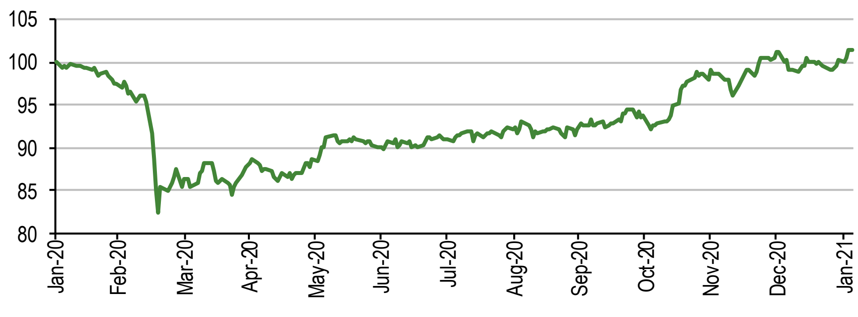
Fidelity Special Values

Benefiting from UK value stocks' return to favour

Fidelity Special Values (FSV) offers a value-based, contrarian investment approach aimed at achieving long-term capital growth through investment in overlooked and undervalued UK equities. Value investing has been out of favour for some years and the underperformance of UK value stocks worsened during last year's market sell-off. However, this created many opportunities which FSV's managers Alex Wright and Jonathan Winton sought to exploit and, with value stocks now returning to favour, their efforts are beginning to pay off. After a period of disappointing performance, particularly in Q120, FSV's returns have recently improved. The trust returned 24.7% in NAV terms in the three months to end January 2021, outperforming the UK market, which returned 16.5%. Despite the recent improvement in UK value stocks, they still offer value and there is scope for further upside if the improving economic outlook supports continued rotation into value stocks. FSV's managers believe the trust is well-positioned to take full advantage of this trend.

Regaining lost ground – NAV performance versus the UK market



Source: Refinitiv, Edison Investment Research

The market opportunity

After several years of poor performance, UK equities made some outright gains in late 2020, boosted by the arrival of several vaccines and a trade deal with the European Union. However, the market remains severely undervalued versus the World Index (Exhibit 2, RHS) and there could be scope for further absolute and relative gains, especially in overlooked stocks with good or improving fundamentals.

Why consider investing in Fidelity Special Values?

- A value-based, contrarian approach offering style diversification, at a time when UK value stocks are returning to favour.
- The use of gearing will support performance if the value rotation persists.
- A recent 25bp reduction in fees as part of a new flat fee structure.

Better performance and fee cut see return to premium

After trading mostly at a discount to NAV since the Q120 market sell-off, FSV's share price returned to a premium in late 2020, supported by improved performance and a recently announced fee reduction. It is presently trading at a premium of 2.2%. Based on its current share price, FSV's FY20 yield is 2.4%.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
UK equities

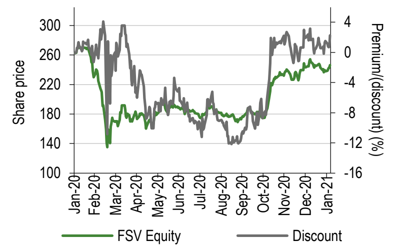
9 February 2021

Price	**246.5p**
Market cap	**£729m**
AUM	**£713m**
NAV*	241.1p
Premium to NAV	2.2%

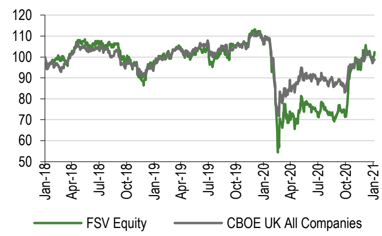
*Including income. As at 4 February 2021.

Yield	2.4%
Ordinary shares in issue	295.6m
Code	FSV
Primary exchange	LSE
AIC sector	UK All Companies

Share price/discount performance



Three-year performance vs index



52-week high/low	272.5p	135.0p
NAV* high/low	270.2p	150.8p

*Including income.

Gearing

Gross*	16.9%
Net*	16.9%

*As at 31 December 2020.

Analysts

Joanne Collins +44 (0)20 3077 5700
Mel Jenner +44 (0)20 3077 5720
investmenttrusts@edisongroup.com
Edison profile page

Fidelity Special Values is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Fidelity Special Values' investment objective is to achieve long-term capital growth, primarily through investment in the equities of UK companies that the managers believe to be undervalued or where potential has not been recognised by the market. Investments are only made in companies where the potential downside risk is understood, to limit the possibility of losses. The trust's performance is measured against a broad index of UK companies.

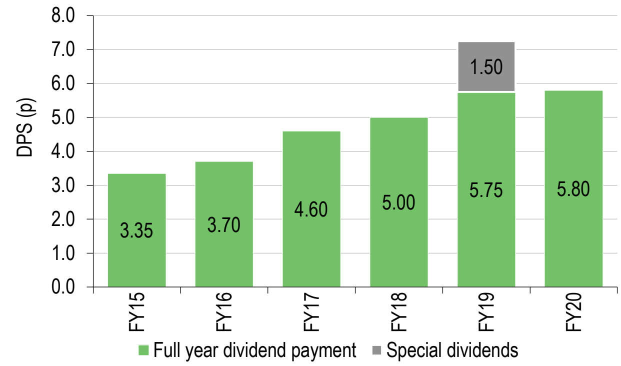
Recent developments

- 14 January 2021. FY20 final dividend of 3.70p per share paid, taking the total dividend for FY20 to 5.80p per share, a rise of 0.05p per share on FY19 total ordinary dividend payment of 5.75p per share.
- 5 November 2020: Final results for FY20 ended 31 August 2020. TR of -25.4% in share price terms and -18.5% in NAV terms, versus benchmark return of -12.6%.

Forthcoming		Capital structure		Fund details	
AGM	December 2021	Ongoing charges	0.97%	Group	FIL Investments International
Interim results	May 2021	Net gearing	16.9% (as at 31 Dec 2020)	Manager	Alex Wright, Jonathan Winton
Year end	31 August	Annual mgmt fee	New 0.6% flat fee effective from 1 January 2021.	Address	Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP
Dividend paid	June, January	Performance fee	None		
Launch date	17 November 1994	Trust life	Indefinite (subject to vote)	Phone	01732 361144
Continuation vote	Three-yearly (2022)	Loan facilities	One- CFDs used	Website	www.fidelity.co.uk/specialvalues

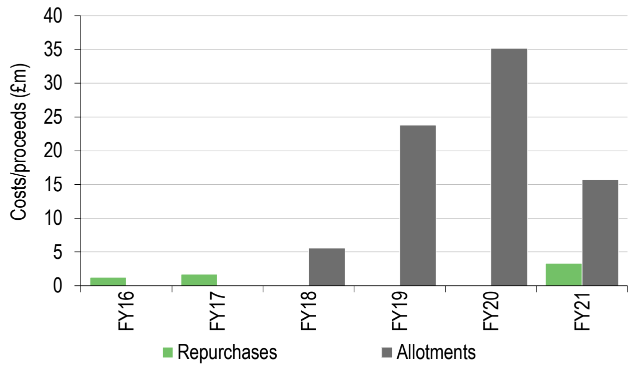
Dividend policy and history (financial years)

Since 2015, FSV has paid interim and final dividends, in order to smooth the dividend payment for the year.

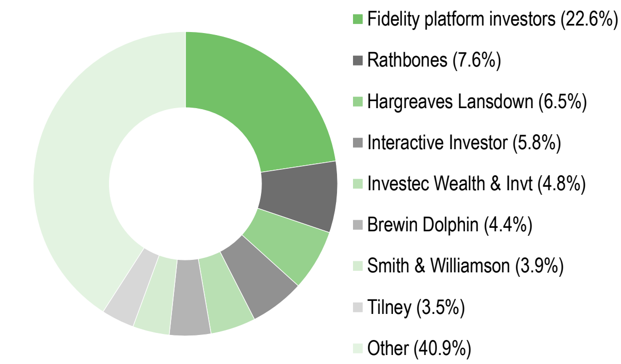


Share buyback policy and history (financial years)

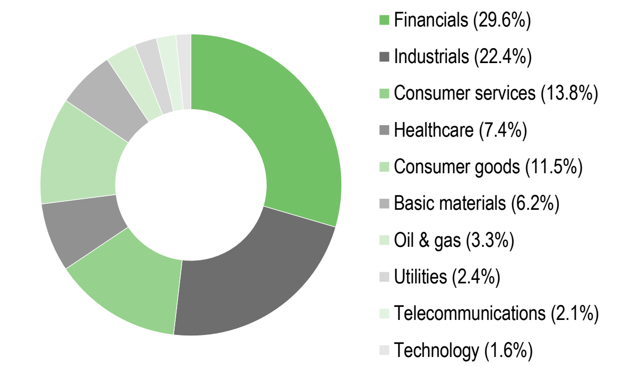
FSV has annually renewed authority to purchase up to 14.99% and allot up to 10% of its issued share capital.



Shareholder base (as at 31 January 2021)



Portfolio exposure by sector (as at 31 December 2020)



Top 10 holdings (as at 31 December 2020)

Company	Country	Sector	Portfolio weight %		Benchmark weight %	Active weight %
			31 Dec 2020	31 Dec 2019*	31 Dec 2020	31 Dec 2020
Legal & General Group	UK	Financials	4.7	3.3	0.7	4.0
Aviva	UK	Financials	3.9	2.9	0.6	3.3
Imperial Brands	UK	Consumer goods	3.3	3.8	0.7	2.6
John Laing Group	UK	Financials	3.0	3.7	0.1	2.9
Pearson	UK	Consumer services	2.7	N/A	0.2	2.5
ContourGlobal	UK	Utilities	2.4	N/A	0.0	2.4
Serco Group	UK	Industrials	2.4	N/A	0.1	2.3
Roche	Switzerland	Healthcare	2.4	4.9	0.0	2.4
Phoenix Group	UK	Financials	2.3	3.6	0.2	2.1
Halfords Group	UK	Consumer Services	2.2	N/A	0.0	2.2
Top 10 (% of portfolio)			**29.3**	**40.4**		

Source: Fidelity Special Values, Edison Investment Research, Morningstar. Note: *N/A where not in end-December 2019 top 10.

Market outlook: Investors starting to appreciate value

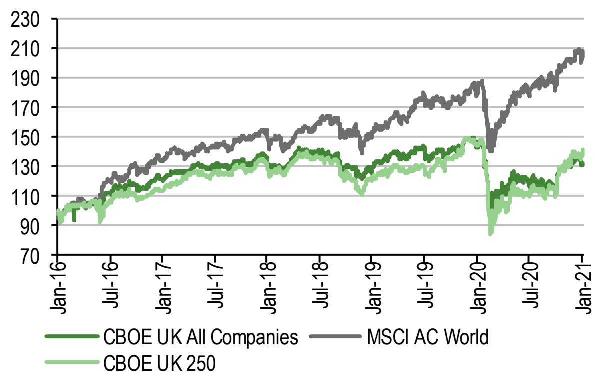
The coronavirus crisis hit the UK economy harder than most advanced economies. The IMF forecasts that UK GDP will contract by 10.0% in 2020, compared to an average decline of 4.9% across the advanced economies. However, UK growth is projected to rebound more strongly, with GDP forecast to rise by 4.5% in 2021 and by a further 5.0% in 2022, compared to forecast growth of 4.3% among its Western peers in 2021 and 3.1% in 2022. Recovery is likely to be supported by ultra-low interest rates, several rounds of very generous fiscal stimulus and a surge in discretionary spending once consumers are free to resume social and leisure activities and to travel.

During 2020, UK equity markets made only a partial recovery from the precipitous market sell-off in Q120. They spent the summer and autumn trading well below their pre-pandemic highs – a disappointing performance compared to many other markets, which regained most or all of the ground lost in the Q1 market turmoil and, in some cases, reached all-time highs. This underperformance of UK equities exacerbated a long-term trend (Exhibit 2, LHS). UK equities, especially UK value stocks, have been out of favour with investors for many years, particularly since the EU referendum of June 2016, which marked the beginning of years of uncertainty for businesses and investors as negotiations between the EU and successive UK governments proved tortuous and slow.

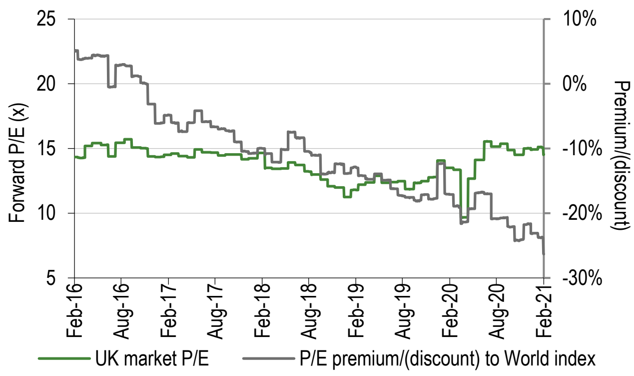
However, towards the end of 2020, UK equity market sentiment improved as investors welcomed the arrival of several vaccines, which served to ease worries about the near-term economic outlook, despite the emergence of more contagious strains of the virus in parts of the country. Markets rose further into year-end and early 2021 following the conclusion of a trade agreement with the EU, just days before the UK was due to leave the Union, with or without a deal. This agreement, although much narrower than many hoped, at least ensures the tariff-free flow of goods between the UK and the EU, and eases much of the uncertainty that has plagued the UK since the EU referendum. However, while UK stocks have improved in recent weeks, they remain at long-term lows relative to world markets, which might suggest scope for further gains. A recent pick-up in UK M&A activity may be another sign that foreign corporates and private equity investors are also beginning to recognise the value on offer in this market.

Exhibit 2: Market performance and valuation

Performance of UK indices (rebased to 100)



Data stream UK market forward P/E multiple vs Datastream World market



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 4 February 2021.

Fund profile: Seeking companies with upside potential

FSV was launched in November 1994 and has been managed by Alex Wright since September 2012. Wright aims to deliver long-term capital growth from a diversified portfolio of primarily UK equities. He employs an actively managed, contrarian investment style, seeking undervalued companies with the potential for positive change, rather than businesses just trading on low valuation multiples. He invests across the market cap spectrum, usually with an overweight to medium-sized and smaller companies. FSV's portfolio usually holds 80–120 companies, and up to 20% of the portfolio may be in overseas-listed firms. At the time of investment, no single stock will make up more than 10% of the portfolio, while up to 5% of gross assets may be held in unquoted securities. The trust's investment performance is benchmarked against a broad index of UK companies.

In addition to equities, the manager may also invest in other transferable securities, collective investment schemes, money market instruments, cash and deposits. Derivatives are permitted for efficient portfolio management and investment purposes. The board believes that long-term returns can be enhanced by the prudent use of gearing. While gross gearing of up to 40% is allowed, the manager typically employs a working range of zero to 20% net gearing. Contracts for difference (CFDs) are used to gear long exposure.

In February 2020, Jonathan Winton was appointed as co-manager alongside Wright. Winton, who joined Fidelity in 2005, is lead portfolio manager of Fidelity UK Smaller Companies Fund and he has worked alongside Wright in Fidelity's UK equities team since 2013. His appointment as co-manager of FSV is expected to strengthen its investment process by introducing greater challenge to decision-making and by increasing the team's capacity to meet more companies. However, Winton shares Wright's contrarian approach, so the investment philosophy and process will not change and Wright will retain responsibility for all investment management decisions.

The fund managers: Alex Wright and Jonathan Winton

The managers' view: A great time to invest in UK value stocks

Wright and Winton believe that in a world where most asset classes look expensive, UK equities, and especially value stocks, continue to look particularly attractive, even after some recent gains. 'There has been a very one-sided consensus in favour of growth stocks, where valuations looked stretched and against some quality businesses, with solid or improving prospects, which remain undervalued by the market,' Wright states. Even UK companies which have benefited from the pandemic have lagged their US counterparts. There are significant differentials in the performance of comparable stocks in the UK and the US, which Wright believes offer 'huge opportunities' with 'amazing upside potential'. He cites housebuilder Vistry, electronic goods retailer Dixon Carphone and premium auto dealer Inchcape as some examples of UK companies whose post-pandemic performance has trailed comparable US companies. The portfolio now holds all these names.

For Wright, the very unusual nature of the current recession is also generating opportunities. 'We have seen significant structural shifts in consumer trends and a rise in savings rates, which has benefited specialist retailers in areas such as bike sales, sporting equipment, electronics and DIY, as consumers have more disposable income and more time,' says Wright. Many people have also reassessed their housing requirements, as working from home has embedded itself in the culture of many businesses. FSV's manager believes this factor, combined with low mortgage rates, a stamp duty holiday and pent-up demand, has underpinned a significant pick-up in house sales and housing-related businesses.

FSV's managers are also excited by many other high-quality investment opportunities undervalued by the market. They see particular value in life insurers, which they believe are well-regulated, resilient companies offering an attractive combination of cheap valuations, strong supply/demand fundamentals, growing earnings and scope for strategic improvements.

However, Wright believes it is essential to be selective and he is very cautious about the prospects of businesses most affected by the pandemic. He notes that while the mass roll-out of vaccines will certainly be positive for businesses in the travel, leisure and hospitality sectors, many of these businesses have been weakened by the crisis and are likely to take some time to fully recover.

These reservations aside, Wright is convinced that 'now is a great time to invest in UK value stocks. This sector of the market has very good upside potential and we are well-positioned to take full advantage. The portfolio is now more balanced between defensives and cyclicals, skewed to the upside and relatively highly geared, to enhance returns in the upswing,' he concludes.

Asset allocation

Investment process: Research-driven stock selection

FSV's managers aim to generate long-term capital growth from a diversified portfolio of primarily UK equities. The selection process involves rigorous analysis, supported by Fidelity's well-resourced analyst teams, who research companies and meet their managements, suppliers, competitors and customers, to understand a business's fundamentals thoroughly. The managers also have access to a wide range of third-party research.

They have a contrarian investment style, focusing on companies in uncertain and complex situations, that have been unduly punished by the market in valuation terms, but which should, in their assessment, see positive change and improved returns over the long term. Once this potential becomes apparent to the broader market, there can be significant share price appreciation. Limiting downside risk is a key aspect of FSV's approach, so Wright looks for companies where investor expectations are not only low, but which also possess an important asset or business characteristic that will provide some support to their share prices.

Fidelity's analysts consider ESG factors to be an integral part of their in-depth fundamental research, as such considerations can highlight any potential risks. FSV's manager believes that corporate governance considerations are particularly important for contrarian strategies such as FSV's, which focus on unloved stocks and on limiting downside. However, rather than just avoiding poor ESG performers, Wright and his team engage with company management about their concerns and the company's plans going forward. This encourages improved practices over time and can also be a source of value creation, as any improvements in behaviour may translate into a re-rating by investors.

As an example of the value of such investor engagement, Wright cites ContourGlobal, a global power generation company which he acquired at a time when it was shunned by many ESG-conscious investors. He believes his team's subsequent dialogue with the company contributed to a marked shift in management attitudes. The company recently announced that it had abandoned plans to build a coal-fired power station in Kosovo and committed to making no further coal plant investments globally. This stock's subsequent re-rating by ESG conscious investors has made it one of the portfolio's strongest performers in 2020.

Current portfolio positioning

Early in the coronavirus crisis, the managers sought to raise the defensiveness of the portfolio by closing several positions in airlines and highly leveraged stocks, which they deemed particularly vulnerable to the commercial and social restrictions imposed in the UK and around the world. Exposure to oil companies was also reduced due to the sharp drop in oil prices. The managers are also wary about the impact of some energy companies' transition to renewables, which they believe will put pressure on their cash flows and their ability to distribute cash to shareholders. FSV's holdings in Shell and BP were sold, but the portfolio retained an exposure to oil stocks (3.3% as at end December 2020, down from 8.5% a year previously) in anticipation of a rise in the oil price over time. The manager has also trimmed holdings in several stocks that have detracted from performance due to their significant exposure to sectors decimated by the pandemic, including Meggitt, an aerospace and equipment and maintenance provider, C&C, a drinks supplier, and Hammerson, a shopping centre owner. However, some exposure to the former two names has been retained based on the view that they will survive the pandemic and perform well in the post-crisis recovery.

However, as the crisis unfolded over last spring and summer, the managers also began to respond to the many opportunities the pandemic generated, adding new names that were benefiting from the pandemic but overlooked by the market, and topping up existing holdings at attractive prices. They added exposure to the consumer sector via several companies which are seeing increased demand, including retailers Dixon Carphone, Studio Retail and Frasers Group and public transport alternatives, Halfords and Inchcape. The trust also bought or added to several UK and Irish housebuilders that were benefiting from an increase in demand for larger homes. These acquisitions included Vistry, the UK housebuilder whose recovery has lagged its US counterpart. They sought exposure to the associated trend towards DIY via Kingfisher.

Consistent with the managers' positive view on life insurers, discussed above, they also increased exposure to this sector. Three of FSV's top 10 holdings are insurance companies, including Legal & General Group in top place and Aviva in second place. Both positions were increased during the Q120 sell-off. The trust also held a position in Phoenix Group, whose subsequent strong performance has led the manager to take some profits on this position, but it remains FSV's ninth largest holding. Wright and Winton have also taken profits on Swiss pharmaceutical company Roche (although it is still a top 10 holding) and closed the position in Citigroup, although they have also acquired several smaller players including two Georgian banks – Bank of Georgia and TBC Bank – and Kaspi, the dominant consumer finance, e-commerce and payments platform in Kazakhstan. All of these companies are generating good returns but have been overlooked by the market. The portfolio also has a position in infrastructure company John Laing Group, which is now a top four holding.

In fact, on a sectoral basis, financials are FSV's largest position, comprising almost 30% of the portfolio at end-December 2020, which represents a 3.5pp overweight relative to the benchmark, thanks to its holdings in life insurers and secondary banks and despite its underweight to mainstream UK banks. Industrials make up 22.4% of the portfolio and represent its heaviest overweight to the benchmark (+9.5pp). Exposure to this sector comprises a mix of aerospace, defence and support services and construction-related companies. The portfolio's most notable underweight is in consumer goods (-5.6pp), where the manager considers companies to be too expensive, and the portfolio is also notably underweight oil and gas (-3.9pp) following its disposals of Shell and BP, discussed above. However, the portfolio still has four other positions in the energy sector.

The portfolio currently holds around 120 stocks, more than usual due to the number of opportunities the manager has been pursuing. Portfolio concentration has declined accordingly. At end December 2020, its top 10 holdings comprised 29.3% of the portfolio, down from 40.4% a year earlier. In general, in anticipation of a further improvement in UK equity markets, the managers have recently adopted a less defensive stance. In addition to purchasing more cyclical names, they have increased portfolio gearing. Net gearing stood at 16.9% at end-December 2020, compared to 4.4% in December 2019.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-Dec 2020	Portfolio end-Dec 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	29.6	30.5	(1.0)	26.1	3.5	1.1
Industrials	22.4	26.4	(4.0)	12.9	9.5	1.7
Consumer services	13.8	7.4	6.4	12.4	1.4	1.1
Consumer goods	11.5	10.6	0.8	17.1	(5.6)	0.7
Healthcare	7.4	8.0	(0.7)	9.0	(1.6)	0.8
Basic materials	6.2	4.8	1.4	9.0	(2.8)	0.7
Oil & gas	3.3	8.5	(5.3)	7.2	(3.9)	0.5
Utilities	2.4	3.3	(0.9)	3.0	(0.6)	0.8
Telecommunications	2.1	0.5	1.6	2.2	(0.1)	0.9
Technology	1.6	0.0	1.6	1.1	0.5	1.5
	100.0	100.0		100.0		

Source: Fidelity Special Values, Edison Investment Research

Exhibit 4: Portfolio breakdown by company domicile

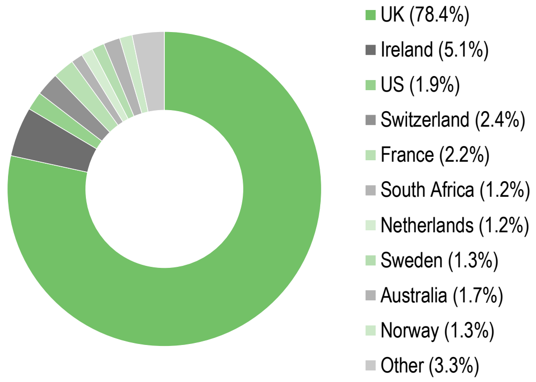
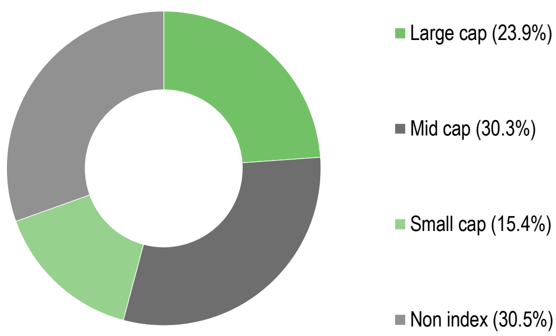


Exhibit 5: Portfolio market cap exposure



Source: Fidelity Special Values, Edison Investment Research. Note: Data at 31 December 2020.

Performance: Improving, over short and longer term

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK all Cos (%)	CBOE UK 100 (%)	CBOE UK 250 (%)	CBOE UK Small Cos (%)
31/01/17	22.9	21.6	20.9	0.9	13.8	15.4
31/01/18	17.3	16.5	11.3	0.9	14.5	19.6
31/01/19	(3.1)	(6.5)	(3.9)	0.8	(6.5)	(7.6)
31/01/20	9.2	11.4	10.5	0.8	18.3	13.7
31/01/21	(6.7)	(8.3)	(8.6)	5.3	(5.4)	(0.8)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

FSV's value-focused style has underperformed growth and momentum strategies for some time, and this was exacerbated by the onset of the coronavirus crisis. Performance, especially that of FSV's cyclical holdings, was disproportionately affected by the March 2020 sell-off. The portfolio fell 35.7% in NAV terms in Q120, compared to a market decline of 25.1%. However, performance began to improve thereafter as some of the portfolio's defensive holdings showed their resilience, surprising the market with stronger than expected results. Performance was boosted further in the last months of 2020, thanks to the improvement in investor sentiment towards UK value stocks following the arrival of viable vaccines and the conclusion of a Brexit deal, which bode well for an improvement in economic activity in 2021 (Exhibit 6, LHS).

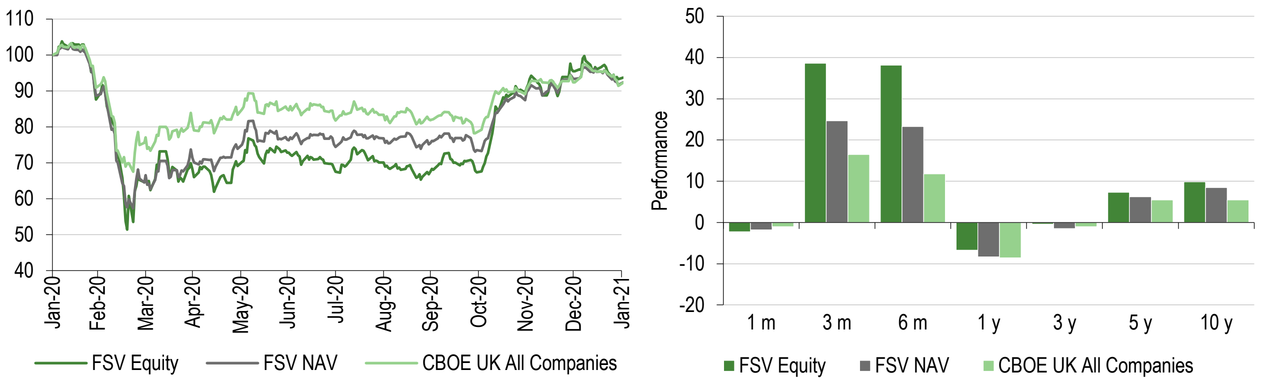
In the three months to end-January 2021, the portfolio returned 38.6% in share price terms and 24.7% in NAV terms, compared to a market return of 16.5%. This improvement in absolute and relative performance has made up for the ground lost in Q120. For the period ending 31 January 2020, on a NAV basis, the trust outperformed the broad UK market slightly over one and five years and more decisively over 10 years (Exhibit 6, RHS and Exhibit 7). It has also outperformed large-cap UK companies over five and 10 years and small-cap UK companies over 10 years.

The main contributors to the improved performance have been pharmaceutical company Roche, electricity generator ContourGlobal and fuel-to-medical products conglomerate DCC, all of which outperformed the market. FSV's life insurance holdings have also enhanced returns, having reported solid results that attest to their low cyclicality and improved solvency levels since the financial crisis. Especially strong gains by Phoenix prompted some profit-taking to make space in the portfolio for additional cyclical names that should benefit from a recovery in economic activity. In addition, retailers Frasers Group and Halfords surprised the market with better-than-expected results, due respectively to strong demand for sportswear and bikes, bike parts and car maintenance. Serco Group, the government outsourcer, has won new contracts related to the authorities' efforts to combat the virus and upgraded its profit expectations accordingly. Smaller, idiosyncratic positions such as SEMAFO, a gold miner which has benefited from a takeover, have also contributed to performance. On a sectoral basis, being underweight to oil and gas companies Shell and BP and two of the UK's major banks, HSBC and Lloyds, has also assisted.

These gains were partially offset by losses on a number of holdings which were disproportionately affected by measures to contain the virus. The largest detractors from performance were Meggitt, the aerospace equipment supplier, and C&C Group, an alcoholic beverage distributor hit by the closure of pubs and restaurants. Both positions were subsequently reduced given their ongoing exposure to severe limits on travel and social interaction.

Exhibit 6: Investment trust performance to 31 January 2021

Price, NAV and benchmark total return performance, one-year rebased | **Price, NAV and benchmark total return performance (%)**



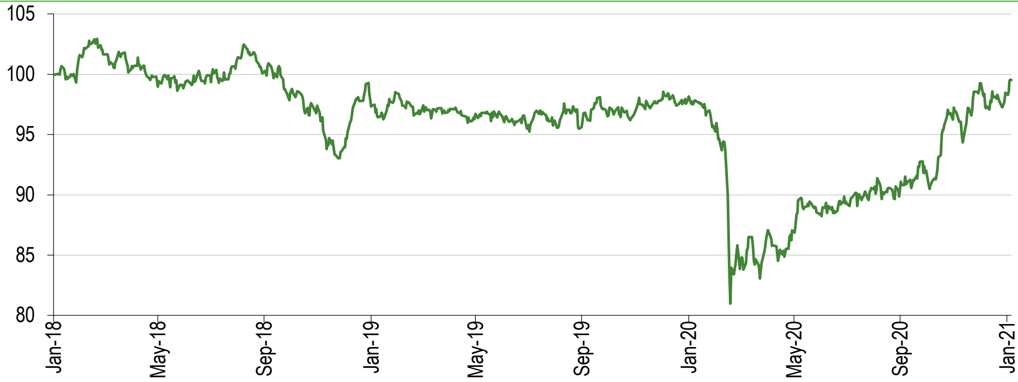
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(1.2)	19.0	23.6	2.1	1.8	9.0	49.5
NAV relative to CBOE UK All Companies	(0.8)	7.0	10.3	0.3	(1.5)	3.7	32.5
Price relative to CBOE UK 100	(1.2)	20.2	26.2	(11.4)	(7.8)	30.6	124.0
NAV relative to CBOE UK 100	(0.7)	8.2	12.6	(13.0)	(10.8)	24.3	98.5
Price relative to CBOE UK 250	(1.3)	12.7	10.8	(1.4)	(5.6)	4.4	7.6
NAV relative to CBOE UK 250	(0.9)	1.3	(1.1)	(3.1)	(8.7)	(0.7)	(4.6)
Price relative to CBOE UK Small Companies	(5.3)	8.1	3.2	(5.9)	(5.2)	(1.0)	53.5
NAV relative to CBOE UK Small Companies	(4.9)	(2.7)	(7.8)	(7.5)	(8.3)	(5.8)	36.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2021. Geometric calculation.

Exhibit 8: NAV total return performance relative to benchmark over three years



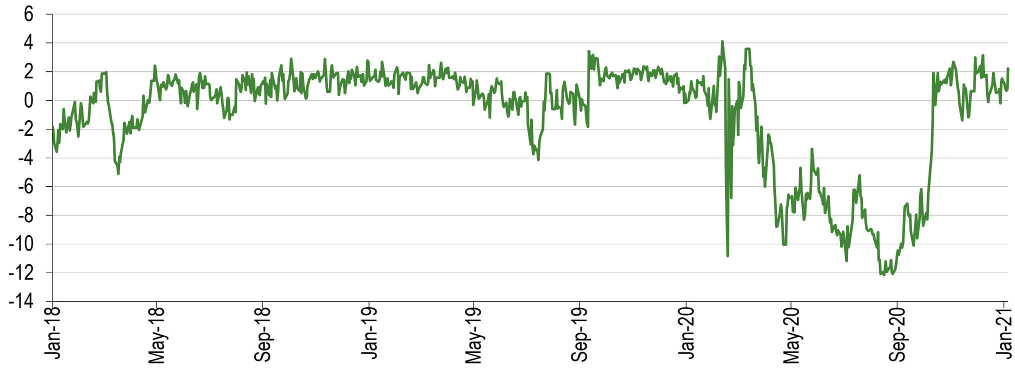
Source: Refinitiv, Edison Investment Research

Discount: Re-rated due to performance and fee cut

Like many other investment trusts, FSV's valuation experienced a period of volatility following the onset of the coronavirus crisis. The share price discount to NAV widened sharply in March 2020 and, after a period of instability, the discount settled in a range around 10% over the spring and summer. However, an improvement in performance and a positive reaction to the announcement of the new fee structure saw the discount narrow towards end-2020, returning to par, and shares have since traded mainly at a small premium. Its share price is currently trading at a premium of 2.2% to NAV, which compares with average discounts of 3.9%, 0.9%, 2.8% and 5.6% over the past one, three, five and 10 years, respectively.

The board's policy is to maintain a single-digit discount or a small premium to NAV in normal market conditions. It has the authority to purchase up to 14.99% of shares in issue, which it believes gives shareholders a level of comfort. The board can also allot up to 10% of issued share capital to satisfy demand for shares. In FY19, c 9.6m shares (c 3.6% of the end-FY18 share base) were issued and, as shown in the share buyback chart in Exhibit 1, allotments accelerated in FY20 (ended 31 August 2020) with a total of 13.9m shares issued (c 5.0% of the end-FY19 share base). So far in FY21, the board has repurchased c 1.0m shares into treasury and has subsequently issued 6.7m shares (to 5 February 2021).

Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

FSV is a conventional investment trust with one class of share. There are currently 295.6m ordinary shares in issue. The manager has scope to use net gearing in the range of 0% to 20% in normal market conditions. Net gearing stood at 16.9% as at end December 2020.

In November 2020, the board announced that it would reduce its management fee by 25bp from 1 January 2021, as it moved to a single fee of 0.6% of net assets. This replaces the previous tiered structure of 0.85% on the first £700m of net assets, reducing to 0.75% on net assets in excess of £700m. In addition, the fixed annual fee the trust pays to Fidelity for services other than portfolio management will be removed. The board estimates the reduced management fee will save the trust around £1.6m pa. The new structure will make the trust's fee more competitive with its peers in the AIC's UK All Companies sector. There has been no change to the investment process as a result of the new fee arrangement.

FSV is subject to a three-year continuation vote, the next of which is due at the December 2022 AGM.

Dividend policy and record

FSV pays two dividends a year in January and June, to smooth shareholders' payment streams. For the financial year ended 31 August 2020 (FY20), FSV paid an interim dividend of 2.10p per share in June 2020, equal to the interim dividend paid in FY19. A final dividend of 3.70p per share was paid on 14 January 2021, taking the total regular dividend for FY20 to 5.80p per share, up 0.05p (a rise of 0.9%) on FY19's regular dividend of 5.75p per share. Revenue for FY19 was substantially higher than the trust had earned in previous years, and this was distributed via the payment of a special dividend of 1.50p per share. The rise in the regular dividend in FY20 is the eleventh successive year of growth in regular dividend payments.

During FY20, the trust saw cuts to dividend payments by some of the companies in its portfolio, as they took precautionary measures to conserve cash or were compelled by regulatory pressures to reduce or suspend payments to shareholders. As a result, the trust's revenue per share in FY20 was 4.81p per share, down from 8.65p per share in FY19. However, FSV has built up revenue reserves over several years in order to be able to smooth dividend payments if necessary. At the end of FY20, revenue reserves stood at £17.7m and the trust drew on these to partially fund FSV's FY20 dividend. Of the 5.80p per share regular dividend paid in FY20, 0.99p per share (amounting to a total of £2.9m) was funded by revenue reserves. Based on the current share price, FSV currently offers a dividend yield of 2.4%.

Peer group comparison

FSV is the second largest fund within the AIC UK All Companies sector (Exhibit 10). The constituents of this group follow a variety of investment strategies so to provide a more meaningful comparison of the trust's performance, Exhibit 10 also includes a selection of investment trusts which, like FSV, adopt a value-based investment approach. FSV's recent performance has improved its ranking among its All Companies sector peers. Its total return is now ranked ninth over one year,10th over three years, ninth over five years and seventh over 10 years. The trust has also outperformed the average of its value peers over 10 years. It is one of only a few funds within its AIC sector, and within the broader value peer group, whose share price is trading at a premium to NAV. Its ongoing charge is above average for both its sector and among its value peers, but the recent fee reduction will make the charge more competitive. FSV's gearing is somewhat higher than the average of its peers, and its yield is slightly above the average for its sector, but below the average of the value peer group.

Exhibit 10: AIC UK All Companies sector as at 5 February 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Fidelity Special Values	728.6	(7.1)	(3.1)	39.7	122.8	2.2	1.0	No	117	2.4
Artemis Alpha Trust	151.1	9.0	19.2	58.4	46.1	(10.5)	1.0	No	100	1.3
Aurora	162.2	(6.7)	11.5	45.7	(8.1)	0.6	0.4	Yes	100	1.9
Baillie Gifford UK Growth	351.0	8.0	21.6	55.4	105.6	2.2	0.7	No	100	1.3
Henderson Opportunities	104.3	19.6	24.9	86.1	192.7	(10.9)	0.9	Yes	114	1.9
Independent	287.3	(2.2)	(0.3)	65.9	187.6	(10.4)	0.2	No	100	1.5
Invesco Perp Select UK Equity	44.2	(7.1)	(0.1)	26.3	150.3	(2.4)	0.9	Yes	120	4.0
JPMorgan Mid Cap	263.4	(6.3)	7.2	45.8	203.2	(11.1)	0.9	No	111	2.6
Jupiter UK Growth	31.6	(21.4)	(21.4)	(7.5)	19.3	(6.1)	1.2	Yes	100	2.7
Keystone	207.7	(11.2)	(6.1)	10.8	89.6	(2.8)	0.5	Yes	104	3.3
Mercantile	2,026.3	(2.5)	17.8	59.2	168.7	1.0	0.5	No	111	2.6
Schroder UK Mid Cap	213.2	(2.9)	13.4	51.8	169.1	(8.3)	0.9	No	108	2.2
Average (AIC All Cos Sector)	**380.9**	**(2.6)**	**7.0**	**44.8**	**120.6**	**(4.7)**	**0.8**		**107**	**2.3**
Trust rank in sector	**2**	**9**	**10**	**9**	**7**	**1**	**2**		**2**	**6**
AVI Global Trust	960.6	18.2	29.3	120.9	129.8	(8.3)	0.9	No	103	1.8
Bankers	1,444.5	12.6	33.6	111.5	191.3	0.9	0.5	No	101	2.0
Edinburgh Investment	933.2	(7.4)	(6.6)	8.8	102.9	(9.1)	0.6	No	107	4.4
EP Global Opportunities	108.0	0.6	(1.1)	52.5	92.2	(9.6)	1.0	No	87	2.1
Law Debenture Corporation	793.5	7.3	15.9	71.5	149.5	0.2	0.3	No	112	3.9
Lowland	314.8	(12.6)	(12.0)	24.4	99.4	(6.1)	0.6	No	114	5.2
Majedie Investments	120.9	1.8	(4.2)	20.7	70.5	(18.9)	1.2	Yes	110	5.0
Merchants Trust	544.4	(9.4)	4.5	41.1	83.3	1.4	0.6	No	114	6.0
Scottish Investment Trust	491.8	(6.3)	(5.0)	43.2	82.4	(10.1)	0.5	No	104	3.3
Temple Bar	639.3	(21.4)	(11.6)	19.1	67.8	(6.9)	0.5	No	114	4.0
Value and Indexed Property Income	99.2	(17.1)	(12.8)	5.6	46.7	(9.6)	1.4	No	134	5.4
Average (Value peer group)	**586.4**	**(3.1)**	**2.7**	**47.2**	**101.4**	**(6.9)**	**0.7**		**109**	**3.9**

Source: Morningstar, Edison Investment Research. Note: *Performance to 4 February 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

FSV's board comprises five independent, non-executive directors. Chairman Andy Irvine joined the board in April 2010 and assumed the chairmanship in July 2016. Nigel Forster joined the board in September 2015, followed by Dean Buckley in November 2015. Claire Boyle was appointed in June 2019 and became head of the audit committee in December 2019. As part of the board's succession planning, Alison McGregor joined the board in January 2020. She replaced Nicky McCabe, who stepped down at the AGM in December 2020 after 16 years on the board. Between them, the board members have extensive experience in investment management, banking, accountancy, industry and real estate.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia