The Contrarian Mind Set

The battle against behavioural biases

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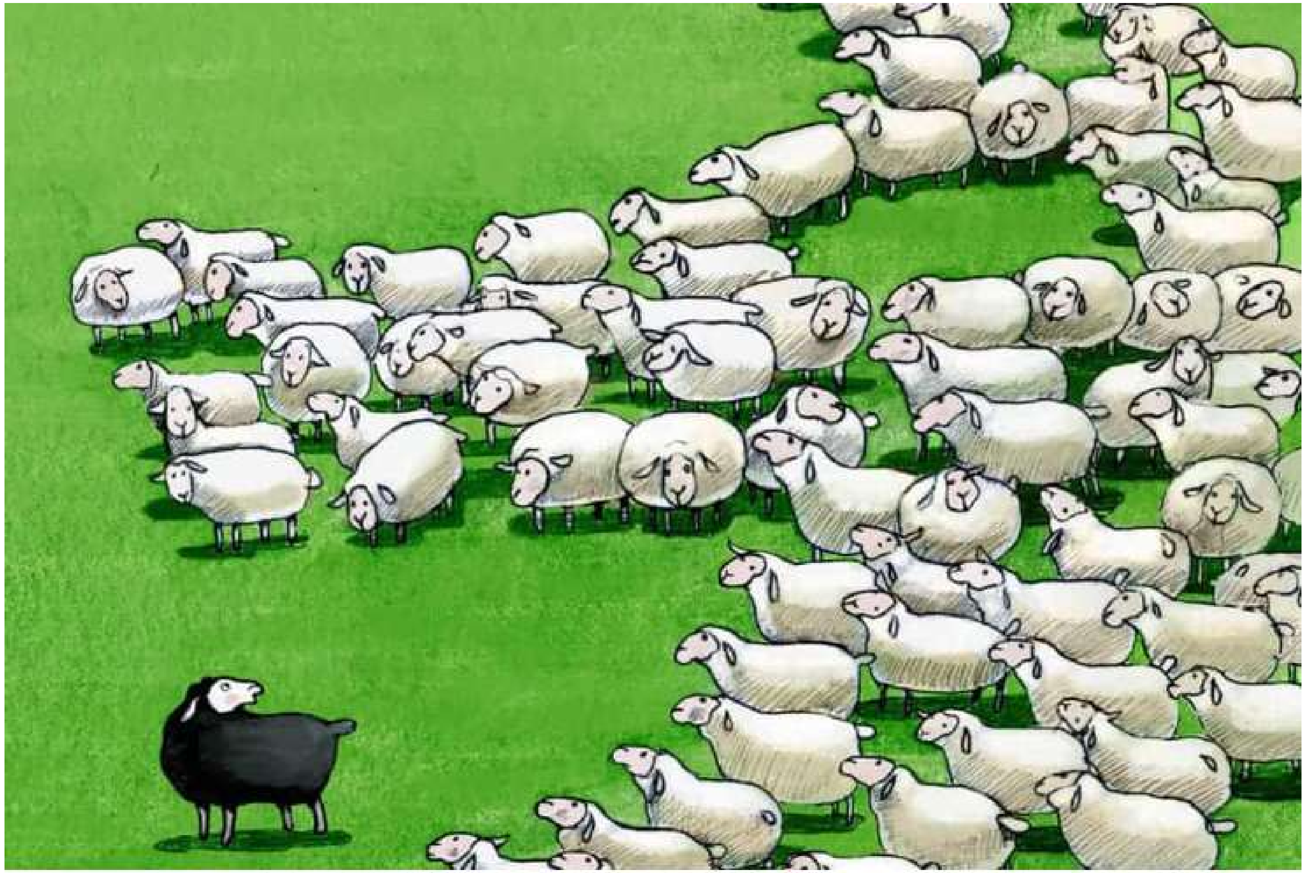
March 24

Contrarian investing

Being different is hard



Contrarian investing

How it compares

Mainstream Investing

- Invests in well loved companies
- Typically have a positive bias, differentiating by being “more positive” on certain aspects of the business vs. the market
- “Good story” “pricing power”, “quality”, “strong returns”, “stable business model” are all attributes of “traditional” investing

Classic Value Investing

- Invests in stocks / groups of stocks that look “cheap”
- Typically involves some sort of screening tools with valuation metrics
- Often a bet on mean reversal, especially for cyclical sectors

Contrarian Investing

- Invests in unloved companies.
- The starting point on a stock is a sell thesis. Each sell argument is challenged to see if they make sense.
- Need to stay positive against very loud negative biases

Source: Fidelity International.

The Contrarian investor

What makes it different

Has to conduct their stock analysis in a lot more depth

Needs to spend a lot of time addressing behavioural biases

Doesn't have a "good story" to tell

Does all this expecting asymmetric returns if their thesis is right

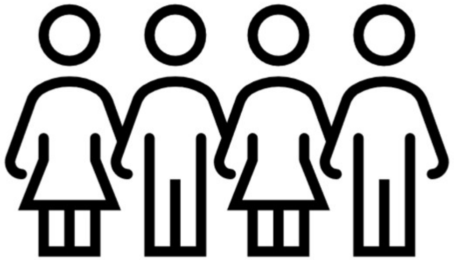
Can't say when exactly their investment thesis on a stock will work

Source: Fidelity International.

Contrarian Investing

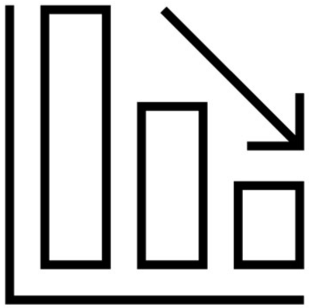
A battle against behavioural biases

Emotional Crowds



Comfort in crowds

Loss Aversion



Feel losses more than gains

Social Validation

Recognition from others

Peer Risk	Career Risk	Agency Risk

Source: C Howard Thomas Behavioral Portfolio Management

Fast & Slow Thinking

Contrarians harness System 2 Thinking

System 1 Thinking

We use this 95% of the time

- Quick
- Emotional
- Instinctive
- Little effort
- Automatic
- Unconscious

System 2 Thinking

We use this 5% of the time

- Slower
- Rational
- Conscious
- Complex decisions
- Effort
- More logical

Source: Daniel Kahneman, Thinking Fast and Slow

Momentum: the antithesis to contrarian investing

Momentum factor works well in trending markets

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Source: Fidelity International, BARRA

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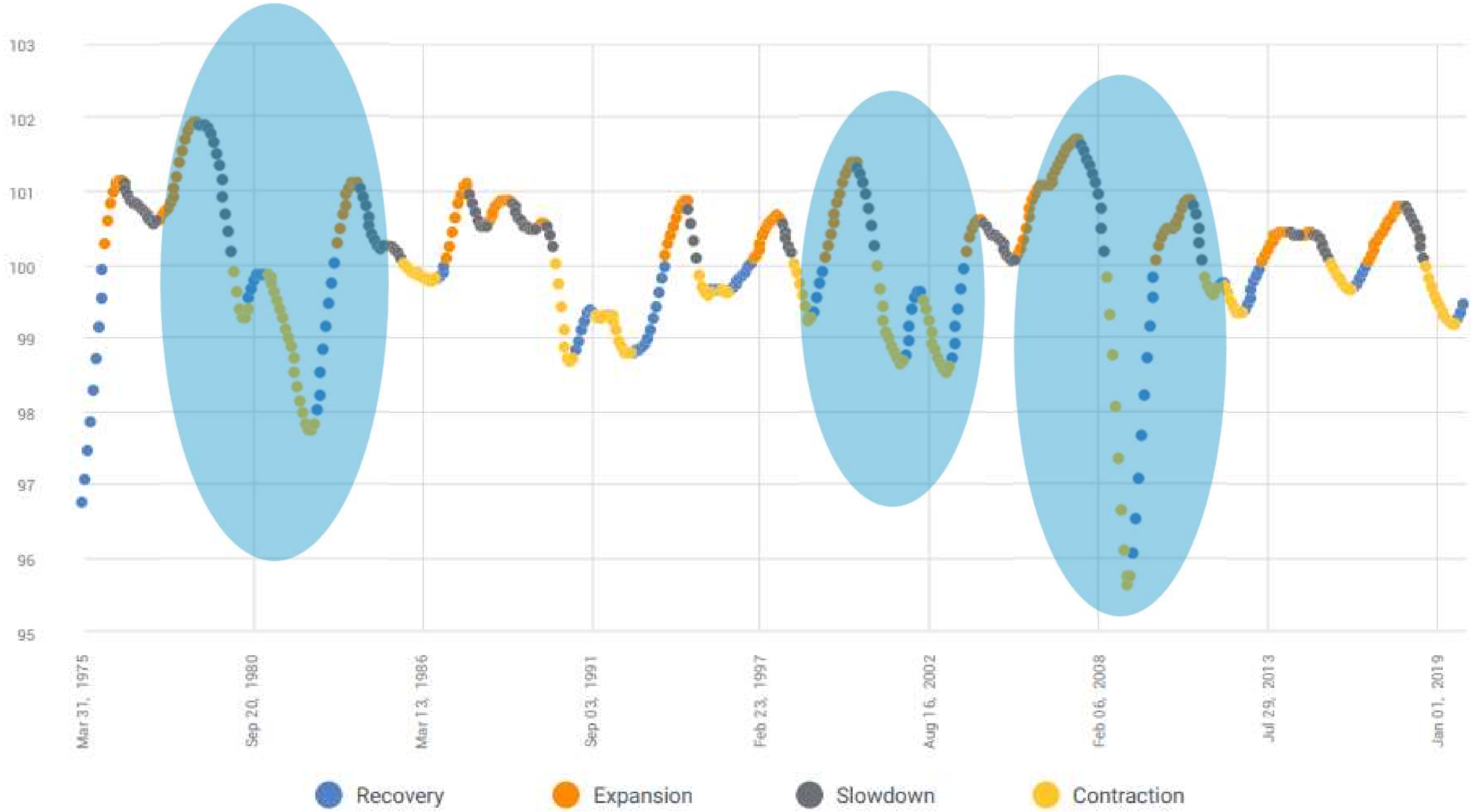
CS0 I am not entirely sure what I am talking about here - so I could be barking up the wrong tree - but...Doesn't BARRA measure the risk of a security or a portfolio etc relative to the market? So, if the risk factor here is momentum then what security or portfolio is being measured relative to what market???
Does the chart need more extensive labelling?
Clements, Susan, 2024-02-12T01:00:18.903

dPL0 0 This reference the MSCI Global Index. The mains message here is that momentum is a powerful factors particularly over the short term
de Pourbaix, Lukasz, 2024-02-14T23:49:03.255

Momentum investing in different cycles

Momentum breaks down in periods of market dislocation – enter the contrarian



Source: MSCI

CS0

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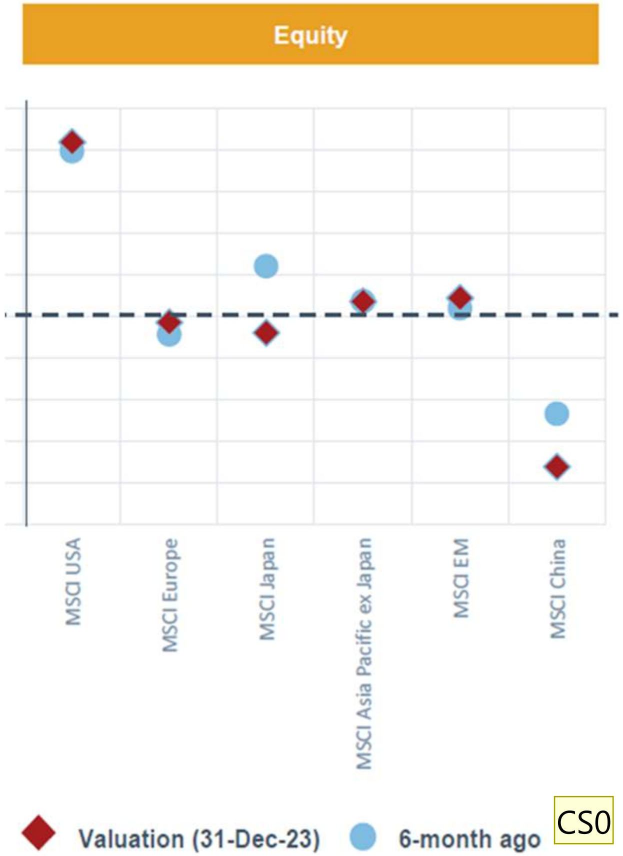
CS0 Maybe a bit more detail than MSCI? Exactly which index are we measuring here - need it full and proper name so the audience knows which market it is...
Clements, Susan, 2024-02-12T01:02:24.742

dPL0 0 This was directly sources from an SMCI white paper. It did not explicitly state the reference benchmark - however looking at the chart it would be a global benchmark e.g. MSCI World
de Pourbaix, Lukasz, 2024-02-14T23:50:39.371

Contrarian strategies in the current market

Valuation dispersion high between regions



- ~ 9 tenths of foreign money that flowed into China's stock market in 2023 has left
- Net foreign investment in China-listed shares dropped 87% in 2023 to an 8 year low
- Broad sell off of Chinese equities irrespective of company fundamentals
- Consensus view is negative on China
- Some market participants consider China to be uninvestable

Source: Fidelity International, Financial Times

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CS0 Just a query - should the "y axis" be marked with what the measure is? Or should there be an explanation of how the valuations were measured - in the foot note would be ok

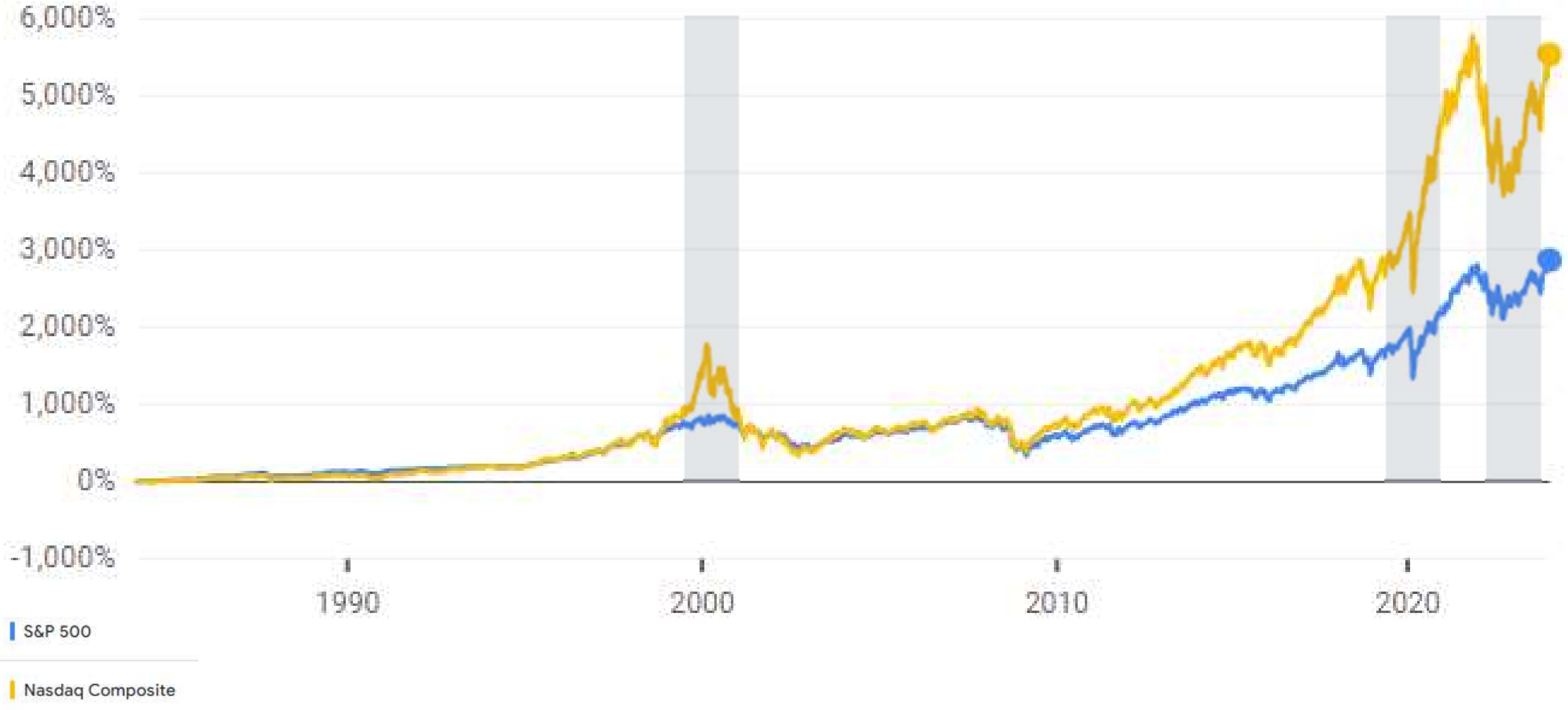
Clements, Susan, 2024-02-11T23:52:59.842

dPL0 0 Yes the metric is forward looking P/Es. The purpose of the chart is to highlight the valuation dispersion between the US and China

de Pourbaix, Lukasz, 2024-02-14T23:53:12.521

Contrarian strategies in the current market

Magnificent Seven Driving US Markets



Source: Nasdaq, Yahoo Finance, Refinitiv

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Fidelity INTERNATIONAL

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CS0	Again its better if you use the full and proper name of the index in the foot note to the slide - but in this case maybe Nasdaq is enough..... Clements, Susan, 2024-02-12T01:05:32.356
dPL0 0	Thanks. I reference the Nasdaq Composite which should be clear to the audience de Pourbaix, Lukasz, 2024-02-14T23:54:19.342

AI Stock are the market darlings

Nvidia’s share price soars

Source: Refinitiv

Typical Contrarian Portfolio Characteristics

Stock picking is king in contrarian investing

- Contain unloved 'broken' businesses
- High active share
- High tracking error
- High stock specific & idiosyncratic risk
- Risk of value traps
- Negative exposure to momentum factor
- Low correlation to market benchmark
- Long term investment horizon
- Can be out of favour for lengthy periods of time

Fidelity Global Long Short Fund

Fundamental 130/30 strategy

Contrarian value investment approach investing in:

- Distressed businesses
- Operational turnarounds
- Corporate governance turnarounds

Highly active concentrated global portfolio

- Typically 45-55 long and 25-35 short positions

Unconstrained and benchmark unaware

Shorting up to 30% of book

Source: Fidelity International.

Long positions – idiosyncratic special situations

Turnaround / change	Companies undergoing significant turnaround / change after a period of restructuring	Siemens Energy, Ericsson, Danone, Convatec
Distressed assets	Businesses trading at a fraction of their intrinsic value	CGG, Golar LNG, Teva, Aryzta
Depressed sectors / regions	Cyclical businesses in severe downcycle	Autohome, KE Holdings
Beat the fade / special situations	Special situations where the market is missing 'the bigger picture'	Ocado

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Source: Fidelity International.

Short positions – single stock ideas

Structurally challenged	Structurally challenged businesses – BEFORE the market recognizes the full scale of the issues
Optically cheap cyclicals	Optically cheap cyclicals where cycle fundamentals are rolling over
Accounting / governance issues	Businesses with accounting and / or corporate governance issues
Overhyped momentum companies / themes	Where stock prices have departed significantly from company fundamentals, given hype around a theme

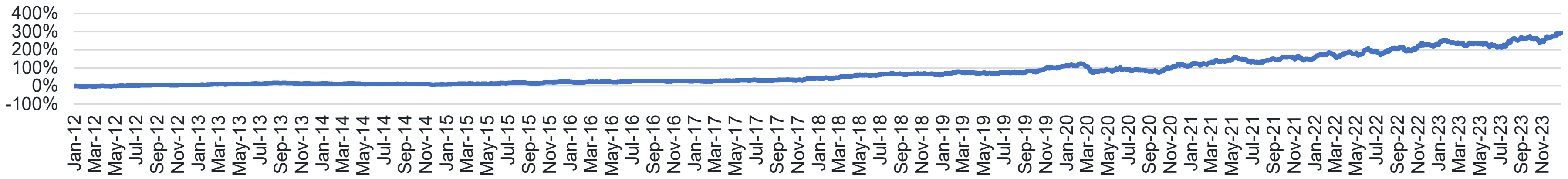
- Implemented through CFDs with positions dynamically sized and managed based on volatility

Source: Fidelity International.

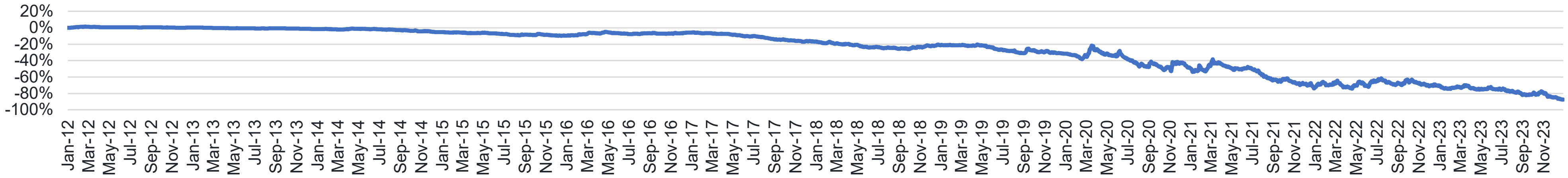
Fidelity Global Long Short Strategy

High alpha, short momentum

Cumulative contribution to FAST Global Strategy active returns from stock specific risk (inc. Pilot)



Cumulative contribution to FAST Global Strategy active returns from momentum (inc. Pilot)



Past performance is not a reliable indicator of future returns

Note Fidelity Global Long Short Fund ARSN 669 400 515 (the "Fund") was first offered in Australia from 24 October 2023. The Fidelity Funds – Fast Global Fund (the "Strategy") is referred to in this slide deck for illustrative and information purposes only. Investors in the Strategy purchase shares of a sub-fund of Fidelity Funds SICAV which is not offered or available to investors in Australia.
Source: Fidelity International, 31 December 2011 to 31 December 2022, nav-nav, income reinvested, in USD, gross of annual fees and any performance fees and excluding any initial charge. Converted into AUD. **Performance shown is for the Fast Global Pilot ("Pilot") and the Strategy not the Fund**. While the Pilot launched in March 2011, the representative track record commences following a proof of concept phase. The FAST Global Composite (Pilot + Strategy) reflects composited performance data constructed from the Pilot from 31 December 2011 to 31 September 2013, and thereafter the live Strategy. Performance may differ from the pilot performance based on the impact of actual expenses associated with live Strategy administration, transaction costs, shareholder inflows and outflows, and performance fees. Pilots are funded entirely by Fidelity and are not available for client investment. All trading for pilots is transacted via Fidelity's centralised dealing desk, in the same way as a live fund. However, in the absence of sufficient liquidity, all client orders must be completed in full before a pilot receives any allocation.

Source: Fidelity International, 31 December 2023

Fidelity Global Long Short Fund

Geographical & Sector exposure

	Long	Short	Net	Index	Relative
UNITED KINGDOM	32.1	0.0	32.1	3.5	28.6
CHINA	11.8	0.0	11.8	2.5	9.3
UNITED STATES	27.9	-18.8	9.1	63.2	-54.0
FRANCE	8.3	0.0	8.3	2.9	5.4
GERMANY	7.3	0.0	7.3	2.0	5.2
CANADA	5.6	-0.6	5.0	2.8	2.2
NORWAY	6.5	-1.5	5.0	0.2	4.9
SWITZERLAND	4.9	0.0	4.9	2.4	2.5
INDIA	4.2	0.0	4.2	1.8	2.4
BRAZIL	4.0	0.0	4.0	0.6	3.4
Others	13.3	-9.0	4.4	18.2	-13.8
Total Geographic Exposure	125.8	-29.8	96.0	100.0	
Other Index/Unclassified	0.0	0.0	0.0	0.0	
Total Equity Exposure	125.8	-29.8	96.0	100.0	

Index Name: MSCI ACWI Index (Net)

	Long	Short	Net	Index	Relative
Health Care	17.7	0.0	17.7	11.4	6.2
Industrials	22.9	-5.3	17.6	10.5	7.1
Energy	17.6	0.0	17.6	4.5	13.1
Consumer Discretionary	22.1	-5.8	16.3	10.7	5.6
Consumer Staples	15.1	0.0	15.1	6.7	8.4
Materials	9.5	0.0	9.5	4.2	5.3
Communication Services	5.4	0.0	5.4	7.5	-2.1
Financials	6.0	-3.6	2.3	16.0	-13.6
Real Estate	2.2	0.0	2.2	2.3	-0.1
Utilities	0.0	0.0	0.0	2.5	-2.5
Information Technology	7.3	-15.2	-7.8	23.5	-31.3
Total Sector Exposure	125.8	-29.8	96.0	100.0	
Other Index/Unclassified	0.0	0.0	0.0	0.0	
Total Equity Exposure	125.8	-29.8	96.0	100.0	

Index Name: MSCI ACWI Index (Net)
Scheme: GICS

Source Fidelity International as at 31 January 2024

CS0

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CS0 We need to say as at what date this information was current.
Also it is for our fund isn't it? Not for the Fast Global Fund?
Clements, Susan, 2024-02-12T00:36:23.790

dPL0 0 I have added the date in the Source information. The information relates to the Global Long Short Fund
de Pourbaix, Lukasz, 2024-02-15T00:02:57.362

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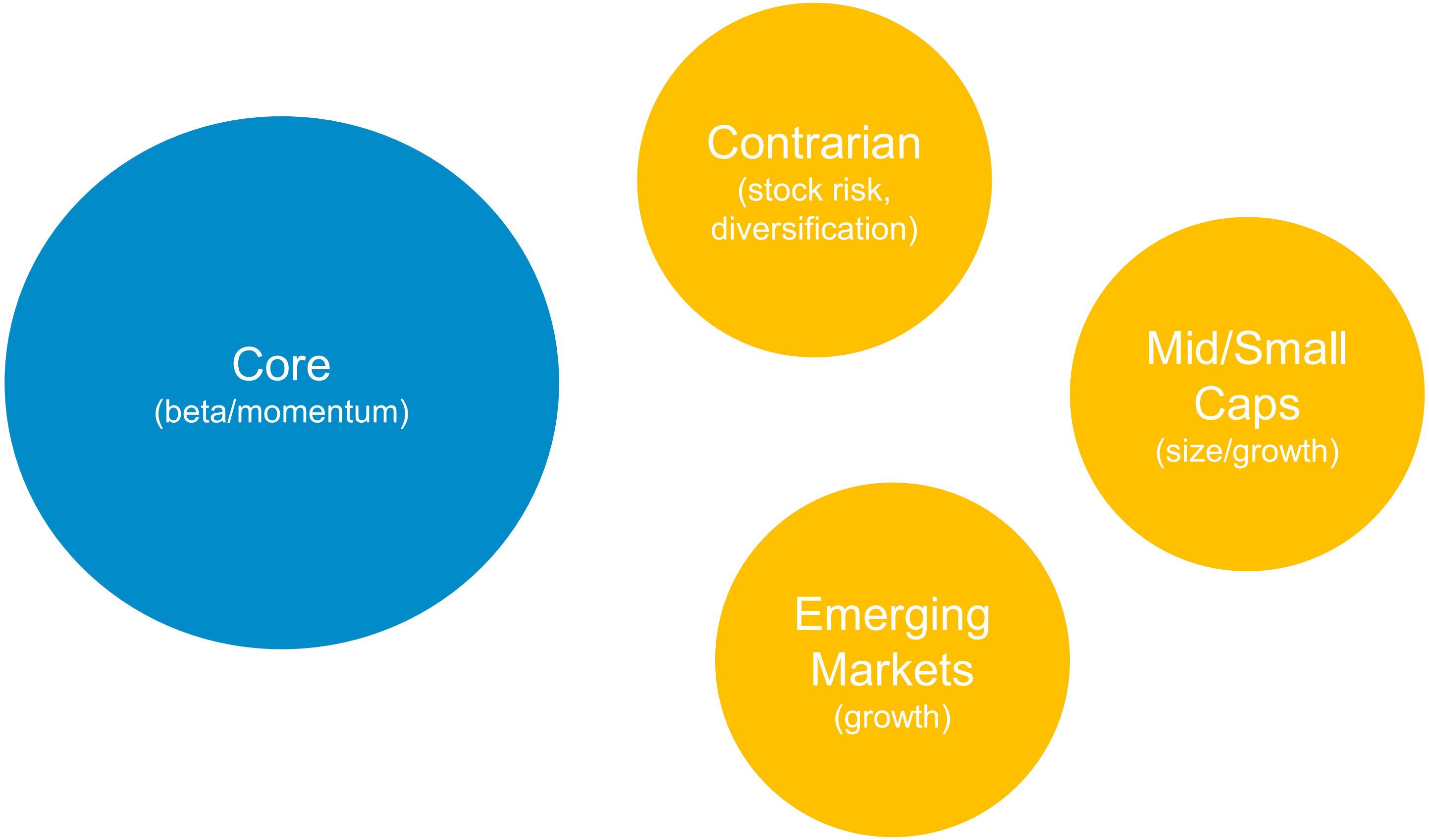
Contrarian strategies in a portfolio

A hedge against momentum



Slide 18

CS0 Please provide a source and a date here for the diagram in the slide e.g. Source: Fidelity International, December 2023
Clements, Susan, 2024-02-11T23:56:07.069

dPL0 0 There is not source data for this chart. It is a pictorial representation of how you may incorporate a contrarian strategy within the diversified global equities portfolios
de Pourbaix, Lukasz, 2024-02-14T23:55:30.584

Contrarian investing in summary

- A counterbalance to our behavioural instincts
- Exposes investors to high stock specific alpha/risk
- A source of portfolio diversification to index and growth style strategies
- A hedge against momentum
- Generally, exhibits an asymmetric return profile
- Position sizing is important
- Long term investment horizon

Important Information

All information is current as at 09 February 2024 unless otherwise stated. Not for use by or distribution to retail investors. Only available to a person who is a "wholesale client" under section 761G of the Corporations Act 2001 (Commonwealth of Australia) ("Corporations Act“)

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Slide 20

CS0 This is just a starter disclaimer - we will need to amend it depending on the audience - for instance this disclaimer assumes there wont be retail investors in the audience.

Also depending on what you want to do with slide 18 (and maybe slides 19 and 20) we might need to add in extra information about the pilot strategy and the offshore fast global fund

Clements, Susan, 2024-02-12T00:47:07.107

dPL0 0 Audience is wholesale - no retail attendees

de Pourbaix, Lukasz, 2024-02-15T00:04:56.195