THE SUNDAY TIMES

The Sunday Times June 18, 2023

MONEY

At 12, I wanted to be a fund manager — which I know sounds really sad

Alex Wright is living his childhood dream, backing struggling firms that he thinks will make it to the top. But he has a tough act to follow, says *David Brenchley*

Taking over the running of an established investment fund is never an easy task, but it's even harder when your predecessor helped his investors to become millionaires.

If you had put £10,000 into the Fidelity Special Situations fund when Anthony Bolton launched it in 1979, you would have had £1.4 million by the time he stepped down 28 years later. Few managers have achieved such returns.

When Sanjeev Shah took over in 2008, the fund plunged 35 per cent in his first ten months. Performance had recovered by the time he left in 2013, and he had a total return of 61 per cent.

It was then that a little-known young manager inherited the £2.8 billion fund. Alex Wright was considered a rising star at the investment firm Fidelity, which he had joined straight after completing an economics degree at Warwick University.

"I knew I wanted to do this job when I was 12, which sounds really sad," he said.

Wright, 44, a keen runner who completed the Brighton half-marathon for the third time in February, said: "This job is great because it's so varied.

"You get an incredible choice of what you look at and there are very few jobs in the world that allow you to do that."

Wright helped to launch the firm's UK Smaller Companies fund in 2008, and took over its Special Values investment trust in 2012, which he still runs and which has a very similar remit to the Special Situations fund. It has returned 247 per cent since he took over.

The Specials Situations fund, which was once the biggest in the UK, is up 70 per cent under Wright's tenure. That's better than the 63 per cent that the FTSE all-share has returned in that time, but he is some way off from equalling Bolton's record.

"Anthony was a hard act to follow, but as time has gone on I don't feel that shadow over me as much," Wright said. "It's a great privilege to be able to run what was Fidelity's first ever fund and is still its most famous one."

Indeed, the fund became so popular that it was split into two when Bolton quit, with half becoming the Fidelity Global Special Situations fund. His success sparked a flurry of copycat funds from other firms, although there is little similarity between each.

"The term 'special situations' is designed to mean anything you want it to mean and many of the competitors are different," Wright said.

For him, it means looking for companies that have been unfairly cast in a bad light. He wants firms that most investors think are not up to scratch, but which he believes are inherently good businesses with short-term issues. This means that he can buy good firms on the cheap with a realistic chance of profiting when they turn things round. The strategy is also known as being a contrarian investor, one who isn't afraid to go against the herd.

One example is an investment in Indivior, a pharmaceutical company whose shares fell 80 per cent after a "blockbuster" new drug proved disappointing, dropping from 1,916p in June 2018 to 176p by the following April.

But Fidelity research suggested that the drug had good potential and Wright bought a small position in the company in early 2019. Shares plunged a further 65 per cent just months later when Indivior was indicted by the US Department of Justice for damages of $3 billion over fraudulent marketing claims.

After speaking to lawyers, Wright decided it was possible that the damages could end up being significantly less than expected (it was $600 million in the end). So he bought more shares.

By late 2021 shares were above 1,000p again and Wright started taking profits, selling out completely at the end of last year, by which time shares were up 700 per cent.

But the pay-off does not always come so quickly. Wright is still waiting for an investment in the contractor Serco to come good. He first bought shares in 2013 when the firm was under fire after a series of controversies including poor treatment of inmates at a London prison and bad standards at an out-of-office GP service in Cornwall. Shares fell from 514p at their peak to about 87p two years later, but Wright kept buying.

Wright is convinced that the firm has improved its culture and risk management, as well as expanding its operations so it is less reliant on UK revenue. But the market has been slow to spot a Serco turnaround. Shares trade at about 141p.

This is why the fund's portfolio holds about 100 different companies. "It provides us with multiple 'shots on goal' and ensures that fund performance isn't overly dependent on that one stock," Wright said.

"Buying small amounts and building positions gradually is key to the strategy. One of the worst things that can happen is a stock goes up too fast and we have a much smaller than desired position size," he said. "The ideal scenario is that a stock falls after we first buy, so we can buy more at a lower price."

Banks, including NatWest and Barclays, make up 15 per cent of the portfolio. They're not bad businesses, said Wright, but their profits have been hurt by years of historically low interest rates.

Banks' profits mainly come from the difference between the interest they pay to savers and the interest they receive from borrowers. Higher interest rates mean bigger profits, which is why he has been investing more in the sector over the past 12 months.

Overall, he is positive on the prospects for the UK stock market. Last year was the first since 2016 that it beat the US market, but he still thinks British businesses look cheap. It's these homegrown stocks which are his forte, despite earlier ambitions.

Shortly after Wright joined Fidelity, he took a six-month sabbatical to travel, spending time in Mexico, Japan, Cuba, Peru and New Zealand.

He returned with an interest in covering emerging market financial companies, a dream that was abandoned after 18 months.

"I learnt that I did not want to be an emerging markets stockpicker." Stocks in the region were too driven by external events and the overall economy, rather than the business itself, he said.

So he settled on UK equities, where firms are more in control of their own destiny. That said, his best performing holding last year was Bank of Georgia (which is listed on the UK stock market), whose shares are up 154 per cent over 12 months. Another Georgian bank, TBC, has soared 82 per cent over that period.

Investments such as these show clearly the fund's ethos of backing unloved areas. The share price of both banks halved after the invasion of Ukraine, because Russia still occupies part of Georgia. Wright puts the subsequent share price recovery down to an influx of wealthy Russians emigrating to Georgia.

There are now about 100,000 Russians in Georgia, which has a population of about four million. "These refugees are rich, high-earning people. They're a massive boost to the economy and house prices have accelerated," Wright said.

Energy is another unpopular area with many investors, but presents an opportunity for Wright. While he has reduced his position in the oil major Shell, he has been snapping up shares in smaller oil firms: the North Sea explorer Ithaca, the Asia-focused Jadestone and the Austria-listed OMV.

Such companies are "sticking to their knitting" by not branching into renewables, he said, and have been able to buy cheap assets off the large firms who are under greater pressure to transition to renewable projects.

"It's all about today's production. Yes we will need renewable solutions to wean us off Russian gas, but that could take 20 years," he said. "If we don't produce any new gas in the meantime, we're going to have to pay some very high prices during that transition."

Ian Cowie is away

Alex Wright, a keen runner, joined Fidelity from university and manages its £2.8 billion Special Situations fund

700%

Increase in Indivior shares when Wright sold them off at the end of last year