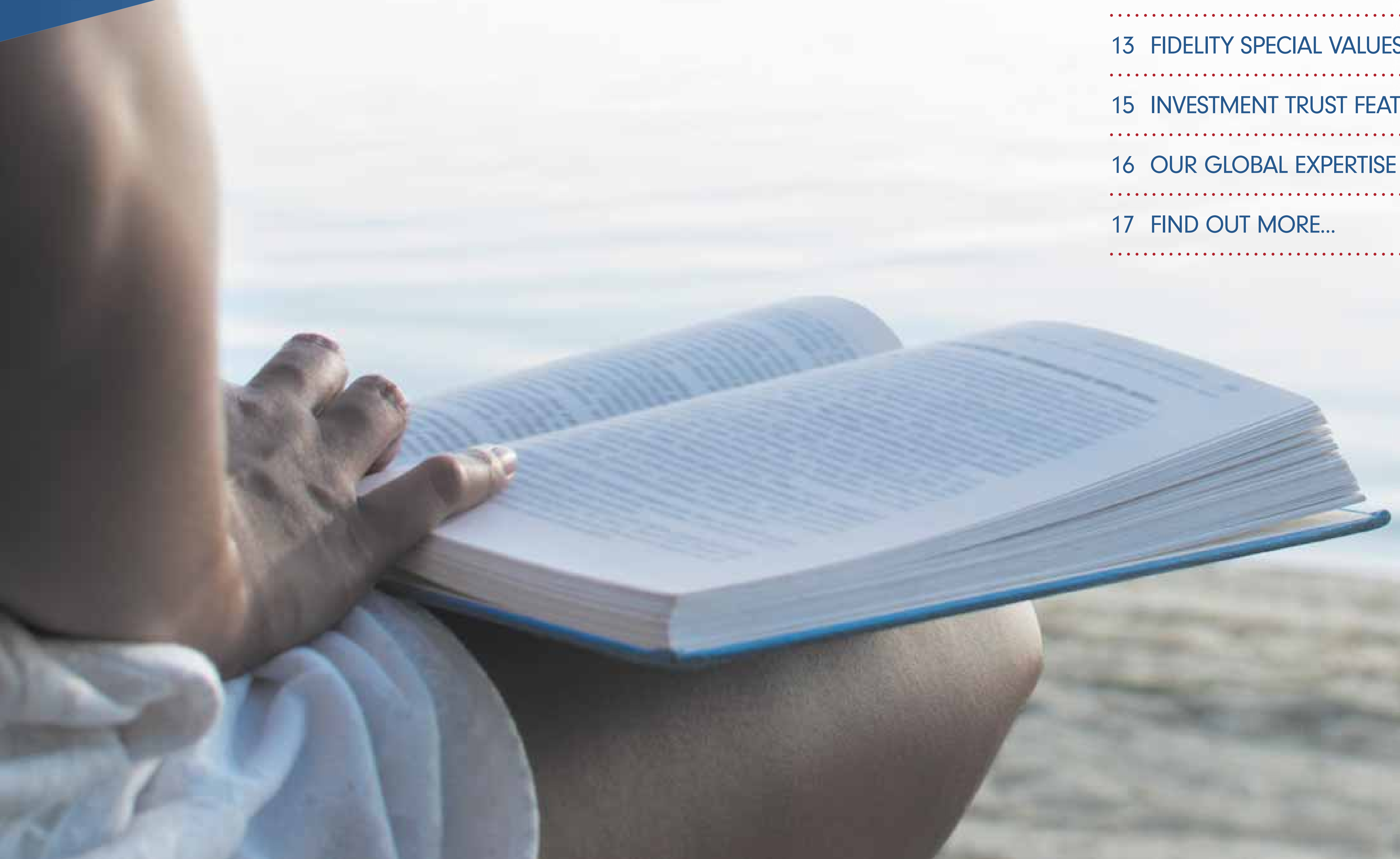
INVEST YOUR MONEY WITH SOMEONE YOU CAN TRUST

INVESTMENT TRUSTS FROM
FIDELITY INTERNATIONAL

Fidelity INTERNATIONAL

CONTENTS



Important information

Please be aware that the value of investments can go down as well as up so investors may get back less than they invest. Past performance is not a reliable indicator of future results. Depending where funds are invested, the following may apply:

Overseas investments are subject to currency fluctuations. Investment trusts can gear through the use of bank loans or overdrafts and this can be achieved through the use of derivatives. Their use may lead to higher volatility in the net asset value and share price. Some investment trusts may invest more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. Some investment trusts are able to invest some or all of their assets in developing overseas markets, which carry a higher risk than investing in larger, established markets. Investments in emerging markets are likely to experience greater rises and falls in value and there may be trading difficulties. Fidelity does not give advice. If you're unsure of the suitability of an investment for you, you should speak to an authorised financial adviser.

BUILDING TRUST

Alex Denny, Head of Investment Trusts at Fidelity International, introduces Fidelity's range of investment trusts

Keeping up in changing times

It's only natural that people investing their hard-earned money to meet their future goals, wish to do so with a company that they can trust. It makes sense, then, that investors are drawn to Investment Trusts which have a long history of delivering investment returns for their shareholders.

Changing times

In today's world of innovative tech startups, disruptive business models, Uber, Airbnb - a world where Facebook is now for parents and cars can drive themselves - it might seem strange to be writing about a type of investment fund which has been around for 150 years. What relevance can investment trusts have to investors today and how have they kept up with the changing times? To answer this question, it's worth considering what an investment trust is.

In good company

The first investment trust, Foreign & Colonial, was set up in 1868 "to give the investor of moderate means the same advantages as the large capitalists in diminishing the risk of spreading the investment over a number of stocks". This statement could still apply to all funds (collective investments) irrespective of their structure, today.

Of course, investment trusts aren't just funds. They are also publicly listed companies and it is their company structure, which has not just allowed, but encouraged them, to develop and adapt as the world and its markets have changed.

Investment trusts are of course run for the benefit of investors. They are run by managers, and boards, which are accountable to those investors as real shareholders. The board of directors is subject to annual reappointment and the board's pay and the policies governing the trust are also subject to approval. In turn, the board appoints a manager to look after the assets of the trust - and if they do not deliver performance to meet shareholder expectation the manager can be removed. This is a key differentiator to open ended fund structures.

The power of creative destruction

This power to remove managers is not just theoretical - real changes can be, and are, made. Action is normally taken after long term underperformance or to address negative sentiment toward a particular strategy, or market, where a wide discount is persistent. One needs only to look at the recent history of some of the oldest investment companies to see this effect. In January 2017, for example, Alliance Trust PLC (established in 1888) appointed a new external manager having been self-managed for decades. This marked a radical change in approach - adopting a multi-manager approach with Willis Towers Watson allocating assets amongst a range of external managers.

These changes of approach and manager could not happen in open-ended funds - where so-called "dog funds" can continue underperforming for years as savvy shareholders sell out, leaving an unsuspecting few languishing. Of course, if an investment trust continues to underperform or a discount persists shareholders can actually vote to terminate the strategy completely - with assets returned to shareholders at their book value (after costs) thereby negating any remaining discount.

Incentivised managers

Of course there are other ways that investment trusts reinvent themselves. Indeed, the mere prospect of a change of manager is often enough of an incentive for a large management company to take action. The individual portfolio manager or strategy for an investment trust can be changed to ensure performance remains strong. After all, losing the management contract for an investment trust doesn't simply result in a loss of revenue for the manager - it effectively hands that revenue directly to a competitor.

Alex Denny joined Fidelity in 2005 and moved to the Investment Trust team in 2012. He has played a key role in developing Fidelity's investment trust distribution proposition, through Personal Investing and FundsNetwork. Alex is also a trustee of the national charity MARINElife.

Fidelity's range of trusts

At Fidelity, we are very keen to ensure that we allocate our best individual managers and strongest strategies to the investment trusts that we look after. Over the past 25 years, we at Fidelity have sought to build a range of investment trusts that provide investors with access to equity markets around the world. Whether you want to invest in the rapidly changing and developing markets of Asia – increasingly recognised as the engine of global economic growth – or the well-established markets of Europe, home to some of the world's most well-known brands and companies, we have something to offer you.

We have made several changes in recent years, because we wish to continue to deliver on shareholders expectations and surpass them and we want to make sure we continue to make best use of the structure, and all it allows our managers to do. I firmly believe we, and other managers, will continue to do this and investment trusts will still be an excellent way of accessing different asset classes around the world in the decades, or even centuries, to come.

"It makes sense, that investors are drawn to Investment Trusts which have a long history of delivering investment returns for their shareholders."

Money Observer Trust Awards 2017 Highly Commended Premier Group Award Fidelity International

Money Observer Trust Awards 2016 Premier Group Fidelity International

Money Observer Trust Awards 2015 PREMIER GROUP Fidelity Worldwide Investment

INVESTMENT TRUSTS AND YOUR PORTFOLIO

Claire Dwyer, Associate Director, Investment Trusts at Fidelity International on the role of investment trusts in your portfolio

Tools to trust

If the sheer volume of capital raised in recent years is anything to go by the investment trusts sector stands in fine fettle. Among clues to its enduring popularity is the track record of many investment companies in outperforming other open-ended fund structures over time - though of course the past is no guide to the future.

Against a backdrop of rising markets, the ability to borrow (known as gearing) has played to the advantage of many of the best-known trusts in delivering superior investment performance.

Also appealing to investors is the fact that investment trusts have a fixed number of shares, enabling managers to buy and sell assets at opportune moments rather than being forced to sell in the event of clients leaving the fund as unit trust managers are required to. Attractive, too, is the relative stability of the underlying capital base.

A key feature of any investment trust is its independent board of directors which is responsible for safeguarding shareholder interests. Shareholders have the right to vote at annual general meetings (AGMs) and have their say on the re-election of the directors.

As shares in investment trusts are traded on a stock exchange like any other listed company, their price will fluctuate from day to day in response to shifts in supply and demand.

The sorts of clients who hold investment trusts in their portfolios vary considerably - many are saving for retirement or investing on behalf of their children - with regular savings into an ISA or SIPP among the most popular ways of building up savings. Please note, the value of tax savings and eligibility to invest in an ISA, Junior ISA or SIPP depend on personal circumstances and all tax rules may change. You will not have access to your pension savings until the age of 55.

To best effect

The number one priority in constructing your investment portfolio should be making sure you are well diversified geographically, between asset classes and, within a country or asset class, between individual investments. The leaders of the pack one year are sometimes the best performers in subsequent years, but sometimes not. It is difficult, impossible even, to predict which way things will go and getting it wrong is often the difference between a stellar and a disastrous year.

Investment trusts can be an invaluable tool in achieving a sufficiently diverse portfolio, providing exposure to alternative asset classes like infrastructure and property, for instance. By employing them effectively you may be able to reduce the overall risk of your portfolio, without having to give up too much by way of returns.

Trusts can also be an effective means of adding a new style of investment thinking to your portfolio. In running Fidelity Special Values, Alex Wright employs a contrarian investment approach which thrives on volatility and uncertainty. His focus is on unloved stocks with the potential for positive change.

Other investors might find Fidelity Asian Values, a trust which favours Asia's winners of tomorrow, a compelling addition to their portfolio. Drawing on Fidelity's sizeable, locally-based research team, the trust's manager Nitin Bajaj focuses on smaller-sized companies, as this is where he believes he can add greatest value.

Claire Dwyer joined the Investment Trusts team at Fidelity in 2018 from our UK Personal Investing business where she led investment proposition. Prior to this she worked at Cambridge Associates and Mondrian Investment Partners. She has a special interest in alternative investments and holds the Chartered Alternative Investment Analyst designation.

"Within the UK, demand for investment trusts continues to intensify and around £170 billion of assets are now invested in investment companies"

FIDELITY ASIAN VALUES PLC

Ignoring the noise

Nitin Bajaj, Portfolio Manager of Fidelity Asian Values, explains his investment process and why he focuses on stocks and not news stories

The investment philosophy which underpins Fidelity Asian Values PLC is quite simple. I try to buy good businesses, run by good people, and buy them at a good price. I don't tend to pay much attention to the latest newspaper headlines and macroeconomic noise, as I think my time is much better spent focusing on things I can control, namely buying businesses that meet my quality and value criteria.

It is important for shareholders in the trust to understand and appreciate the philosophy I follow, because the extent of our success over the next five years will be largely driven by the hard work that we put in. Stock markets will go up and down, but to make money, I believe you need a good philosophy, stay true to that, and be willing to put in the time and effort to implement it effectively. ▶

"A good business is not necessarily a good investment. A good business is a good investment if bought at the right price"

How I manage money is more or less the way most people manage their personal finances. If you were buying a company today, you would want to buy a good business, then you would want to hire the best people to run it for you, and finally you would want to buy it at the best possible price. I just try to do that in the stock market.

It is easier said than done, because finding good businesses is not that easy. It requires an immense amount of hard work from Fidelity's analyst team and it requires an immense amount of patience from me, because we look at company after company after company, and it is only one out of perhaps 15 or 20 that meets our strict criteria.

What does this mean in practice? Well, let's say I want to buy a major toothpaste business in India; whether or not we will make money over the next five years is going to be driven largely by how the toothpaste market in India evolves, and how the company, performs within that market versus its competitors.

The questions we need to consider are: why is it that the majority of Indians get up every morning and use that toothpaste? Is it the brand? Is it the research and development? Is it the management team? Is it the sales network? What allows them to dominate? Until we understand these factors, we don't know whether it is a good business or a bad business. If we don't understand this, I'm not investing, I'm speculating.

The second equally important thing is good people. By this I mean good business people; people who can run a business well, who can take market share and who can generate a lot of cash, as well as people who then treat that cash in the way it should be treated, which is for the benefit of shareholders. A lot of our time is therefore spent on understanding management; we interview them, we talk to their competitors, we talk to their ex-employees, just to understand how they think.

The third thing, which is probably the hardest thing to do, is to buy the business at a good price. When you find these good businesses and you find these great managers running these businesses, it is extremely seductive, you want to buy them, but a good business is not necessarily a good investment. A good business is a good investment if bought at the right price. It requires a lot of patience to uncover a hidden gem no one else has found.

Capital preservation is paramount. I have an obsession with not losing money. When our analysts come to me, I always tell them it is their job to make money; it is my job not to lose money. I am always looking for ways a company's stock price could go down, so I am pessimistic by nature. By challenging the thesis behind an investment, we hope to form a balanced view and make a good decision.

The opportunity set for the trust over the next five years is huge, as there are over 17,000 listed companies in Asia. I believe the only reason we will not make money is if we don't work hard enough, and the team work very hard, so the opportunity is there. In running the trust, I am supported by a large locally-based analyst team across the region, and that is the key competitive advantage of Fidelity International. Looking ahead, I believe the philosophy will work, and if we work hard and don't get complacent, the trust should do well for shareholders.

Nitin Bajaj has been Portfolio Manager of Fidelity Asian Values PLC since 1 April 2015 and Fidelity Funds Asian Smaller Companies Fund since 1 September 2013. Nitin joined Fidelity International in 2003 as a research analyst, following four years working with KPMG in India as a business analyst. In 2007, he was promoted to Assistant Portfolio Manager for the Fidelity Global Special Situations Fund in the UK, before moving to Fidelity's Mumbai office to manage two of the company's domestic Indian equity funds, which were available to local Indian investors.

Trust Profile

Objective	To achieve long-term capital growth principally from the stock markets of the Asian region excluding Japan.
Style Bias	Small-cap value
Morningstar Rating	****
AIC Category	Asia Pacific – Excluding Japan
Exchange Ticker	FAS
Ongoing Charges	1.22% (year ended 31/07/17)

FIDELITY CHINA SPECIAL SITUATIONS PLC

Investing in China's new growth drivers

Dale Nicholls, Portfolio Manager of Fidelity China Special Situations, explains how a fast-growing middle class is increasingly driving stock market returns in China

China is recognised as being a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, mean investors increasingly consider exposure to China when building a balanced investment portfolio.

Since its launch in 2010, Fidelity China Special Situations PLC has offered direct exposure to China's growth story, predominantly through a portfolio of small and mid-sized companies. As Portfolio Manager it is my job to try to identify and invest in companies that are best placed to capitalise on China's incredible transformation.

"The sheer size of China's economy, its continued growth and ever-increasing global importance, mean investors increasingly consider exposure to China when building a balanced investment portfolio"

I am fortunate to be able to call on Fidelity's extensive, locally-based, analyst team to find these future winners through a portfolio of over 100 carefully selected underlying investments.

From my point of view, the drivers of performance of Fidelity China Special Situations PLC have always been – and will always be – the individual stocks that we invest in. Many of the stocks I own play into the growth and development of the domestic consumer. The rise of the middle class, its tremendous spending power, increasing aspirations and the way they consume, underpin a number of the portfolio's investments. Relative to the developed world, many categories of goods and services in China remain underpenetrated, and this creates unparalleled growth potential for companies in such industries as the internet, e-commerce, healthcare and consumer.

The consumption story in China rolls on and will remain a key theme in China over the next decade. This is also a natural development of the fast-growing middle class, but it's also aligned with the government's goals of trying to bring about a more sustainable growth model that is less reliant on investment and more reliant on consumption. Government policies look set to continue supporting this trend.

The portfolio has the ability to invest up to 10% of the company in unlisted stocks. The team have been able to uncover a number of private equity opportunities that have been added to the portfolio, but always with a view to them publicly listing within the next couple of years. We have had some real successes here in the past – most notably with our investment in the online e-commerce platform company Alibaba, that we held as an unlisted holding for nearly three years before its record-breaking US$25 billion initial public offering. Successes of that magnitude will be rare, but there are a lot of opportunities in China in the unlisted space and it is a valuable area we continue to explore.

Of course, investing in China is not without risk, and the biggest concern for me is the build-up in debt over the last decade. There has been significant investment spending in China, but much of this has been debt-driven. The major issue is that while debt has increased, the magnitude of non-performing loans on banks' balance sheets has not been kept in check. While the banks are slowly making adequate provisions, the process is going to take some time which negatively impacts the outlook for Chinese banks.

Over the next few years, I am hoping we will see more reform from the government within its State-Owned Enterprises (SOEs). Many SOEs have amazing assets, but are often under-earning, as their focus is often to provide 'national service' rather than to realise profit. We are slowly seeing a change in mentality here, and if we do see more reform, there is great potential for selected companies to improve returns, which should translate into an upward movement in their share price.

While there are certainly opportunities in this space, it is worth noting that the core of the portfolio is still very much focused on private companies, with a preference for smaller and medium-sized firms. This area is less well known by the market, so there is more mispricing. The more mispriced they are, the more potential upside for these investments. Identifying small and mid-caps allows us to really make the most of our information advantage from the team we have on the ground in Shanghai and Hong Kong, who are constantly out there looking for new ideas. This research capability is unmatched and helps us identify ideas which haven't really been discovered or are not so well understood by the market.

Dale Nicholls took over as Portfolio Manager of Fidelity China Special Situations PLC on 1 April 2014. Dale has 20 years of investment experience, and joined Fidelity as a research analyst in 1996. Dale initially focused on Japan and managed Japanese sector funds from 1999. He was subsequently appointed Portfolio Manager of the Fidelity Pacific Fund in 2003, which focuses on small and mid-caps in the Asia Pacific region with a significant tilt towards Chinese stocks. Dale has a Bachelor of Business degree from Queensland University of Technology.

Trust Profile

Objective	To achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies listed in China or Hong Kong and Chinese companies listed elsewhere.
Style Bias	Unconstrained – small/mid-cap value and growth
Morningstar Rating	*****
AIC Category	Single Country – Asia
Exchange Ticker	FCSS
Ongoing Charges	1.16% (year ended 31/03/17)

FIDELITY EUROPEAN VALUES PLC

Focusing on strong and sustainable dividend payers

Sam Morse, Portfolio Manager of Fidelity European Values, explains why companies that can sustainably grow dividends tend to reward investors over time

The approach I take to managing Fidelity European Values PLC is to look beyond economic and political noise and concentrate on the real-life progress of listed businesses across this large and diverse region.

As Portfolio Manager, I'm focused on researching and investing in stocks that I believe can grow their dividends consistently, irrespective of the prevailing economic backdrop. History shows that these companies outperform the market over the longer term.

Companies which pay the cushion of a healthy and growing dividend, also tend to be resilient during periods of macroeconomic uncertainty. By investing in solid and sustainable dividend-paying stocks, I believe Fidelity European Values PLC provides core defensive exposure to European equities. ▶

"The trick is to identify those future dividend growers before they outperform – and importantly, before the rest of the market"

Since the launch of Fidelity European Values in 1991, Europe has witnessed its fair share of political and economic upheaval. However significant changes might be on the political stage, the corporate sector carries on regardless.

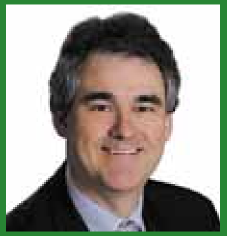
Warren Buffett, the famous American investor, is often quoted: "A prediction about the direction of the stock market tells you nothing about where stocks are headed, but a whole lot about the person doing the predicting," and "Buy a business, don't rent stocks." By this, he meant concentrate on the quality of an individual business, rather than market forecasts. I think that is one thing that has not changed over the last quarter of a century.

While the England football team has got through many managers, which might be why we haven't seen success, Fidelity European Values has had only four managers, each sticking to the principle of staying fully invested and focusing on companies, while avoiding the macro noise and, at times, the negative headlines about Europe. We have all had different investment styles, but we have all been very much bottom-up stock-pickers.

I am naturally cautious and I am not inclined to take large bets against the market in individual sectors or countries, preferring instead to focus on companies which I believe will be able to outperform their competition over the longer term. My process is therefore built from the bottom up, looking at individual businesses, but keeping an eye on the wider market to avoid unexpected pitfalls.

From this, I look to build a portfolio of 50-60 attractively valued companies, with strong balance sheets and a track record in cash generation, which have the potential to grow dividends consistently on a three- to five-year view. This type of company offers a good combination of fundamental value and therefore downside protection, as well as good growth prospects which are likely to be identified by the market in the future and therefore lead to a rerating of the share price. Historic data clearly shows that companies of this nature tend to outperform, however the trick is to identify those future dividend growers before they have done so – and importantly, before the rest of the market. This requires time and discipline from me and our analyst team in London and throughout Europe.

Clearly, there is the potential for more political shocks to come. How all this plays out is anyone's guess. I've always felt that trying to predict these cycles or time the market is something of a mug's game, so I remain focused on the individual companies we see before us, aiming to outperform across the full market cycle.



Sam Morse joined Fidelity in 1990 and spent seven years with the company as a research analyst, covering pan-European retail stocks, and then as a portfolio manager, running funds including the Fidelity Income Plus Fund, the Fidelity Growth & Income Fund and the Fidelity MoneyBuilder Growth Fund. He then left Fidelity to be Head of UK Equities at M&G. Sam returned to Fidelity in 2004 to manage UK equities for institutional clients. He managed the Fidelity MoneyBuilder Growth Fund from December 2006 for three years before becoming Portfolio Manager for the Fidelity European Fund, which he continues to run today. He assumed responsibility for Fidelity European Values PLC in January 2011.

Trust Profile

Objective	To achieve long-term capital growth principally from the stock markets of Continental Europe.
Style Bias	Large-cap growth
Morningstar Rating	****
AIC Category	Europe
Exchange Ticker	FEV
Ongoing Charges	0.99% (year ended 31/12/16)

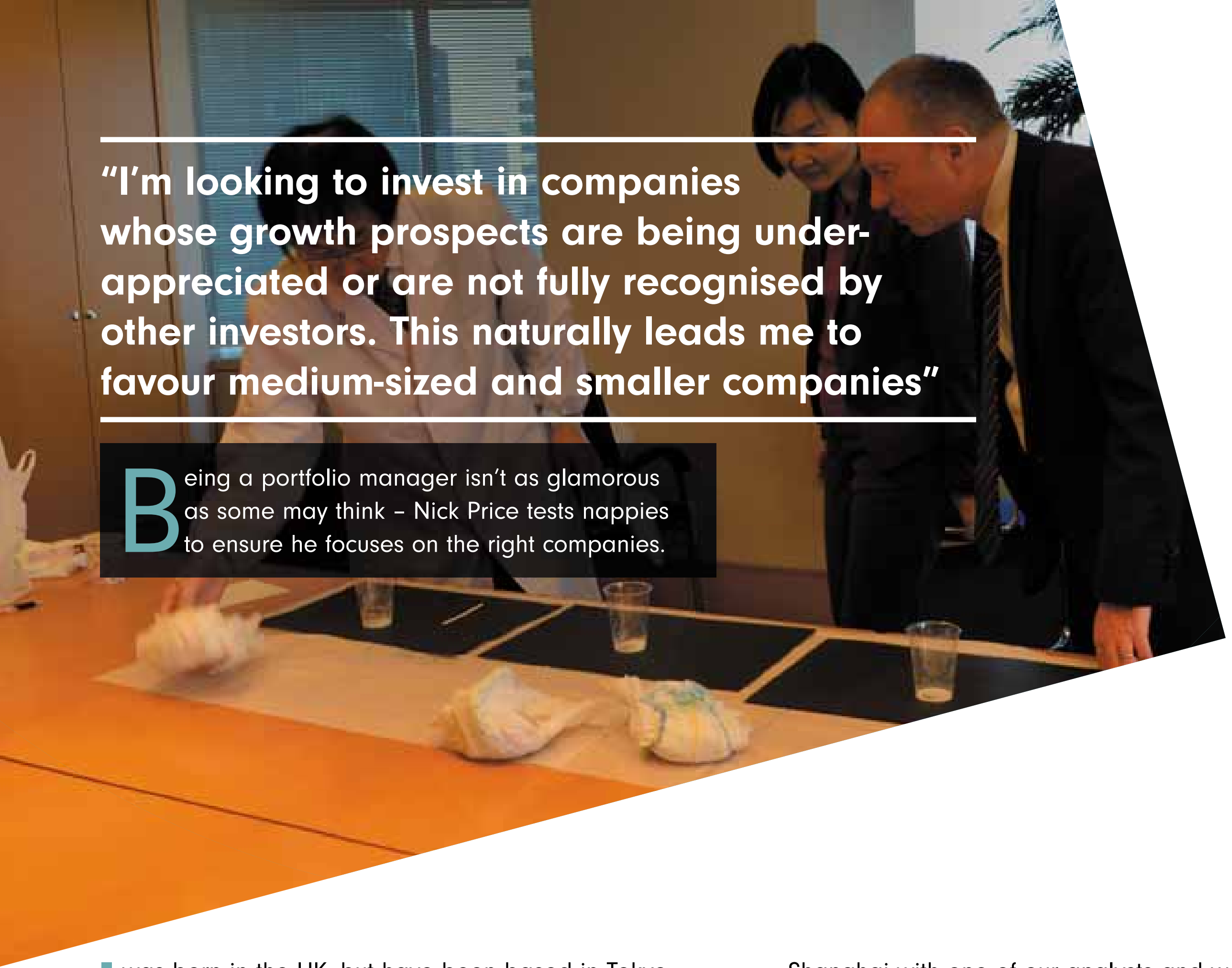
FIDELITY JAPANESE VALUES PLC

Bottom-up research and local knowledge

Nicholas Price, Portfolio Manager of Fidelity Japanese Values, reveals what it takes to beat the competition in Japan

It was an insatiable sense of curiosity that first led me to Fidelity and into fund management. My eyes were opened by Peter Lynch, an American investor and former Fidelity employee, and specifically his book, 'One Up on Wall Street', that got me hooked on the world of investing. It really highlighted the importance of company research and turning over a lot of stones every day to find new investment ideas.

I also have a deep interest in understanding how cultural differences shape the way in which companies are run across the globe. In many ways, this naturally led me to Japan, as companies are very different from those in the West, their various management styles and business models. ▶



"I'm looking to invest in companies whose growth prospects are being under-appreciated or are not fully recognised by other investors. This naturally leads me to favour medium-sized and smaller companies"

Being a portfolio manager isn't as glamorous as some may think – Nick Price tests nappies to ensure he focuses on the right companies.

I was born in the UK, but have been based in Tokyo for more than 20 years. I'm fluent in Japanese, having studied at Keio University, and this is a huge advantage when meeting the key decision-makers at the companies I invest in and scouting for new ideas on the ground in Japan.

For me, it's all about joining the dots between different ideas and forming a new line of enquiry. It may sound odd, but it's similar to how I would link disparate historical events to figure out the connections behind them when I was a university student.

I focus on gathering multiple information sources: from attending industry conferences to visiting university professors, from talking to unlisted companies to consulting senior management. You just need to keep researching until you gain reasonable conviction in the investment thesis.

I can't over-emphasise the importance of research in my investment process. I remember a few years ago standing in a room with a bunch of nappies lined up and glasses of blue liquid – just like in old TV ads. The nappies were made by a range of Japanese, Chinese and US manufacturers.

For a long time, everyone selling nappies into China had been doing very well and then the market changed. While some companies making nappies were still doing well, others started lagging behind. So I went to visit Shanghai with one of our analysts and went to baby shops and supermarkets.

We were told that the Chinese consumer felt that nappies made in China by Japanese companies were inferior to those made in Japan and exported from there to China. We decided to test this out and discovered that the Chinese consumer was absolutely right; nappies made in China were of a lower quality than those made here in Japan. We were therefore able to identify which companies were likely to fare better, based on our bottom-up research.

When it comes to assessing any potential investment, I'm looking for companies whose growth prospects are being under-appreciated or are not fully recognised by other investors. This naturally leads me to favour medium-sized and smaller companies, where lower levels of analyst coverage can often create some great mispriced opportunities.

While the portfolio's sector exposure is largely an outcome of my bottom-up and company-specific investment style, I continue to find many interesting opportunities in such areas as e-commerce, Asian consumption, services and healthcare.

Given that Japanese equities continue to trade at a discount to other developed markets, supply/demand conditions should prove more favourable over the next few years, particularly as overseas investors appear to be looking more favourably on the prospects for Japan.

Nicholas Price joined Fidelity Investments Japan in 1993 and spent six years as a research analyst covering the retail, banking, brokerage, consumer electronics and pharmaceuticals sectors. In 1999, Nicholas was promoted to portfolio manager, running Japanese equity mandates for domestic institutions. He now manages a number of Japanese equity portfolios on behalf of both domestic and overseas clients, including the FF Japan Aggressive Fund. Nicholas graduated from Cambridge University with an MA in History and studied Japanese at Keio University.

Trust Profile

Objective	To achieve long-term capital growth from an actively managed portfolio of securities primarily of small and medium-sized Japanese companies listed or traded on Japanese stock markets.
Style Bias	Mid-cap growth
Morningstar Rating	**
AIC Category	Japan Smaller Companies
Exchange Ticker	FJV
Ongoing Charges	1.46% (year ended 31/12/16)

FIDELITY SPECIAL VALUES PLC

Looking at UK markets differently

Alex Wright, Portfolio Manager of Fidelity Special Values, explains the benefits of contrarian investing

Over the past few years, the board and I have worked together to develop Fidelity Special Values PLC, continuing its history as an actively managed, contrarian investment trust which we hope is appealing to both existing and potential investors alike.

I focus on unloved companies where things can improve, and invest in companies of all sizes. I hope, in doing so, to position the company as the investment of choice for those seeking exposure to UK-listed companies, but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges, in order to enhance shareholder returns. ▶

My investment style is very much in keeping with Fidelity Special Values' heritage and history – that of value contrarian investing, looking for companies whose potential for share price growth or recovery has been overlooked by the market.

As a contrarian, I'm drawn to unfashionable stocks that are out of favour and trade on cheap valuations. I'm looking for potential positive change that others haven't seen yet. I also look to invest in only companies where I understand the potential downside risk, to limit the possibility of losses.

Investing against the tide is a psychologically difficult thing to do. Humans are social animals, and behave socially when making investment decisions. It takes a particular mindset and a highly disciplined approach to execute a contrarian investment process successfully.

Central to the long-term success of our approach have been company research and making full use of the insight and expertise of our large team of analysts. Fidelity's philosophy is to base investment decisions on company fundamentals such as competitive position, management strength, growth opportunities, valuation and so on. Overarching trends in the economy (top-down factors) play a supplementary rather than primary role in our investment decisions.

Our investment team spend many thousands of hours meeting company management, speaking to suppliers, competitors and customers in order to build up a picture of the true state of a company's fundamentals. It is this work that allows us to form a view of the company's future profitability and ultimately decide whether we consider it an attractive investment for our shareholders.

Ideally, I want to invest in companies that are exceptionally cheap on relevant measures, or which have some kind of asset that should prevent their share prices falling below a certain level. This can be anything from inventory to intellectual property that gives a margin of safety.

I look for companies where I believe perception by the wider market may shift due to changes in the company's competitors or market, a new product line or an expansion into new business areas. I also impose a strict sell discipline on myself once the recovery has taken place.

Within the investment trust structure, I am able to take positions in smaller and less liquid companies; its closed-ended structure and stable pool of assets allow me to establish larger weights, which would not be possible if I had to worry about flows into and out of the fund. The relative illiquidity of holdings can sometimes make their share prices more volatile, but I am not a forced seller in downward markets (indeed I often view them as opportunities to buy more shares at good value), and I believe in the long-term rewards of smaller companies.

Within the trust, I can also use gearing to enhance long-term capital growth – and to take advantage of shifts in market valuations. I use Contracts for Difference to gear, as these represent the most flexible and cost-effective option, and also occasionally to short stocks if I feel they are significantly overvalued.

Alex Wright joined Fidelity in 2001 as a research analyst and has covered a number of sectors across the market cap spectrum, both in the UK as well as in developed and emerging Europe. He has been Portfolio Manager of Fidelity UK Smaller Companies Fund since its launch in February 2008. He took over responsibility for the company's portfolio on 1 September 2012 and was also appointed as Manager of Fidelity Special Situations Fund in 2013. Alex has a BSc (Economics) from Warwick University, where he graduated with First Class Honours, and he is also a CFA Charterholder.

Trust Profile

Objective	To achieve long-term capital growth predominantly through investment in UK-listed companies.
Style Bias	Mid-cap value
Morningstar Rating	****
AIC Category	UK All Companies
Exchange Ticker	FSV
Ongoing Charges	1.06% (year ended 31/08/17)

INVESTMENT TRUST FEATURES

Investment trusts offer a unique range of features that many experienced investors have come to value

Public limited company (PLC)

Unlike funds such as OEICs, investment trusts are public limited companies (PLCs). By buying their shares, you become a shareholder in the company, to whom the board and manager of the company are accountable. Like other PLCs, their shares trade on the London Stock Exchange. Each trust must hold an Annual General Meeting for shareholders and publish an annual report and accounts.

Independent board

As a PLC, each investment trust must have a board of directors, independent of the fund manager, to make sure the trust is being managed in the best interests of its shareholders.

Long-term view

Investment trusts have a fixed number of shares, so managers have a stable base of capital to invest. This gives them a high level of control and the flexibility to build a long-term strategy.

Gearing

Investment trusts have the ability to borrow additional money to invest, known as gearing. This can enhance potential investment returns, but gearing can also increase the investment risk of a trust, so while gearing can boost gains, it can also magnify losses. All our investment trusts have the ability to use bank loans, bank overdrafts and derivative instruments such as Contracts for Difference (CFDs) to increase their exposure to stocks. CFDs are used as a way of gaining exposure to the price movements of shares without buying the underlying shares directly. The use of gearing and derivative instruments by investment trusts may increase the level of volatility in the net asset value and share price.

Dividends

Investment trusts may pay out the profits they have made from their investments as dividends. They can also hold back profits in good times, to help boost dividends when market conditions are tougher. With Fidelity's Investment Trusts, dividends can be taken as income or automatically reinvested to buy more shares in your chosen investment trusts.

Discounts and premiums

Like other PLCs whose shares trade on the London Stock Exchange, an investment trust's share price will be driven by demand. This means its shares can trade at more than the value of its underlying investments (at a 'premium') or less (at a 'discount'). This is an important difference from OEICs and unit trusts, which simply track the value of their underlying portfolio (or 'net asset value', NAV).

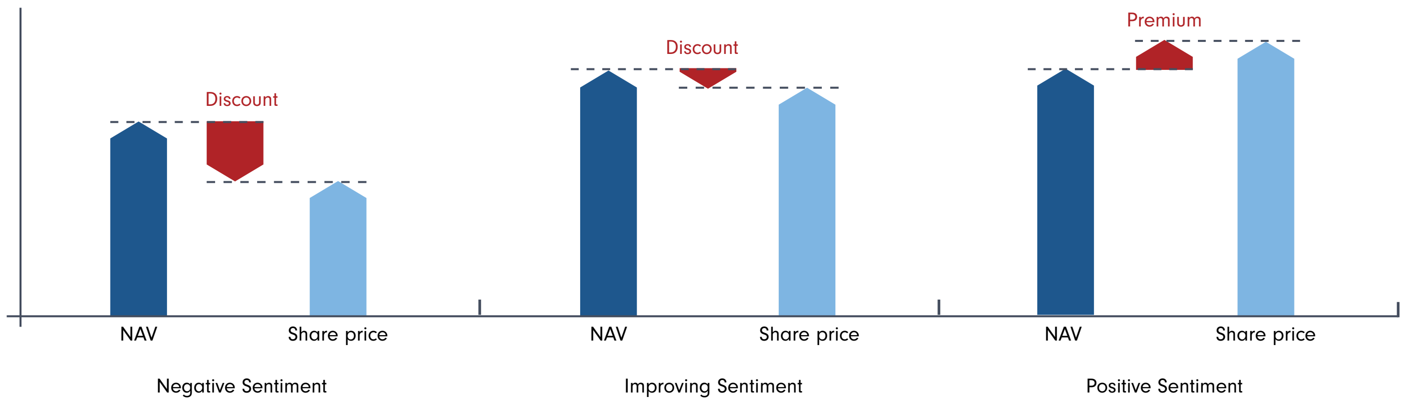
Some investors view trusts that trade at a discount as a buying opportunity. But investment trusts will try to limit how far their share price falls below the net asset value, on behalf of their existing investors.

How discounts and premiums compare

Discounts and premiums can vary for a range of reasons. For example, in rising markets, discounts tend to get smaller because investors generally feel confident and expect prices to rise further. Demand for an investment trust's shares can push a price discount closer to the net asset value of the trust as illustrated below or, in rarer cases, even result in investors paying a premium above net asset value. Conversely, in falling markets, investors tend to feel less confident about future prices, so discounts can get larger as markets fall, making investment trust share prices cheaper than an equivalent OEIC or unit trust. Some investors may therefore view a discount as an opportunity to buy into a market at a lower cost.

Discounts and premiums can compound the effect of rising and falling markets on an investment trust price and, if there is also gearing within the trust, gains or losses can be magnified still further, which may suit investors with a higher risk appetite. Of course, it's important to remember that you need to take several factors into account when choosing an investment trust, not just price discounts and premium. In addition to the risk that the market as a whole will rise or fall, you need to consider how the trust's portfolio will perform against the market, what the current discount or premium is and where it might be heading, whether the manager can successfully manage the fund to provide positive returns in the future, and what extra volatility or risk will be created by the trust's gearing.

The potential effect of a market recovery



OUR GLOBAL EXPERTISE

Fidelity's global network of investment professionals gives you access to compelling opportunities, wherever they are in the world

Investing successfully across world markets requires insight, resources and connections to identify the best opportunities. Fidelity has the global access you need. We have a network of over 400 investment professionals across the UK, Europe, Japan, China and Asia.

Although there is no guarantee of future results, using on-the-ground, first-hand research, we are able to assess companies in depth to find those that we believe have the ability to deliver better-than-average returns to long-term investors.

Our investment trust managers all use a "bottom-up" approach – trying to identify companies that will deliver market-beating investment returns using our key information advantage – our investment experts. This means they seek out companies that, for various reasons, may be undervalued, out of favour or overlooked by most other investors, or which simply have fundamental qualities which means they can deliver on their growth potential.

Fidelity has a long history of helping people meet their financial goals. We have a reputation for developing innovative investment products and we pride ourselves on providing clear information to help you make investment decisions. For more information on our investment trusts, visit www.fidelityinvestmenttrusts.com

This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.

FIND OUT MORE...

How to find information about Fidelity's investment trusts and how to invest in them

Visit our website www.fidelityinvestmenttrusts.com

On our website, you can find:

- Monthly factsheets on each trust including the portfolio mix, charges and up-to-date commentary from the portfolio manager
- Current share price and past performance
- Daily factsheets, providing you with daily NAV, share prices, discount and gearing information
- Downloadable annual and interim reports
- Video updates and interviews with the portfolio managers, giving their current views on the markets and their preferred areas to invest.

You can also find all the information you need about investing, including how to invest and which platforms this is possible through.

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- For shareholders on the main register, please email: shareholderenquiries@capita.co.uk
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- Fidelity Personal Investing Clients: **0800 414161** Monday to Friday 8am to 6pm and Saturdays 9am to 6pm
- Fidelity/FundsNetwork Advised Clients: **0800 358 4060** Monday to Friday 9am to 6pm
- Fidelity/FundsNetwork Advisers: **0800 414181** Monday to Friday 8.30am to 6pm

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If you choose to invest through Fidelity Personal Investing, then before you invest please ensure you have read Doing Business with Fidelity or if investing in a SIPP the SIPP Key Features document, both include the client terms. Please also read the individual factsheets and Key Information Document (KID) relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity, including details of the objective, investment policy, risks, charges and past performance associated with the fund(s). Instructions on how to access these documents can be found at fidelity.co.uk/doingbusiness.

Investors should note that the views expressed may no longer be current and may have already been acted upon.