HARDMAN&CO.

26 July 2021

FIDELITY SPECIAL VALUES PLC

FSV: consistent contrarianism adds special value

Since the current manager took over in 2012, FSV has consistently outperformed its FTSE All-Share benchmark. The majority of the added value has come from stock selection, which derives from Fidelity's consistent investment process. The manager has a contrarian approach, underpinned by value factors to protect any downside risk. A flexible approach means the manager can take advantage of the less efficient mid- and small-cap areas, as well as finding opportunities overseas. Although the mandate focuses on capital growth, FSV has produced steady dividend growth and has an attractive yield.

- **UK positives:** With its economic mix, UK GDP suffered more than other developed countries in the pandemic, but this should lead to a stronger bounceback in the recovery. Business investment has been delayed over the past few years, but a catch-up should also fuel economic growth.

- **Other considerations:** The trust typically has net gearing of up to 20%; while this adds to short-term volatility, it has added to returns and the long-term performance. Share liquidity has been improving, the closed-ended structure has inherent advantages and fees have been declining.

- **Valuation:** With quoted investments, there are no valuation issues. FSV aims to keep a single-digit discount in normal market conditions. It has mostly done that, aided by an active discount management policy. The company has both bought back and sold shares, adding a small amount to investor returns.

- **Risks:** With a value-based investment philosophy, value being out of favour has constituted a headwind, although one that the managers' stockpicking has largely overcome to date. The UK market has been a long-term underperformer relative to global markets, and there is a risk that it will remain out of favour.

- **Investment summary:** While FSV currently trades around NAV, its long-term performance justifies this. Meanwhile, the stability of the team and the investment process suggest that this performance is built on solid ground. The dividend yield is higher than the average of its peers, suggesting that it should be attractive to investors looking for income alongside capital growth.

Financial summary and valuation

Year-end Aug (£000)	2018	2019	2020	2021E	2022E
Investment gains/losses	48,288	-40,929	-131,085	248,056	79,452
Gains/losses on CFDs	-3,022	-23,287	-11,820	33,148	10,513
Investment income	23,468	30,335	20,282	20,901	32,729
Investment mgmt. fees	-6,707	-5,921	-5,627	-4,471	-5,535
PBT	58,451	-35,689	-133,330	296,294	116,803
Investments	704,997	635,539	563,763	882,799	1,013,903
Cash	2,303	2,207	9,802	9,802	9,802
NAV	724,970	698,668	579,505	898,541	1,029,645
NAV per share (p)	272.0	253.0	199.7	292.0	323.0
Discount to NAV	1.5%	1.5%	-0.6%	-4.1%	-13.3%
Yield	1.7%	1.7%	2.5%	2.1%	2.2%
Dividend (p)	5.00	*7.25	5.80	5.85	6.20

**Includes special dividend; Source: Hardman & Co Research*

Closed-Ended Investments

Source: Refinitiv

Market data

EPIC/TKR	FSV
Price (p)	280.0
12m high (p)	301.0
12m low (p)	169.2
Shares (m)	311.7
Mkt cap (£m)	872.7
NAV (p, 21 Jul '21)	280.06
Discount to NAV	0.0%
Country of listing	UK
Market	STMM
Benchmark	FTSE All-Share

Description

Fidelity Special Values PLC (FSV) aims to achieve long-term capital growth by investing predominantly in UK equities.

Company information

Chairman	Andy Irvine
NED	Claire Boyle, Dean Buckley, Nigel Foster, Alison McGregor
Fund manager	Alex Wright (manager) Jonathan Winton (co-manager)

investment-trusts.fidelity.co.uk/fidelity-special-values

Key shareholders (Aug'20)

Fidelity Platform	23.3%
Rathbones	8.2%
Hargreaves Lansdowne	6.3%
Interactive Investor	5.6%
Investec	4.7%
Brewin Dolphin	4.4%
Smith & Williamson	3.2%
Tilney	3.1%

Diary

Mid-Aug	July monthly summary

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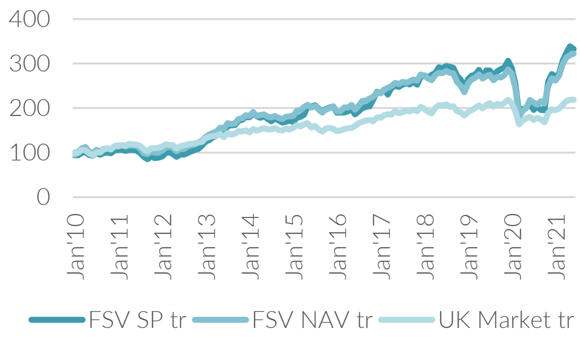
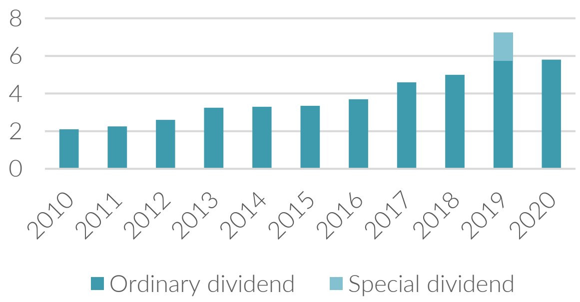
Table of contents

FSV has outperformed its benchmark over past decade (indexed to 100, Jan'10)



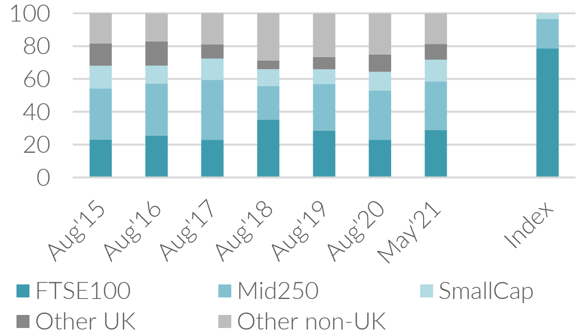
- Over the medium and long term, FSV has materially outperformed its benchmark.
- FSV has shown consistency too, outperforming in six of the nine years since the current manager was appointed.

Consistent dividend payer, with yield above sector average



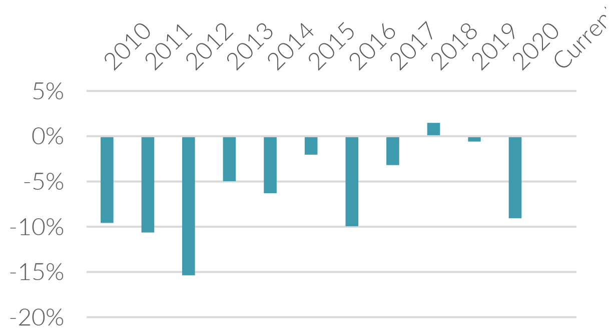
- The dividend has increased steadily over the last decade, with a special dividend in 2019, owing to higher-than-usual income.
- Although 2020 saw many companies cut or suspend dividends, FSV topped up its dividend from reserves.

FSV portfolio mix by index exposure (%)



- FSV invests across the market cap spectrum – in practice, it has consistently been overweight mid- and small-cap stocks.
- The company is allowed up to 20% overseas exposure, which the manager uses consistently.

Active policy has kept discount consistently within target range



- FSV aims for a single-digit discount in normal market conditions – the current valuation is justified by long-term performance.
- FSV has actively both bought back and issued shares in periods, consistently adding a small amount to returns.

Source: Company data, Hardman & Co Research

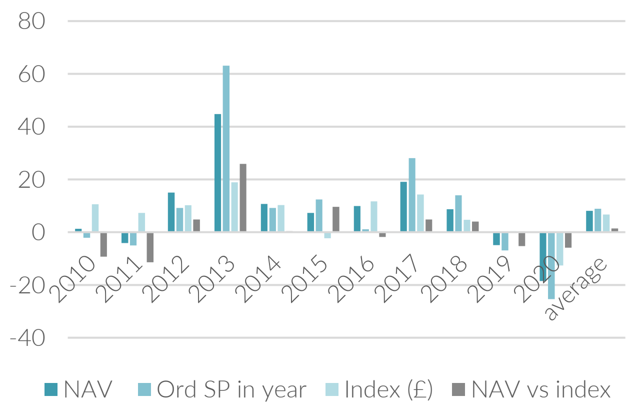
Summary

Investment positives

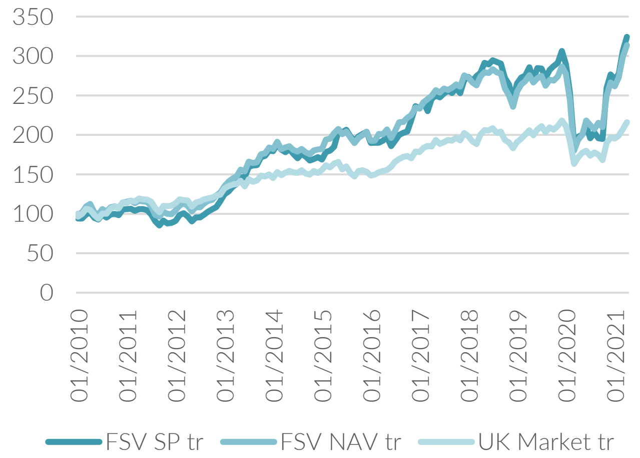
FSV has outperformed UK markets steadily, with some consistency

Over most of the last decade, FSV has shown steady, long-term outperformance against UK indices. It has delivered consistently, outperforming in six of the nine years since the current manager took over in 2012. As of end-June, the NAV total return has been 179% over his tenure, versus 85% for the index – or an outperformance of 4.9% p.a.

Standardised performance total return (%)



FSV NAV, share price and FTSE All-Share total return (tr) (indexed to Jan'10)



Source: Refinitiv, Hardman & Co Research

Contrarian approach looks for change, underpinned by value approach, to protect downside

The manager's approach is a contrarian one, underpinned by a value approach. The manager looks for unloved and undervalued companies where there is a catalyst for change that will alter investor perception, with assets or other factors that protect the downside. Idea generation comes primarily from the Fidelity Research Team, which has 32 analysts covering UK companies, supported by the managers' own research. The portfolio is managed dynamically, with a consistent process based on increased/decreased confidence in the investment thesis and a risk management process consistent with one of the world's leading asset managers.

Bias towards mid- and small-cap companies, which should help stock selection

Up to 20% in non-UK companies

FSV's mandate is to invest across the UK market, but it deviates from the indices in two systematic ways. The portfolio is consistently very overweight in mid- and small-cap companies, where investors should expect greater inefficiencies. The mandate also allows up to 20% of the portfolio to be invested in non-UK companies. The managers take full advantage of this, choosing overseas companies that look better than the UK alternatives or provide different opportunities.

The portfolio is actively managed, with turnover averaging almost 50% of NAV a year, suggesting an average holding time of just over two years. Looking at sector and top holdings, investors can see that this changes from year to year, illustrating how the manager's investment thesis has changed over time.

Although focus is on capital growth, board and managers aware that dividend is valued by many investors

While the mandate is to manage FSV actively in pursuit of capital growth, it has been a consistent dividend payer, with a current yield of 2.1%, higher than the sector average. Over the past decade, the ordinary dividend has effectively been progressive, although the last couple of years require additional commentary. In 2019, income was particularly strong – so an additional special dividend was paid. Many companies reduced or suspended their dividends in the pandemic, reducing

FSV's income. Reserves were drawn on, so the 2020 dividend was slightly greater than the ordinary dividend in 2019.

Active discount control has added value to investors and kept discount under control

The formal policy is to maintain the discount in single digits in normal market conditions, and FSV has largely achieved this. The company has been very active, both buying back shares when it has traded at a discount and issuing shares when trading at a premium, which has been more common in recent years. For example, FY'21 has already seen both buybacks and share issuance. On average, discount control has added 0.1% p.a. to performance.

Liquidity has improved significantly over past couple of years

Liquidity in FSV's shares has improved significantly since the start of 2019, with the average monthly value traded rising from £16.0m in 1Q'19 to £39.3m in 1Q'21. This has been aided by the active discount management policy.

Positive outlook for UK and global recovery

Economically, prospects look promising for a recovery over the next few years in both the UK and the world as a whole. UK listed companies get the majority of their earnings overseas, so the latter is very relevant. While there is some uncertainty about the speed and strength of the recovery, there should be an improving trend over the next couple of years.

The mix of the UK economy has led to its GDP being hit worse than most developed companies, but this should bring a stronger bounceback when activity returns. While the UK may not have handled the pandemic as well as it might, it has got the vaccination rollout right and, with a leading OECD rate, this also bodes well for its recovery.

Survey data suggest UK business and capital investment delayed, not cancelled

The UK has seen a backlog in business and capital investment grow over the past few years. Since the Brexit vote, growth in business investment has stalled, and the pandemic has set it back further. ONS survey data suggest that investments have been delayed, rather than cancelled, and Fidelity has positioned the portfolio to benefit from this.

UK stock market at unusually large discount to global markets

For global equity investors, the UK market represents particularly good value at the moment. Broadly, its P/E rating tends to be similar to that of European markets, but, over the past couple of years, it has moved to a significant discount, at 77% of continental Europe's P/E. The discount to the US, at 61%, is also wider than usual.

Investment-neutral factors

Investment-neutral factors include gearing, currency exposure, fees, KID disclosure, non-correlation with index and ESG factors

Exposures are geared, primarily using contracts for difference (CFDs). Net gearing is typically capped at 20% of shareholders' funds. We believe this increases long-term returns, but introduces greater volatility. Currency exposure is complex, and it can introduce some short-term volatility. Exposure to overseas companies is often through CFDs with currency hedges, with decisions based on underlying earnings exposure.

Ongoing charges fell sequentially every year from 2012 to 2019, but ticked up in 2020 – however, they are still well below the level they were 10 years ago. Two fee reductions have been agreed during this time, with the latest commencing in 2021. This should take FSV from above the peer average, using the AIC fee basis, to comfortably below the average, using Key Information Document (KID) disclosure. KIDs need to be treated with caution, but, against its closest peers, FSV's KID indicates a slightly wider spread of potential performance.

Given the management approach outlined above, FSV's share price has variable correlation with its benchmark, with increased deviation in 2016 and 2020. This is not unreasonable, given that, over time, FSV has delivered outperformance. FSV is not an impact fund, but ESG is a core part of the Fidelity investment process, with a strong governance element, but with a growing emphasis on environmental or social issues.

Investment risks/downsides

Market appetite for investment style can create headwinds, which FSV's approach has usually overcome

The global market appetite for value has been somewhat weak over the last few years, and, in the UK, this has been true since early 2019, although it has shown some signs of stabilising in 2021.

FSV is likely to show higher volatility than its benchmark. Using a rolling three-year basis, NAV volatility was typically 1%-2% p.a. greater than the FTSE All-Share. In 2020, this increased sharply, to around 1.5x the index (which also increased its volatility).

While most Brexit risks are behind UK, some remain

Pandemic has raised debt:GDP, and government may react to reduce it

UK political discourse over the last half decade has been dominated by Brexit. While most of the risks are now in the past, the Northern Ireland protocols are clearly problematic. While there seems to be a will to muddle through, this may cause further political disruption, although the overall economic impact may be muted. Meanwhile, the pandemic has had a strong adverse effect on government debt, and, at the end of 2020, the debt to GDP ratio had risen to 104.5%. While this is in line with other countries, future attempts to reduce it could adversely affect the UK economy.

UK stock market has been consistent underperformer globally

Britain's challenges have not gone unnoticed on the global stage. The UK stock market has steadily underperformed for the last decade, from before "Brexit" was even a word.

Portfolio

Investors buying into process, not specific portfolio

FSV's portfolio is the result of its bottom-up stock selection, rather than aiming for a target. While turnover is not as high as that of many trusts, investors are buying into a process, rather than a specific portfolio. Note that, at end-May, by sector, FSV was heavily overweight in financials, industrials and consumer discretionary.

Valuation

Trading at NAV, justified by long-term outperformance

At the time of writing, FSV trades at its NAV, which is slightly above its historical average. We believe investors should consider investing for the long term, with the long-term outperformance justifying the rating.

Investment objective

The investment objective of the company is to achieve long-term capital growth from a portfolio of shares consisting primarily of UK listed companies.

Key parts of investment policy

- The company seeks to meet its investment objective through investment in a diversified portfolio of securities issued by, or related to, predominantly UK listed companies.
- The company will have a blend of investments in larger-, medium- and smaller-sized companies, and will be guided by a contrarian philosophy.

The manager's strategy fits largely within a traditional, value-based one, with a strong contrarian element. The strategy seeks unloved companies, where market expectations are low and there is downside protection. There should also be the potential for positive change, which may be driven by changes inside a company or by external factors.

Investment managers

Alex Wright, Portfolio Manager

Alex Wright has 20 years of investment experience. He joined Fidelity in 2001 as a European equity research analyst, successively covering building materials, alcoholic beverages, leisure, emerging European and African banks, and UK small-cap stocks. He became portfolio manager of the Fidelity UK Smaller Companies Fund in 2008, before taking on the Fidelity Special Situations Fund and Fidelity Special Values PLC, which he started managing in 2012.

Jonathan Winton, Co-portfolio Manager

Jonathan Winton joined Fidelity as an analyst in 2005, and has since covered pan-European Support Services, Small-Cap Technology, and Beverages & Tobacco. He is the Lead Portfolio Manager of Fidelity UK Smaller Companies Fund, and has worked alongside Alex Wright in the Fidelity UK equities team since 2013. He became co-portfolio manager on the Trust in February 2020.

Investment attractions

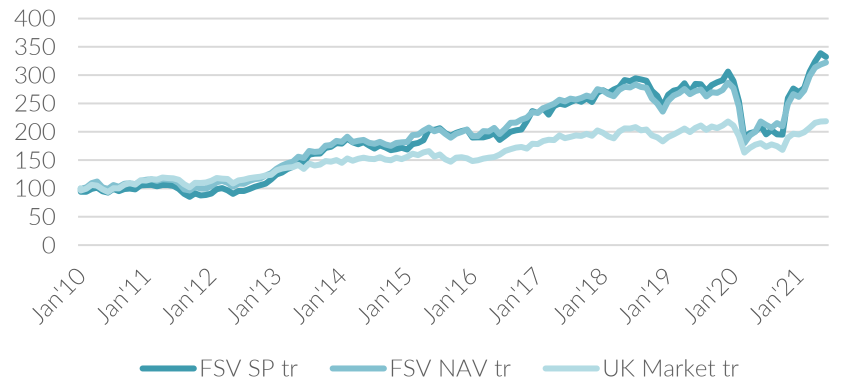
1) FSV: superior investment performance

FSV's long-term outperformance against its benchmark (FTSE All-Share Total Return Index)…

FSV has produced outstanding long-term NAV outperformance of 51% since the current manager took over…

The chart below shows the performance of FSV compared with the UK market over the past decade. Although there was some underperformance at the start, it has more than caught up since the current manager took over in 2012. As of end-June, the NAV total return was 179% over his tenure, versus 85% for the index – or an outperformance of 4.9% p.a.

Performance total return for FSV SP and NAV total return (tr) vs. UK markets (indexed to 100, Jan'10)

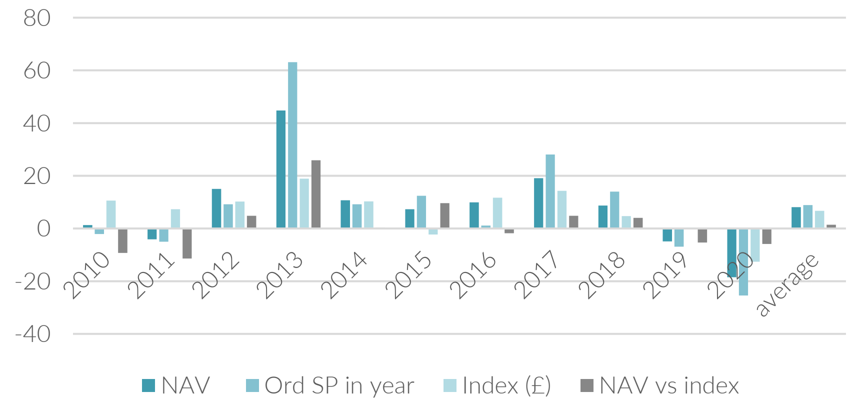


Source: Refinitiv, Hardman & Co Research

…but, significantly, FSV has outperformed local benchmark indices in six of nine years since current manager took over in 2012

Investors not only want outperformance, but consistency too, while noting that expecting outperformance every year would be unreasonable! FSV has delivered consistently: as the chart below shows, it has outperformed in six of the nine years since the current manager was appointed. 2021 has started well too, with 10% outperformance to end-June. There has been some volatility, which we address a little later, and the underperformance in 2019 and 2020 is likely to be due to value being out of favour.

Performance total return for FSV NAV and share price, UK market and comparison of NAV with the index (%)



Source: FSV Report and Accounts, Hardman & Co Research

Stock selection and idiosyncratic alpha mean fund can perform well across different market environments

...and against open-ended funds

Investors wanting to compare FSV with its UK listed peers can see their relative performance updated daily on the AIC website. At the time of this report, FSV was behind the average of its peers for longer terms, but ahead on a 12-month basis.

Looking at open-ended funds, Fidelity's fund platform alone lists 264 funds in its UK All Companies sector, of which 230 are actively managed. While this contains a large variety of fund sizes and strategies, at the time of writing, FSV is at the upper end of the second quartile for performance over five years.

2) FSV: investment process

FSV's approach is a contrarian value one: undervalued companies where there is thesis for change and downside protection

The manager's approach is a contrarian one, underpinned by a value approach. The manager looks for unloved and undervalued companies where there is a catalyst for change that will alter investor perception. These catalysts can be internal, such as fixing previous self-inflicted damage or new management, or external, such as a changing competitive environment or overdone worries about regulation or disruption. Additionally, companies should have downside risk protection, where tangible assets or other factors underpin the current share price.

Idea generation is supported by the Fidelity Research Team. Currently, this comprises 32 European analysts, whose sector coverage includes UK companies. These actively cover 15 to 35 companies each, with updated notes and financial models for each company at least every 120 days. Some of this coverage is specified centrally, but analysts also have some freedom to seek out the best ideas in their area. Portfolio managers may also do their own research, use third parties to complement internal research, or discuss the research with colleagues in the portfolio or senior investment team management. They can also tap into the global Fidelity network, which they have found particularly useful during the pandemic.

Portfolio construction and risk management

These are managed dynamically. The weights of investments are adjusted over time, with the managers identifying three key stages for successful investments:

- **Beginning of change**: Typically, a small initial position is taken. This will be gradually increased if additional evidence for the change thesis increases the managers' conviction.
- **Market recognising change**: Once the market starts to agree with the managers' thesis, the managers will allow the position size to increase.
- **Change fully "priced in"**: Once a company's rating reflects the recovery, and other investors are buying into it, downside protection will have been removed and position sizes will be reduced.

As of January 2021, around half the portfolio fitted the first category, 40% was in the second category and less than 10% was in the third. Stock volatility and variable news flow can mean that this is not always a linear process, and some investments will see weights decreased and then increased during their holding period.

Unsuccessful investments follow a different pattern: ongoing monitoring will disprove the change thesis, or the downside protection will be compromised. In the former, sales tend to be gradual, while the latter leads to a rapid sale.

There is day-to-day risk monitoring of the portfolio. Primary risk management is based on absolute risk. Some of these are straightforward maxima, such as a 6% limit for one position (less for mid- and small-cap companies). The Barra risk model is used to monitor stock tracking error contributions, the portfolio beta and large sector positions. A Factset model is used to monitor geographical revenue exposure.

Quarterly risk management includes additional reporting to the senior team within Fidelity, monitoring of macro exposures and more detailed factor analysis of tracking error contributions. Additionally, Fidelity's processes bring the usual controls that a high-quality investment house has, such as separation of portfolio management and trading, and additional monitoring by risk and compliance.

Ultimately, position sizes are driven by manager conviction with risk overlays.

3) FSV: flexible mandate

FSV has broad mandate, with flexibility to take best opportunities available

Although FSV's primary mandate is to invest across the UK market, it is far from an index tracker. There are two main ways in which it systematically deviates, which are evidence of its flexible mandate: a bias towards mid-and small-cap companies, and investing in non-UK companies.

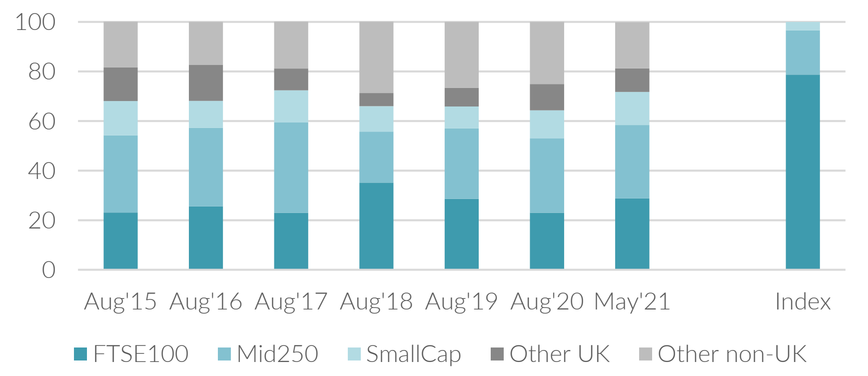
Invests across market, but biased to mid and small caps

Research-driven approach more likely to find unappreciated opportunities in mid and small caps than well-covered large caps

Fidelity's mandate is to blend large-, mid- and small-cap stocks. The change in this, over time, can be seen in the chart below. In practice, the change in weights is led by stock and theme selection, rather than a specific asset allocation. This has led to the exposure to each size area varying greatly over time: for example, mid-cap exposure ranged from a high of 36% in 2017 to a low of 21% 2018.

The fund is consistently overweight in mid- and small-cap companies, and underweight the FTSE 100. This should help stock-picking, as we would expect these parts of the market to be less efficient. The fund also consistently retains exposure to non-index UK companies. These are primarily AIM-listed, but also include some listed companies that are not in the FTSE All-Share.

Split of portfolio by index (index as of May'21), rebalanced to 100% total



Source: FSV Accounts & Factsheet, Hardman & Co Research

Invests in non-UK companies

Non-UK companies typically comprise around 20% of the portfolio

FSV can make investments in non-UK equities, with a limit of 20% of the portfolio in companies listed on overseas exchanges, and the managers make full use of this flexibility. With the analyst team having European coverage, it can highlight when European companies are more attractive than their UK counterparts. For example, currently, the managers believe Roche and Sanofi have deeper drug pipelines than AstraZeneca or GlaxoSmithKline. The managers also draw on Fidelity's wider analyst team to find opportunities worldwide, although most non-UK exposure is to European stocks.

Overseas companies can also give exposure to opportunities that are not available in the UK market. Irish companies have been a recurring theme, with current exposure to Irish banks and builders giving exposure to a less competitive market landscape and a more acute housing shortage. Another example is technology, where European companies, such as Ericsson, offer different themes (in this case, 5G capex spending).

Exposure to overseas companies can be seen in the chart above. We note that, since 2015, the exposure has consistently been around 20% of the portfolio. Fidelity has not performed an attribution for its overseas investments. We observe that Roche was the top individual contributor in 2020 and second in 2019, while the two Irish banks were the highest detractors in 2019.

Active portfolio management means investors should not buy FSV for its sector positioning at any given time

4) FSV: active manager

Sector trends, 2016-20

The table below shows how the portfolio has evolved by sector.

Portfolio summary (as at end-Aug)

Sector (%)	2016 FSV	2017 FSV	2018 FSV	2019 FSV	2020 FSV	2020 Benchmk.	2020 Active
Life Insurance	4.4	5.1	6.4	8.5	12.4	3.5	7.4
Financial Services	9.2	10.2	9.8	9.4	8.4	4.5	2.9
Banks	14.2	14.5	16.1	8.0	5.4	6.6	-1.9
Real Estate Investment and Services	5.6	3.6	3.5	3.4	4.6	0.8	3.2
Equity Investment Instruments	1.4	1.5	0.8	0.9	1.0	6.8	-5.9
Real Estate Investment Trusts	1.5	1.3	0.2	0.5	0.9	2.2	-1.4
Non-Life Insurance	3.5	5.1	2.0			1.2	-1.2
Support Services	12.6	11.5	11.8	10.3	16.6	5.8	8.8
Aerospace & Defence	4.3	6.3	7.4	9.3	8.1	1.6	5.5
Construction & Materials	6.4	6.6	6.2	7.4	4.1	1.5	2.1
Industrial Engineering	3.0	0.9	1.5	1.1	1.0	1.1	-0.2
Electronic & Electrical Equipment	0.8	1.7	1.5	0.2	0.8	0.8	-0.1
General Industrials	0.8	2.6				1.5	-1.5
Industrial Transportation	4.4	1.9	2.3			0.3	-0.3
General Retailers	3.4	3.4	2.5	2.2	6.2	2.5	2.9
Media	2.4	4.3	4.7	5.3	3.5	3.5	-0.4
Travel & Leisure	6.5	4.0	2.8	3.3	1.4	4.2	-3.0
Food & Drug Retailers	1.1	2.8	2.4	0.1	0.2	2.2	-2.0
Pharmaceuticals & Biotechnology	3.5	4.4	6.2	7.1	9.7	10.2	-1.7
Healthcare Equipment & Services		0.6		0.1	1.2	1.0	0.1
Tobacco			1.0	2.3	3.7	3.7	-0.4
Household Goods & Home Construction	1.7	2.4	3.6	2.4	3.5	4.1	-1.0
Food Producers	0.6	0.5	1.7	0.3	1.5	0.8	0.5
Beverages			1.3	3.0	0.7	3.4	-2.8
Leisure Goods	1.3	1.5	1.1	0.9	0.5	0.2	0.2
Personal Goods	0.7	1.1				2.9	-2.9
Automobiles & Parts	0.3	0.8					0.0
Mining	1.9	1.6	3.2	4.9	6.0	7.6	-2.3
Industrial Metals & Mining				1.7	1.2	0.1	1.0
Chemicals	1.8	1.8	1.8	1.1		0.8	-0.8
Forestry & Paper	0.6					0.4	-0.4
Oil & Gas Producers	7.9	6.2	9.7	9.8	3.6	7.3	-4.1
Oil Equipment, Services & Distribution		0.1				0.1	-0.1
Electricity				2.0	3.5	0.8	2.3
Gas, Water & Multiutilities		0.3	0.9	1.1		2.5	-2.5
Mobile Telecommunications					1.8	1.6	0.0
Fixed Line Telecommunications	2.2	3.1		0.5	0.7	0.6	0.0
Technology Hardware & Equipment	7.3	3.7	3.9		1.6	0.1	1.3
Software & Computer Services	0.2	0.2		0.4		1.2	-1.2
Total	115.5	115.6	116.3	107.5	113.8	100.0	7.4

Source: FSV Report and Accounts, Hardman & Co Research

The managers bottom-up stock selection process leads to sector exposures that are very different from the index. At the end of 2020, the most notable overweights (darker highlights) were +8.8% in Support Services, +7.4% in Life Assurance and +5.5% in Aerospace & Defence. Notable underweights (highlighted in grey) include Oil & Gas Producers (-4.1%) and Travel & Leisure (-3.0%). The underweight in Equity Investment Instruments is perhaps understandable for an active fund. The portfolio weightings below include FSV gearing effects – so the total sector weight is 114%, while the active weights are scaled.

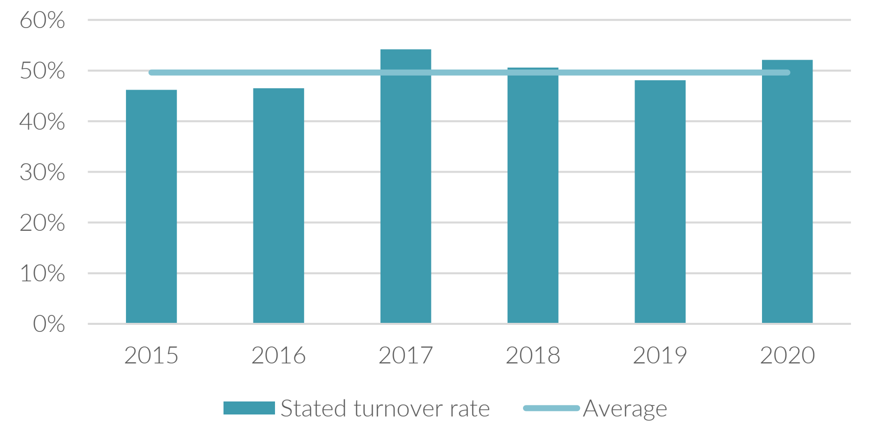
Turnover of portfolio

Average turnover high, 2015-20, ca.50% p.a.

The table above shows how the portfolio's exposure can vary over time. From 2016 to 2018, the portfolio had a strong overweight in Banks. This has been an underweight area until very recently, while a slight overweight in Life Assurance has moved to a strong overweight in the same period. Oil & Gas Producers have moved from roughly in line to strongly overweight, and then to strongly underweight.

The chart below shows the stated portfolio turnover. Of course, turnover represents both a purchase and a sale – so the total transaction amounts are approximately double the stated figures. Although the manager suggests a range for turnover of 40%-80% of the portfolio, in practice, it has been much more consistent, with around half the portfolio changing each year, suggesting the average holding time for positions is just over two years.

Turnover of portfolio, 2015-20



Source: FSV Report and Accounts, Hardman & Co Research

Changes in top five positions

Largest holdings a mix of long-held positions and more actively traded positions

The table below shows the evolution of the top five holdings in each year 2017-20, plus June 2021 data from the factsheet (which shows the top 10). This illustrates the portfolio management process described above, with holdings moving up or down over time, in addition to the price volatility.

History of top five holdings over past five years (% portfolio)					
August	2017	2018	2019	2020	Jun'21
Legal & General Group*	0.0	0.0	**2.5	4.6	4.9
Aviva*	**2.3	**3.0	**2.4	4.4	4.1
Royal Dutch Shell*	5.2	4.9	5.1	1.2	3.6
Inchcape	0.0	0.0	0.0	**1.1	3.0
Halfords Group	0.0	0.0	**0.9	**2.0	3.4
Imperial Brands	0.0	**1.0	**2.3	3.7	
Serco Group	**1.7	**2.0	**3.2	3.6	**2.6
Roche Holdings	0.0	**1.0	5.0	4.0	
CRH*	4.7	4.4	5.6	3.0	
Pearson	**0.6	**3.9	4.7	**2.7	
Citigroup	5.7	5.4	4.0	**2.2	
Lloyds Banking Group	**3.1	4.5	0.0	0.0	
Shire	3.8	4.1	0.0	0.0	
Ultra Electronics	3.8	**2.4	**2.5	**3.2	

**includes CFDs, as well as shares, **active holding, but not in top five*
Source: FSV Report and Accounts, Hardman & Co Research

Portfolio concentration

Top 10 average 38% of portfolio (generally in range 30%-45%)

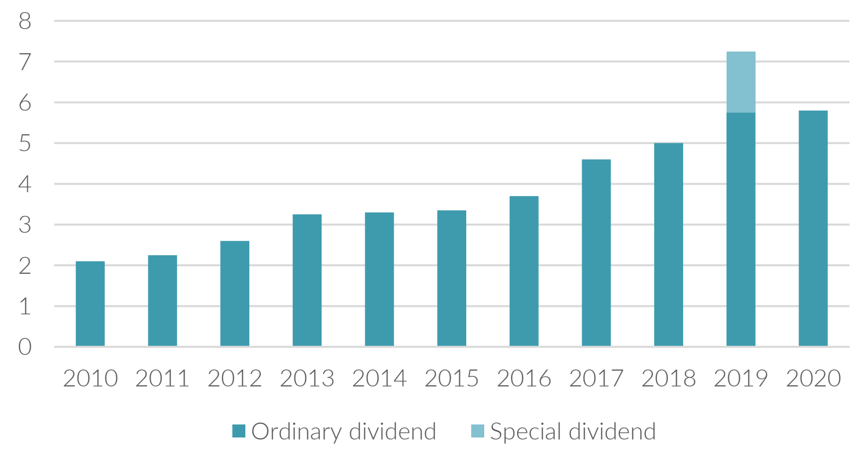
The total weight of the top 10 positions has varied between low 30s% and low 40s%. On average, it has been 38%, although, in recent years, it has been below this level and, as of June 2021, it was at the lowest it has been for some time, at 31.9%. Although the portfolio as a whole has over 100 positions, it is more concentrated than this amount would suggest, although the top 10 are still less concentrated than the benchmark. These largest positions tend to be different from the benchmark too, and change over time, illustrating the active portfolio management.

5) FSV: dividend policy

FSV's objective is long-term capital growth, but has still maintained progressive dividend

The portfolio is managed actively, in pursuit of capital growth. Hence, in any one year, the dividend income received from investments will vary, according to which stocks are owned during the reporting period, and the dividend that will be paid will also vary. Value strategies are often strong in dividend generation, and FSV has been remarkably consistent. From 2010 to 2020, the ordinary dividend paid was effectively progressive.

Dividends paid per annum



Source: Refinitiv, Hardman & Co Research

The last two years require some further explanation. Revenue generation was particularly strong in 2019. With investment companies obliged to distribute their income, FSV paid a special dividend of 1.50p per share that year, on top of the 5.75p in ordinary dividends. In 2020, many companies suspended or cut their dividend. Some of this was prudence, rather than necessity, but FSV's income fell. Although its target is for capital generation, many retail investors still appreciate the income. FSV drew on its reserves and paid a slightly increased dividend of 5.80p per share in 2020.

As of the 2021 interims, FSV had a revenue reserve of £11.4m, down from £17.7m six months earlier. The total dividend cost in the preceding 12 months was £16.9m. While the company still has surplus distributable reserves, they are a little depleted compared with previously.

Its peers all pay regular dividends, with FSV's yield of 2.0% (at 30/6/21) currently above the average for the sector of 1.8%. Its dividend growth over the last five years has been the strongest in the sector, with its average rate of 11.6% being 1.7ppts ahead of the second-placed company.

6) FSV: closed-ended structure

Closed-ended structures outperform open-ended, as they have less cash drag, can invest long term, offer more favourable trading options, have a board of directors to supervise, and allow gearing.

There are many open-ended investment vehicles available to those wanting to invest in UK equities. However, we see structural advantages in FSV's closed-ended vehicle structure, including:

- The manager can make longer-term decisions, without having to worry about needing to sell assets to meet investor redemptions.
- The shares are listed on a stock exchange – this offers investors the ability to buy and sell shares at any time in normal trading hours, as well as the comfort from the governance associated with a listing.
- Less cash drag, as there is no need to hold liquidity against potential redemptions.
- Boards of directors – the independent directors provide an additional layer of oversight, protecting investors' interests.
- Gearing – the ability of investment companies to borrow money to invest means that they may perform better over the long term (see section below). At May 2021, the net gearing level was 14% (cap 20%).

We estimate top-quartile against open-ended funds over five years

The AIC has indicated that, across all closed-ended vehicles, it believes the incremental return is over 1% p.a. Looking at FSV over the past five years, we estimate that it is at the upper end of the second quartile against all 230 actively managed UK All Company funds available to retail investors on the Fidelity Platform website.

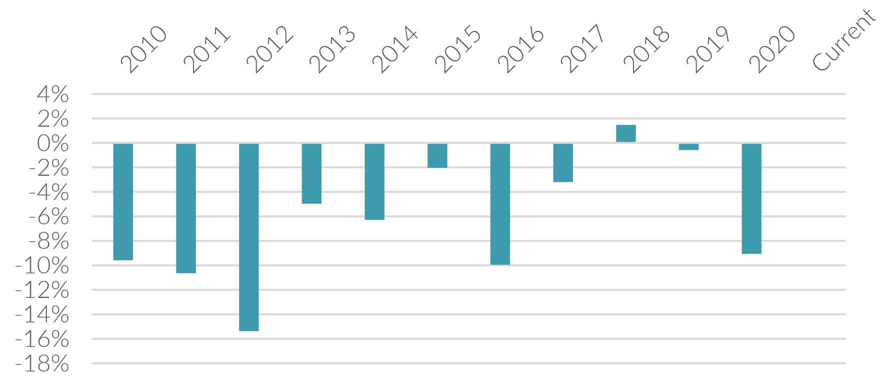
7) FSV: discount control mechanisms

Discount can be helped by buybacks, but this can create liquidity issues and worsen expense ratios. In practice, FSV's discount management has added value to investors.

The board's formal discount control policy is that it will seek to maintain the discount in single digits in normal market conditions and, under certain circumstances, will repurchase shares. As well as buybacks, the company has been proactive about issuing shares when shares trade at a premium to NAV, which has been more common in recent years. Repurchased shares are held in Treasury, although none are currently being held there.

In FY'15 to FY'17, the company was a net purchaser of its shares, buying back a total of £9.8m. In the three years since 2018, it has been a net issuer, raising £64.7m. FY'21 has seen both buybacks and share issues: the first half saw £1.8m of purchases, with £2.4m raised from re-issuing the shares. Over time, there has been a small positive contribution to performance from this, averaging 0.1% p.a.

Year-end share price discount to NAV (%)



Source: FSV Report and Accounts, Hardman & Co Research

Discount management having better effect than for most peers

While most investment companies have some discount control mechanisms in place, investors are really interested in the net effect. It shows that the average discount has been lower than has been the case for almost all its peers, and the volatility of this discount is lower than the average. The maximum discount, being based on one day in over 2,900, is perhaps slightly unfair as a comparison, but FSV also compares favourably with its peers.

Discounts of peer group, Jan'10 to Jun'20

	Average	Volatility (stan. dev.)	Maximum
FSV	-4.9%	4.9%	-14.9%
ATS	-13.6%	6.3%	-28.1%
ARR	-6.1%	7.9%	-29.5%
BGUK	-6.6%	3.7%	-14.2%
HOT	-15.0%	6.5%	-31.5%
IIT	-5.6%	7.7%	-22.6%
IVPU	-2.2%	2.9%	-14.2%
JMF	-9.5%	5.3%	-20.4%
MRC	-12.1%	2.9%	-19.1%
SCP	-12.3%	4.9%	-21.8%
Average		5.3%	

Source: Refinitiv, Hardman & Co Research

Continuation vote every three years

A continuation vote takes place every three years, with the next one due at the AGM in 2022. Given that 99.90% of shareholders voted in favour of a continuation in 2019, we would expect it to pass again. The active discount management seems to be working, which reduces the risk of shareholders pressing for a liquidation to realised value.

8) FSV: good liquidity in shares

Good liquidity in FSV shares, and its register has little concentration

FSV's share trading has been liquid, even in challenging market conditions. Broadly, liquidity increased through the early stages of the pandemic, and has continued to improve into 2021.

In 1Q'19, the average monthly value traded was £16.0m, whereas, by 1Q'21, this had increased to £39.3m, more than double the previous figure. A similar pattern is present in the number of shares traded, which averaged 2.4% of the total in 1Q'19 and 5.4% in 1Q'21. This has been aided by FSV's active discount management policy. Over this period, it was a net issuer of shares, but was actively buying back shares during the periods of weakness in 2020.

Large shareholder mix of long-term holders and new ones. Two large holders sold out since 2016, during which time discount more than halved.

The table below shows the disclosed major shareholders. As can be seen, there is a mix of stable long-term holders and some who have traded in and out, with the latter mostly doing so over time. In practice, the shareholder register is dominated by private shareholders, with most of the names being aggregations of small shareholdings. The ongoing reduction in the Fidelity Platform simply reflects the increased popularity of other platforms, rather than any strategic move.

History of major shareholders (%)

December	2016	2017	2018	2019	2020
Fidelity Platform Investors	29.2	28.2	27.0	25.4	23.3
Rathbones	5.3	4.9	5.3	9.2	8.2
Hargreaves Lansdown	5.1	5.8	6.4	6.5	6.3
Interactive Investor	n/d	n/d	n/d	n/d	5.6
Investec Wealth & Investment	n/d	3.8	4.2	4.6	4.7
Brewin Dolphin	n/d	n/d	3.1	3.1	4.4
Smith & Williamson Wealth Management	n/d	n/d	n/d	n/d	3.2
Tilney	n/d	n/d	n/d	n/d	3.1
Alliance Trust Savings	8.2	6.3	4.9	4.4	n/d
Charles Stanley	n/d	n/d	n/d	3.2	n/d
Speirs & Jeffrey	n/d	n/d	3.3	n/d	n/d
Quilter Investments	n/d	n/d	3.1	n/d	n/d
Old Mutual Global Investors	3.6	3.6	n/d	n/d	n/d
Individuals	4.9	n/d	n/d	n/d	n/d

n/d = not disclosed; Source: FSV Report and Accounts, Hardman & Co Research

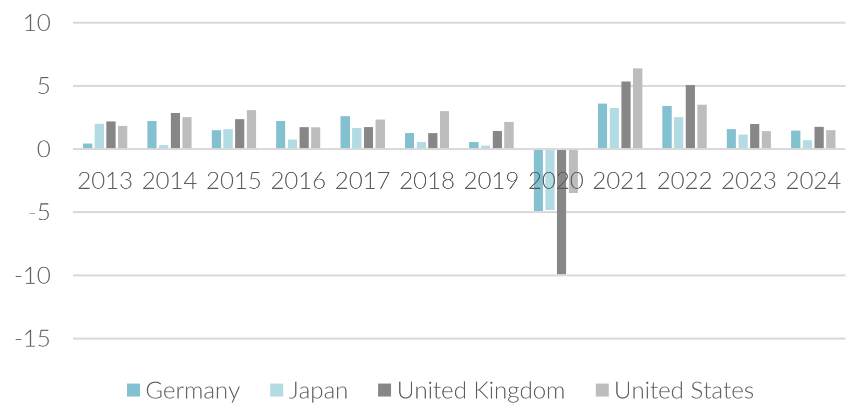
9) UK & global: positive near-term outlook

Prospects for strong economic recovery

As UK experienced sharper GDP fall going into the pandemic, a stronger bounceback is expected

The chart below shows the historical and estimated, prospective GDP growth of four leading developed economies. In the decade preceding the pandemic, growth had been reasonably steady in most places. Historically, the US has shown more consistent growth, Japan has been mostly quite weak, and the UK has been somewhat in-between.

Annual change in GDP (local currency, constant prices)



Source: IMF World Economic Database, Hardman & Co Research

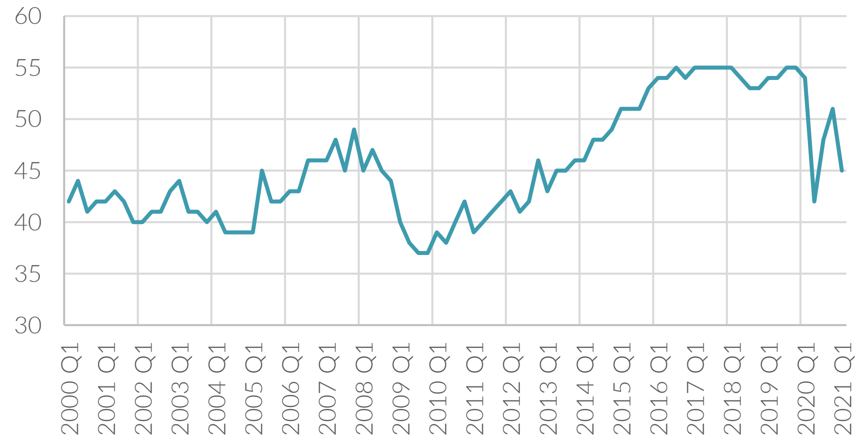
The pandemic has had a large effect everywhere, but it has hit the UK worst among the large, developed countries. Its service-based economy has suffered more, with the government response and Brexit also having a negative impact. However, there is a flipside to this, as the economy is now forecast to experience stronger growth over the next couple of years, as it bounces back. In terms of the time to return to pre-crisis activity levels, the OECD has the UK in the middle of the pack at late 2022.

10) UK: backlog of investment

Brexit caused dramatic slowdown in business investment

Brexit has had many effects on the UK economy, but one of the more dramatic ones has been the slowdown in business investment. As can be seen below, growth in business investment stopped at the time of the referendum, and has never resumed. It is hard to attribute the small 2018 decline to any particular cause; the government's quarterly survey suggests Brexit was not a strong factor. Clearly, there has been an even larger effect from the pandemic.

Business investment and gross fixed capital formation



Source: ONS (series GFCF), Hardman & Co Research

The hopes for a recovery are underpinned by the Quarterly Acquisition and Disposal of Capital Assets Survey (QCAS). The ONS performs a textual analysis and extracts reasons for why investment is, or is not, happening. The results since 2017 (earlier data is not available) show that delayed investments have ranged from 14% in 4Q'17 to 32% in 2Q'20, while cancelled investments have never exceeded 4%. While some of the delayed investment may have taken place since the survey, this does suggest that companies are predominantly holding back on investment, rather than cancelling altogether.

11) UK: attractive market valuation

UK market P/E ca. 77% of continental Europe

The UK stock market currently trades at a significant P/E discount to most major markets. Currently, the forward P/E is 77% of continental Europe, and 61% of the US. While the UK has historically traded at a discount to the US, this is wider than usual. The UK rating has tended to be close to Europe's, and it is only in the last couple of years that a significant discount has appeared.

It is no surprise that FSV, as a value investor, has a portfolio P/E at a significant discount to the market as a whole. Although the managers expect earnings expansion as the economy recovers, they are looking for companies to re-rate too.

FSV and UK market P/E multiples vs. major markets as of Nov'20 and May'21	2020E (Nov'20)	2021E (Nov'20)	2022E (Nov'20)	1yr forward (May'21)
FSV	14.9x	10.5x	8.6x	
UK	17.2x	13.2x	11.1x	13.1x
US	29.3x	21.9x	19.0x	21.4x
Continental Europe	21.3x	16.7x	14.3x	17.0x
Japan	22.0x	17.0x	14.2x	16.1x
Asia ex-Japan	10.3x	15.8x	13.5x	15.1x

Source: Fidelity, Yardeni Research, Hardman & Co Research

12) UK: OECD leading vaccination rate

The UK's rapid vaccination progress could help alleviate further pressures from COVID-19

While many aspects of non-financial UK government policy for the pandemic have been subject to criticism, there can be little doubt that it has got the vaccination rollout process right. While the policy of delaying the second vaccination has helped boost the total number of people who have received at least one dose, the fully vaccinated proportion also compares well globally. At the time of writing, the UK's rate of 54% is slightly ahead of the US, at 48%, while France and Germany are in the mid-40s%, and Japan is at 23%. While the prospects of variants and further waves in the autumn are much debated, the high level of UK vaccinations does give it a better chance of avoiding more severe lockdowns, with the corresponding beneficial effect on economic and investor sentiment.

Investment-neutral issues

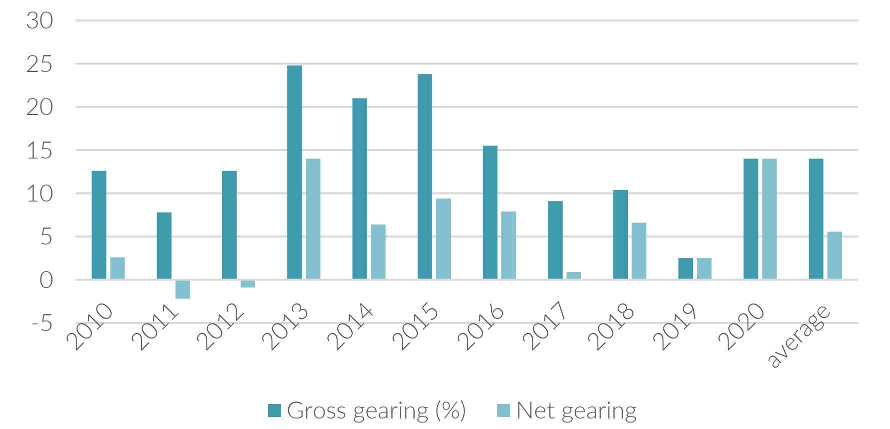
1) FSV: gearing

Exposures geared through use of derivatives, not debt

Over the last decade, FSV has not used balance sheet debt to gear its balance sheet, but, as noted above, it does increase exposure and so gear the portfolio through the use of long CFDs. The chart below shows the history of gearing since 2010. The gross gearing had a low point of 3% at end-2019, rising to a high of nearly 25%.

Since the current manager took over, the net gearing has been positive, averaging +6%. Many of the negative CFDs have been market hedges, rather than stock-specific shorting. The latter have stopped, as Fidelity felt that they took up too much time, and there has been no negative market exposure for the past couple of years. The manager took advantage when the market correction in 2020 created opportunities to add or increase positions at attractive valuations.

Gross and net gearing as a percentage of shareholder funds since 2010 (%)



Source: FSV Report and Accounts, Hardman & Co Research

Gross gearing capped at 40% of shareholders' funds but can be, and has been, increased with board approval

The manager has the discretion for gross gearing to be up to 40%, with this being increased in 2015 from 30%. The board's intention is that net gearing will typically be in the range of 0% to 20%. A temporary increase to 25% was agreed in October 2020, but this was only short-term, as the market rallied soon thereafter. The manager has not, as yet, used the full amount of the increased gross gearing and, with a disinclination to shorting, it seems likely that gross gearing will stay within the net gearing range in the near future.

By introducing gearing, FSV:

Increases returns but also volatility. Over long term, should help enhance returns.

- Increases the long-term return. FSV historically gave an attribution analysis and, from 2010 to 2020, on average, gearing added 0.6% p.a. to the NAV. The average gross gearing level over this period was 14%, the same as under the current manager.
- Introduces further volatility in investments and markets that are already volatile (see section below). Over 2010-20, the impact of gearing on the annual NAV ranged from -2.0% to +2.0%. The high end of that range was also when the market delivered its strongest growth, illustrating how gearing increases volatility.
- Does not create liquidity issues, given the limited amount and structural use of derivatives.

2) FSV: currency exposure

Currency exposure is complex. Can introduce some short-term volatility, but exposure not hedged. Over long term, effects modest and hedging incurs real costs.

FSV has direct international exposure, through overseas companies held in the company, and indirect exposure, through the operations of its UK holdings.

The UK stock market as a whole is very international. The FTSE 100, in particular, is dominated by multinationals, while the smaller companies tend to have a greater domestic focus. Fidelity analysis shows that only 25% of earnings in the benchmark come from the UK. With its focus away from the FTSE 100, and despite its overseas holdings, the company's current investments get about 40% of their earnings from the UK.

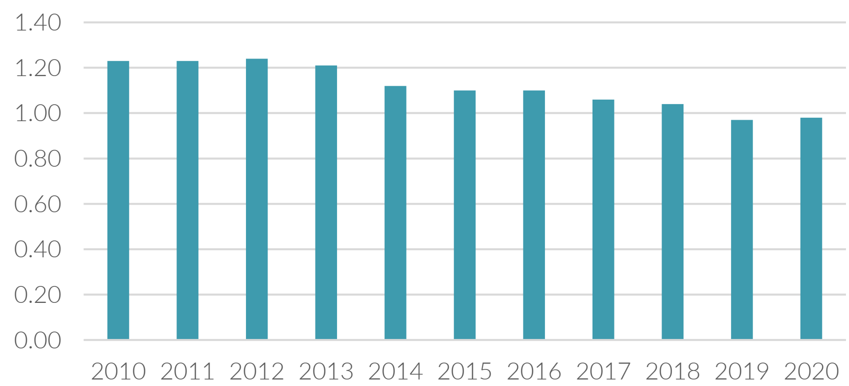
FSV often invests in international companies through CFDs to eliminate currency risk, with the underlying earnings exposure informing the decision. FSV does not systematically hedge currency exposure, given the cost, which seems a sensible policy for its scale and type of exposure.

3) FSV: fees falling, but in line with peers

Ongoing charges fallen steadily since 2012, and now 20% below level 10 years ago

The overall trend in ongoing charges is shown below. Until 2020, it had been falling sequentially every year since 2012. The large market falls in spring 2020 reduced the NAV and, hence, the proportion that the fixed costs represent.

FSV ongoing charges (%, AIC basis)



Source: FSV Report and Accounts, Hardman & Co Research

Annual management fee reduced to 0.60% from 1 January 2021

The largest element is the management fee. Prior to 1 September 2018, the rate was 0.875% of net assets. From 1 September 2018 to 31 December 2020, this was reduced to a tiered scale, with 0.85% on the first £700m of net assets and 0.75% on net assets in excess of this amount. In practice, only a small proportion of assets were ever above the lower rate threshold. From 1 January 2021, the management fee was reduced to a flat rate of 0.60% of net assets.

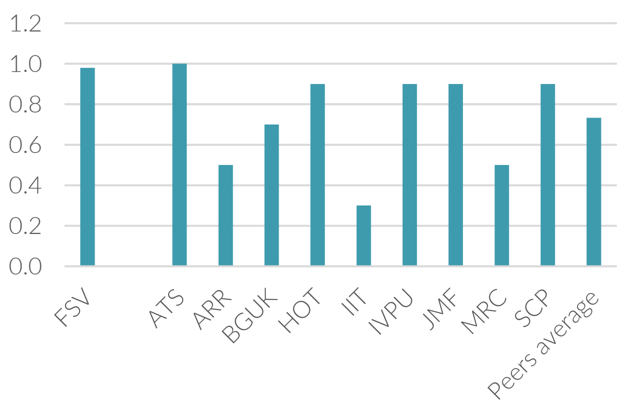
In addition to this, an annual fee of £100,000 (£600,000 prior to September 2018) for non-portfolio management services was removed. The company estimates that these changes would have saved £1.55m in fees in FY'20 – 22% of the total expenses.

FSV was higher than peers on AIC basis but prospectively below average.

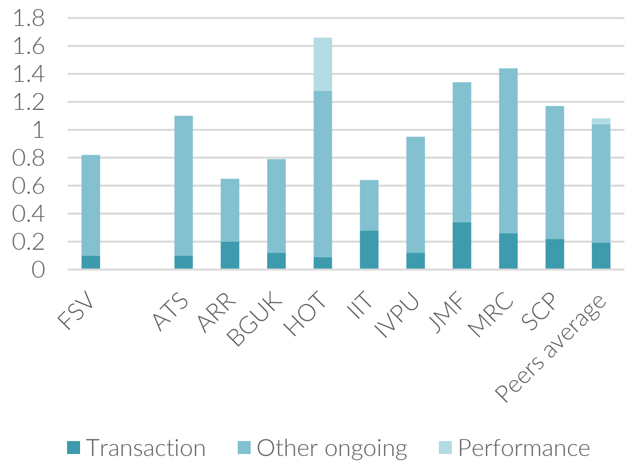
Until this latest change, FSV was close to the upper end of fees, as measured by the AIC's ongoing fee measure, with only Artemis Alpha having a higher charge.

Relative to other companies in the AIC sub-sector, FSV's ongoing charges were above the average of its peer investment companies. However, these reflect the historical fee rates.

AIC ongoing charges (%) for AIC UK All Companies (historical)



KID charges (%) for AIC UK All Companies (prospective)



Source: Company websites, Company KIDs, Hardman & Co Research

Using KID disclosures, FSV's costs now firmly below average of peers

Using KID disclosures, we can see the effect of the fee reduction. This has reduced the other ongoing charges by around 25bps, and places it firmly below the average of its peers, with only two being lower. We note that one of these, Aurora, has assumed, in its KID, that nothing is payable in respect of its performance fee. However, we do note that FSV's historical transaction costs are higher than those assumed in the KID.

4) FSV: other KID disclosure

KIDs need to be treated with caution, but, against closest peers, FSV's KID appears to indicate slightly wider spread of potential performance

We, like many others, have concerns about some of the methodologies in calculating KID information (for example, likely performance under different scenarios is based off share price performance, which makes it very sensitive to the date of the KID). With that large caveat, our May 2019 report, Understanding the deepest discounts, did find correlations between extreme discounts and the KID stress scenarios.

Against its peers, FSV has a slightly higher-than-average downside stress loss, but a higher positive return in the moderate and favourable scenarios. Given the vagaries within the calculation, we characterise FSV's KID disclosure as indicative of a slightly broader spread than that of its peers. Its risk factor of 5 matches the majority of its peers.

5) FSV: variable correlation with benchmark

Given management approach outlined above, not surprising that FSV's share price and NAV have variable tracking errors

We have calculated the tracking error of FSV's share price and NAV per share against the FTSE All-Share on a rolling 12-month basis (monthly calculations). The NAV tracking error has mostly been in mid to high single digits, with breakouts in 2016 and 2020. Over the last decade, the tracking error was 8.2% p.a. The share price has been more volatile, reflecting the discount variation.

6) FSV: ESG credentials

Fidelity has wide approach to ESG

For Fidelity, ESG is simply good business practice. FSV dedicates a page of its 2020 Report and Accounts to ESG in the Investment Process. Fidelity has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012, and submits an annual report detailing how it incorporates ESG into its investment analysis.

FSV-specific ESG

The degree of emphasis of the manager to ESG is summarised in the annual report:

> *The Manager's primary objective is to produce superior financial returns for the Company's Shareholders. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns.*

FSV leans towards ESG compliance, and is not an impact investor. If confirmation were needed of this, this can be seen in its large holdings in, for example, Imperial Brands or Shell.

There is also a corporate engagement policy:

> *The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. It delegates the responsibility for corporate engagement and Shareholder voting to the Manager who updates the Board on issues and activities. These activities are reviewed regularly by the Manager's corporate governance team.*

Although Fidelity is not an activist manager *per se*, as one of the world's largest fund managers, we would expect it to have some influence on investee companies. Of course, we would expect FSV to be invested primarily in companies where the manager is comfortable with their activities and management.

Own governance issues now addressed

The FSV board has had a little turnover in the past couple of years, with a couple of longer-standing members stepping down. Currently, only one board member has been on the board for more than 10 years: Chairman Andy Irvine was appointed to the board in 2010. The next longest-serving member has been on the board for six years. The board is relatively diverse, with two female and three male directors.

We also note that a continuation vote takes place every three years, with the next one due at the 2022 AGM.

Investment risks

1) UK: Brexit

No discussion of the UK and its prospects over the last few years could ignore the effects of Brexit. Although some specific items are covered elsewhere in this report, these are mainly historical risks, which have been removed.

Investors will be aware that there was some trade disruption around the end of 2020, aggravated by pandemic restrictions. Fidelity's research suggests that a lot of these issues were short-term, and companies have mostly settled down into the new regime. Anecdotally, SMEs appear to have struggled more than larger, quoted businesses. While the additional administrative burdens have increased costs for those importing and exporting goods, these appear to be manageable so far.

There are some outstanding uncertainties. The most likely of these to have an impact is the Northern Ireland border, although, for the UK as a whole, the political impact may be more significant than the economic impact.

2) UK: long-term market performance

UK has been serial underperformer, although not a worry to those with internationally diversified portfolios

For the past decade, the UK stock market has been an underperformer relative to the rest of the world. The causes are complex, but include a decline in the value of sterling, the mix of company/sector exposure in the UK market, Brexit and the performance of the UK economy. Fidelity estimates that the UK market is at a 50-year relative low against global markets.

While FSV is run on an active basis (so the benchmark composition is not of huge concern) and most investors should have a diversified portfolio, the UK is currently less attractive to momentum investors.

3) UK: increased government debt

After a decade of stability, UK government debt to GDP shot up in the financial crisis, and has been, broadly, on a rising trend ever since. This jumped again in 2020, to 104.5% at the year-end, and will continue to rise in 2021, as pandemic support has raised the deficit, while GDP has shrunk from earlier levels. The government has leaned towards austerity in the past and, if it moves to reduce debt levels prematurely, then it may have adverse effects on the UK economy.

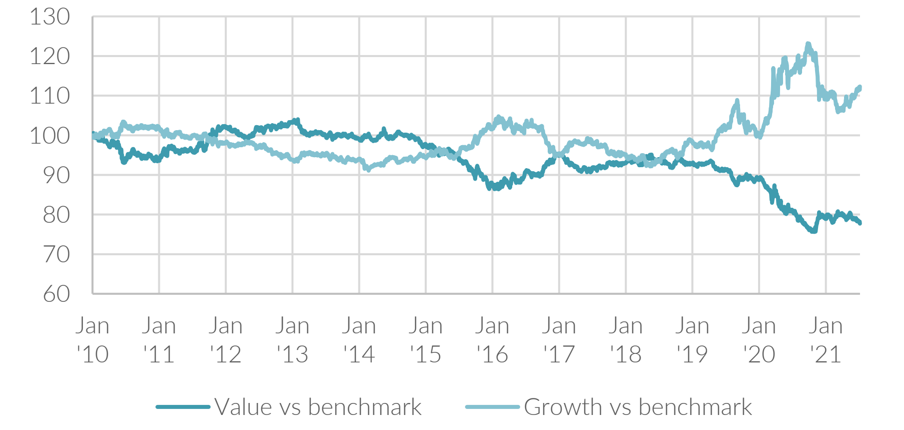
4) FSV: weak recent market appetite for value

Value investing has been out of favour in recent years

While the outperformance of big tech, and consequently growth stocks, during the pandemic is well-known now, this is not a recent phenomenon. In the UK, the market composition means that the preference for growth over value has actually been less prominent than elsewhere in the world. However, there has still been steady underperformance of value since 2014, and this has become more significant over the last three years. Given this, the relative performance of FSV demonstrates very good resilience.

In a normal economic cycle, there would be good reason for value to outperform as the economy recovers from a downturn. Of course, this is not a normal economic cycle, but some of the same principles hold. Any swing back towards value should benefit the portfolio. While the fund has been largely able to counteract growth being in demand through successful stockpicking, the continuation of this stylistic trend would create a further headwind.

Comparison of value and growth performance in UK vs. benchmark.



Source: Refinitiv, Hardman & Co Research

5) FSV: volatility of returns

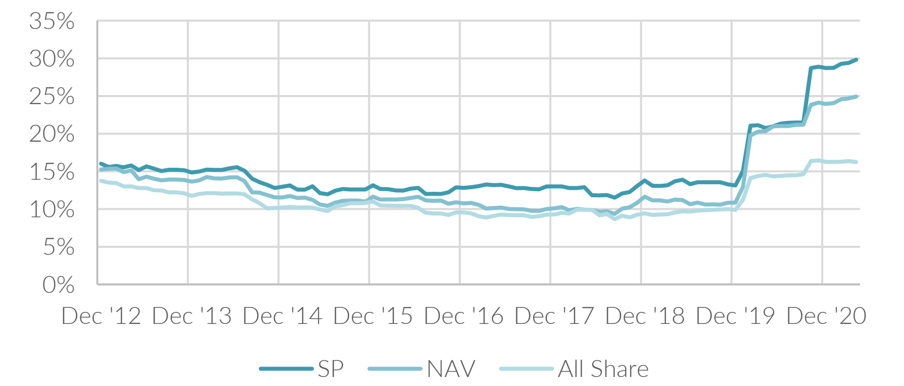
Volatility of returns was consistent until the pandemic in 2020

Although value investing is inherently conservative, FSV's style could generate some additional volatility. The chart below compares this using monthly data on a rolling three-year basis to each date. Until early 2020, the NAV showed a small amount of additional volatility, typically 1%-2% p.a. greater than the index. Given that FSV has had positive net gearing over this period, this is to be expected. The share price, which also adds discount volatility, showed 3%-4% p.a. more volatility.

The pandemic generated greater volatility across most markets, with individual stocks and sectors moving dramatically. In 2020, FSV's NAV and share price had roughly 1.5x the index volatility. On a rolling three-year basis, the figures continue to increase, as the lower volatility period in 2018 drops out of the calculation. On a rolling 12-month basis, volatility is declining in 2021, although it remains elevated.

Overall, FSV tends to deliver its outperformance with, most of the time, slightly higher volatility than its benchmark.

Rolling three-year standard deviation of FSV and benchmark

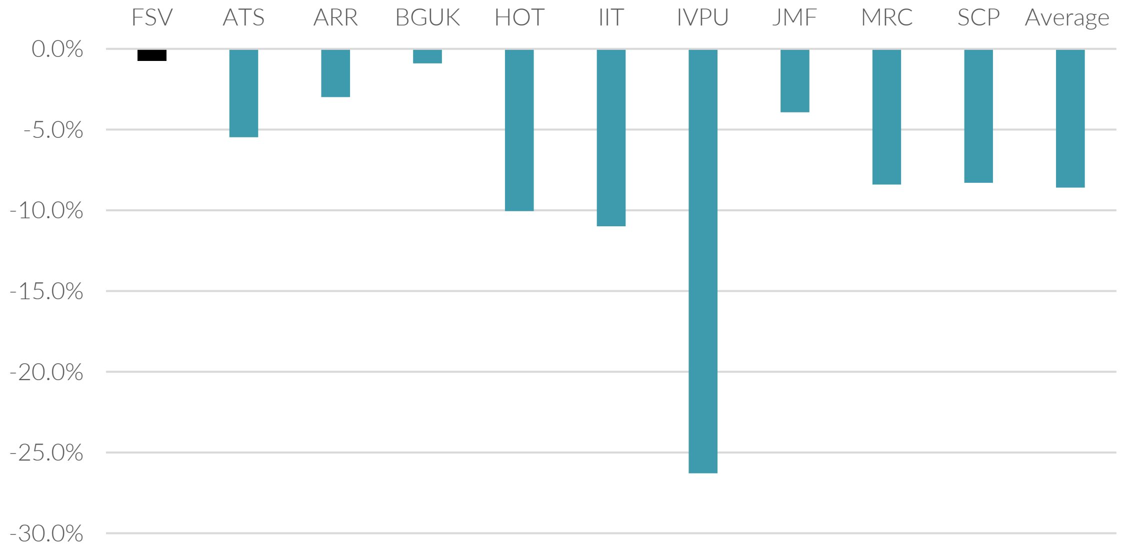


Source: FSV Report and Accounts, Hardman & Co Research

Valuation

As can be seen in the chart below, FSV's discount is slightly better than that of most of its peers in the AIC UK All Companies sub-sector.

Other UK investment companies' discounts/premiums to NAV (%) in AIC UK All Companies sub-sector

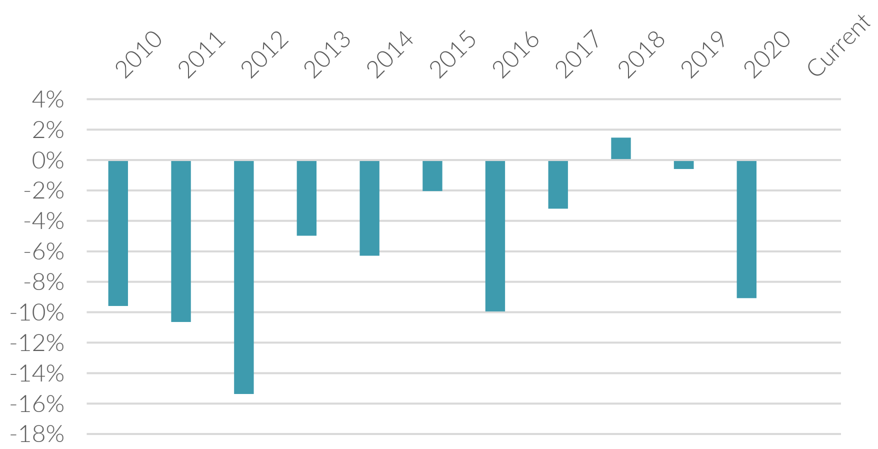


Source: LSE, priced on 21 Jul'21 , Hardman & Co Research

Current discount narrower than seen in past, reflecting confidence in outlook

As can be seen, since the 2016 results, FSV has generally traded at a much narrower discount to NAV.

FSV – historical discount to NAV (at end-Aug) and latest



Source: FSV Report and Accounts, NAV announcement, dated 22 Jul'21, LSE, Hardman & Co Research

Financials

Income statement (£000)

Year-end Aug	2020			2021E			2022E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
Gains/losses on investments		-131,085	-131,085		248,056	248,056		79,452	79,452
Gains/losses on long CFDs		-11,820	-11,820		33,148	33,148		10,513	10,513
Gains/losses on short CFDs		-1,905							
Income	20,282		20,282	20,901		20,901	32,729		32,729
Other interest	789		789	1,136		1,136	1,238		1,238
Derivative expense	-75		-75	-75		-75	-75		-75
Investment management fees	-5,627		-5,627	-4,471		-4,471	-5,535		-5,535
Other expenses	-718		-718	-688		-688	-688		-688
Foreign exchange gains/losses		-2,641	-2,641		-950	-950		0	0
Profit/(loss) before fin. costs & taxation	14,651	-147,451	-132,800	16,804	280,253	297,057	27,670	89,965	117,635
Finance costs	-530		-530	-763		-763	-832		-832
Profit/(loss) before taxation	**14,121**	**-147,451**	**-133,330**	**16,041**	**280,253**	**296,294**	**26,838**	**89,965**	**116,803**
Taxation	-360		-360	-288		-288	-481		-481
Profit/(loss) after taxation for the year	13,761	-147,451	-133,690	15,753	280,253	296,007	26,357	89,965	116,322
Earnings/(loss) per ordinary share (p)	4.81	-51.59	-46.78	5.27	89.63	94.66	8.43	28.77	37.20

Source: FSV Report and Accounts, Hardman & Co Research

Balance sheet

@ 31 Aug (£000)	2016	2017	2018	2019	2020	2021E	2022E
Investments	539,096	653,972	704,997	635,539	563,763	882,799	1,010,386
Current assets							
Derivative instruments	16,169	10,678	4,939	3,028	7,619	7,619	7,619
Other receivables	4,995	4,743	4,043	11,685	3,921	3,921	3,921
Amounts held at futures clearing houses & brokers	7,365	1,386	2,235	18,002	860	860	860
Fidelity Institutional Liquidity Funds	24,359	11,796	14,588	46,881			
Cash and cash equivalents	2,469	1,969	2,303	2,207	9,802	9,802	9,802
Total current assets	55,357	30,572	28,108	81,803	22,202	22,202	22,202
Total assets	594,453	684,544	733,105	717,342	585,965	905,001	1,032,588
Current liabilities							
Derivative instruments	-13,783	-9,003	-5,371	-17,879	-1,946	-1,946	-1,946
Other payables	-2,379	-2,039	-2,764	-795	-4,514	-4,514	-4,514
Total current liabilities	-16,162	-11,042	-8,135	-18,674	-6,460	-6,460	-6,460
Net current assets	578,291	673,502	724,970	698,668	579,505	898,541	1,026,128
Net assets	**578,291**	**673,502**	**724,970**	**698,668**	**579,505**	**898,541**	**1,026,128**
Number of shares (m)	265.3	264.5	266.5	276.2	290.2	307.7	317.7
NAV per share (£)	**2.18**	**2.55**	**2.72**	**2.53**	**2.00**	**2.92**	**3.23**

Source: FSV Report and Accounts, Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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