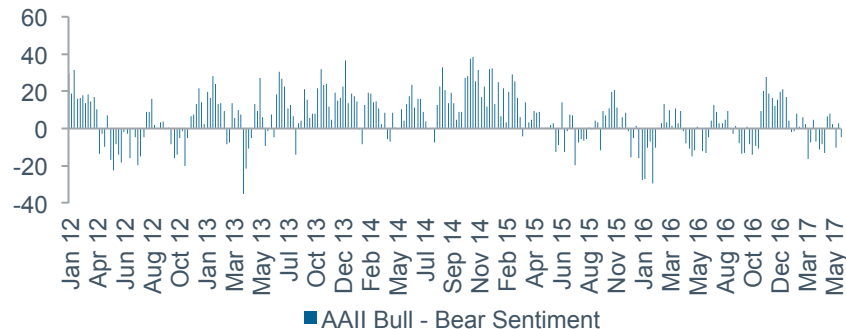
Source: Fidelity International, DataStream. ¹Yale. 31 May 2017. ²Shiller PE vs. S&P 500 price returns compared from January 1964 to latest possible. ³Shiller PE vs. S&P 500 price returns compared from January 1964 to latest possible.

Risks

Business Sentiment¹

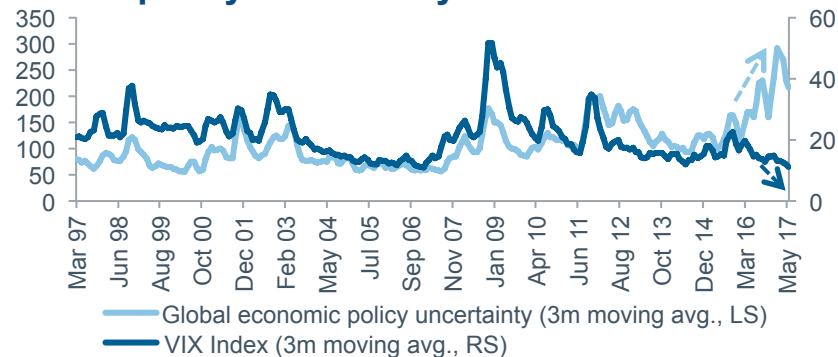


Investor Sentiment³

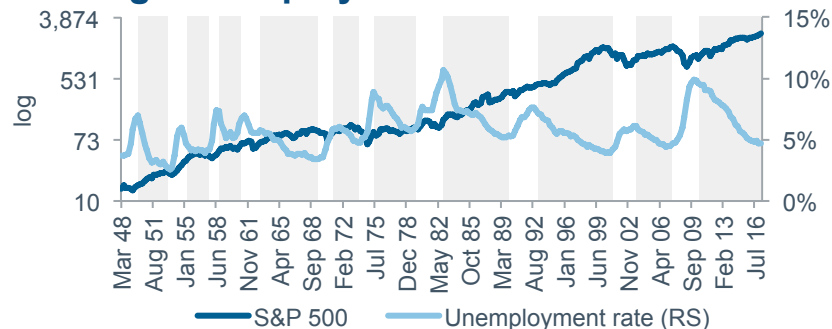


1. Source: Fidelity International. Datastream. 31 May 2017.
 2. Source: Policyuncertainty.com. Bloomberg. 31 May 2017.

Global policy uncertainty²



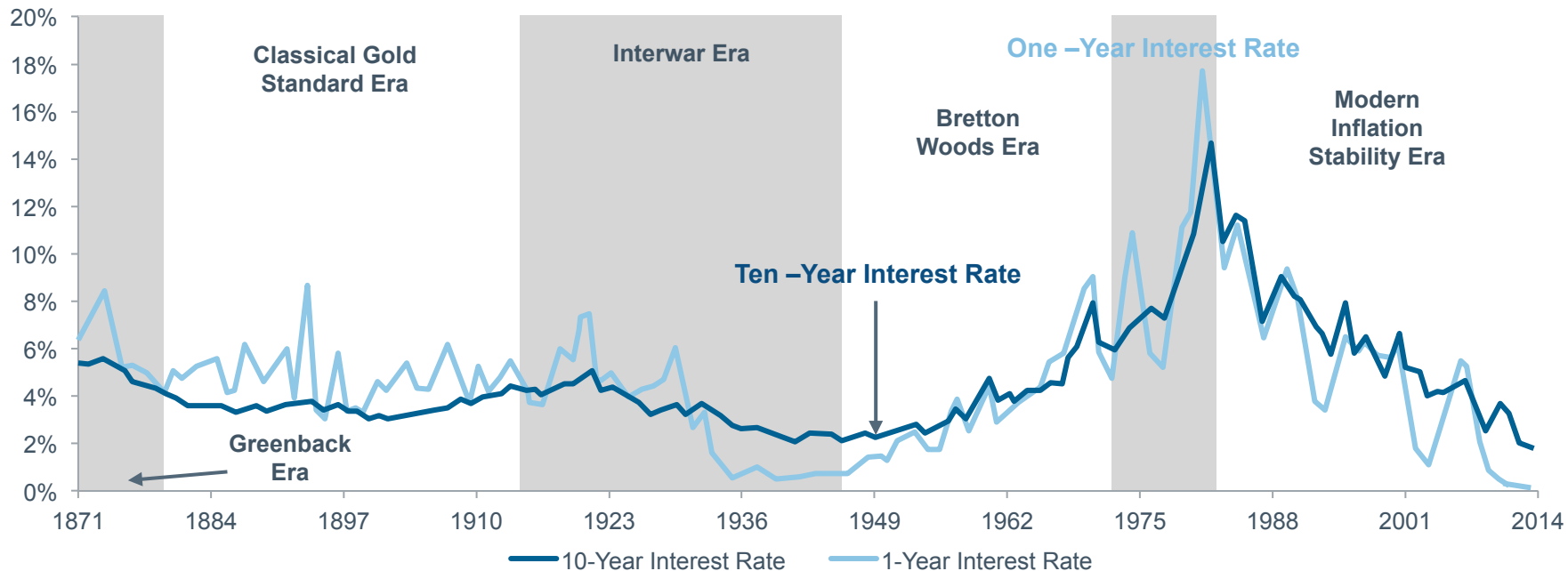
Nearing full employment⁴



3. Source: Bloomberg. 31 May 2017.
 4. Source: Bloomberg. Quarterly data. Latest as of Q1 2017.

What worked in the past might not work in the future.....

One-year and 10-year U.S. Nominal Interest Rates



Source: Robert J. Shiller (Yale University); Federal Reserve Board

Conclusion

- Despite aggregate valuations above historical averages, the US market continues to offer a wealth of investment opportunities
- Fiscal, tax reform and deregulation policies will be positive for growth but there is uncertainty around the implementation
- A highly active value portfolio has the potential of generating significant alpha over the long-term

Source: Fidelity International.

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