

# Fidelity Canadian Opportunities Fund

## Quarterly Investment Review

September 30, 2023

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## Overview

**INCEPTION DATE:** October 01, 2003  
**BENCHMARK:** S&P/TSX Completion Index  
**FUND MANAGER:** Hugo Lavallée

### OBJECTIVE

The Fund aims to achieve long term capital growth by investing primarily in the equity securities of Canadian companies. The Fund may at times have significant exposure to relatively few companies and industries. It may also invest up to 10% of its assets at the time of purchase in the securities of private companies.

### APPROACH

- A contrarian strategy that aims to identify value in out-of-favour stocks.
- Focused on small- and mid-capitalization companies.
- Investments focused primarily in Canada.

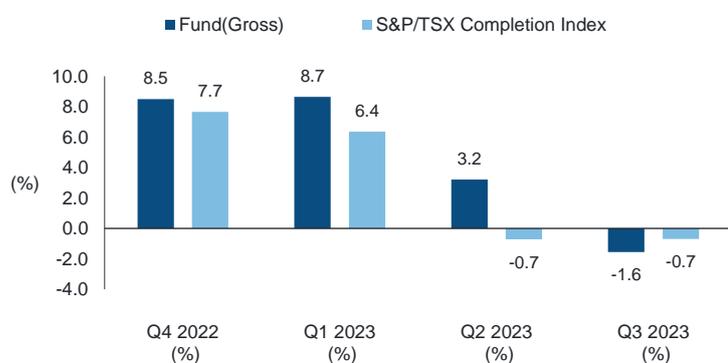
### PERFORMANCE RETURNS (%)

	Cumulative					Annualized				
	Q4 2022	Q1 2023	Q2 2023	Q3 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Fidelity Canadian Opportunities Fund - Series O	8.50	8.65	3.21	(1.56)	10.39	19.77	15.05	16.35	12.80	12.71
S&P/TSX Completion Index	7.65	6.35	(0.72)	(0.70)	4.85	12.87	9.32	5.88	5.75	6.94
Relative Return	0.85	2.30	3.93	(0.86)	5.54	6.90	5.73	10.47	7.05	5.77

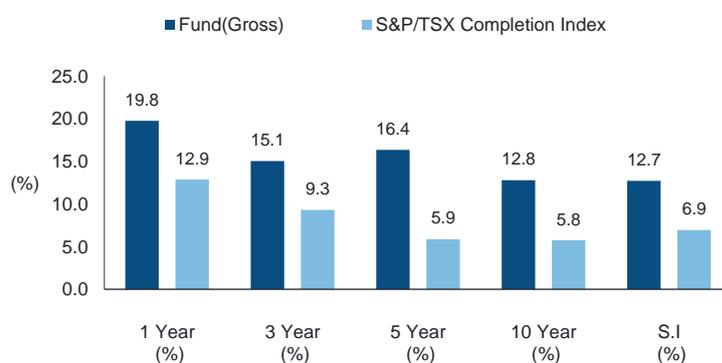
Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

### Cumulative Quarterly Performance



### Annualized as of September 30, 2023



## Overview

### PERFORMANCE RETURNS (%): CALENDAR YEAR RETURNS

	Calendar Year Returns									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fidelity Canadian Opportunities Fund - Series O	(0.07)	22.22	30.54	24.59	1.32	5.22	27.46	(6.77)	11.87	18.80
S&P/TSX Completion Index	(4.22)	14.86	5.97	26.12	(12.85)	7.04	20.50	(10.01)	5.74	12.22
Relative Return	4.15	7.36	24.57	(1.53)	14.17	(1.82)	6.96	3.24	6.13	6.58

Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

## Quarterly Fund Commentary

- The Fund's investments in the industrials sector and its investments in, and lower-than-benchmark exposure to, the materials sector contributed the most to relative returns.
- In industrials, an investment in SNC-Lavalin Group and lower-than-benchmark exposure to Air Canada boosted relative returns. In materials, lack of exposure to a Canadian forestry company and a mining royalty company contributed the most. In other sectors, holdings in Onex and Parkland were the primary contributors.
- The Fund's underweight exposure to the energy sector detracted from relative returns, as did its overweight exposure to, and investments in, information technology.
- In energy, lack of exposure to a Canadian energy company and an oil sands producer detracted the most from relative returns. In information technology, a holding in Lightspeed Commerce weighed on relative performance. In other sectors, notable detractors included an investment in Rogers Communications.

## 12 Month Fund Commentary

- The Fund's lower-than-benchmark exposure to the utilities sector and its investments in, and lower-than-benchmark exposure to, materials were the primary contributors to relative performance.
- In utilities, lack of exposure to a Canadian clean power producer made the primary contribution. In materials, investments in Ero Copper and lack of exposure to a Canadian lithium mining company added value. In other sectors, notable contributors included investments in SNC-Lavalin Group and Onex.
- The Fund's underweight exposure to the energy sector detracted from relative returns.
- In energy, lack of exposure to a Canadian natural gas producer weighed on performance. In other sectors, notable detractors included lower-than-benchmark exposure to Fairfax Financial Holdings and an investment in Lightspeed Commerce.

## Positioning and Outlook

- Portfolio manager Hugo Lavallée remains selective when investing in the Canadian small- to mid-capitalization market, evaluating investment opportunities stock by stock.
- Hugo observes that the market backdrop remains fluid and highly uncertain, which highlights the need to remain flexible and tactical in positioning. According to Hugo, market returns year-to-date, such as those of the S&P 500 Index, have been highly concentrated at the top, with just ten to 20 stocks leading the way. As a contrarian investor who prefers companies that have temporarily fallen out of favour, the manager is not chasing the top winning stocks. Instead, he focuses on what has been left behind, because he believes that is where the relative value will be.
- Hugo believes it is crucial to ensure that companies in the Fund's portfolio can stand the test of time as we transition to a higher-interest-rate environment and a potential slowdown in economic activity. Specifically, companies need to have good balance sheets to support themselves through a slowing economic environment. In Hugo's opinion, having good business fundamentals, and often lots of cash on the balance sheet, can help a company's management team navigate this challenging environment.
- The companies Hugo buys for the Fund may currently have depressed earnings, but may not necessarily be permanently impaired. He believes that with patience, and over a two- to three-year horizon, there is a good probability of improvement, making these depressed entry points potentially strong compounders.
- Hugo is actively exploring U.S. railways, which underperformed Canadian railways over the past few years and are trading at relatively cheap valuations. The group saw a lot of volume weakness during the pandemic as companies and consumers demanded faster delivery of goods, which benefitted other modes of delivery. Over time, this weakness should normalize as companies focus more on cost efficiency. As a result, Hugo believes the group could have margin improvement opportunities. In his opinion, railways are not only a cheaper mode of transport but also beneficial for the climate because trains emit significantly less carbon than trucks.
- In the financials sector, Hugo is focusing less on traditional banks and more on alternative or private equity managers. Amid higher interest rates and the current economic uncertainty, private equity managers are finding it difficult to raise funds, which has led the group to come under pressure – and thus provided Hugo with an attractive entry point into certain companies that have good growth prospects and that he believes are being over-penalized in the current environment.
- Hugo remains positive on gaming stocks, which he was able to purchase at attractive valuations during the first quarter because they have been facing revenue pressure. Gaming companies in general were pandemic beneficiaries. But as the economy reopened, their earnings decreased as consumers opted for more in-person experiences. Additionally, these businesses face margin pressure because the slow return to in-office work has negatively affected these companies in particular, owing to their business models. Hugo believes these firms have good product franchise and were over-penalized on a normalized basis.
- Overall, Hugo remains disciplined in his contrarian approach to investing.

## Performance Attribution

### SECTOR ATTRIBUTION SUMMARY - 3 MONTHS

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
INDUSTRIALS	17.43	16.82	0.61	3.77	(3.25)	7.02	121	5	126
MATERIALS	12.89	18.70	(5.80)	(3.47)	(7.39)	3.92	55	34	90
REAL ESTATE	3.10	9.58	(6.48)	0.62	(5.79)	6.40	19	30	50
FINANCIALS	16.23	15.91	0.31	4.02	1.44	2.58	40	2	42
UTILITIES	2.20	7.86	(5.66)	(22.83)	(10.45)	(12.37)	(34)	56	22
CONSUMER DISCRETIONARY	11.56	2.90	8.66	(5.43)	(14.73)	9.31	116	(127)	(11)
CONSUMER STAPLES	4.47	3.13	1.34	(5.20)	(0.47)	(4.73)	(18)	3	(16)
COMMUNICATION SERVICES	3.77	1.09	2.68	(9.54)	(10.00)	0.46	(1)	(24)	(24)
HEALTH CARE	2.39	1.56	0.83	(12.45)	14.48	(26.93)	(67)	17	(51)
INFORMATION TECHNOLOGY	12.02	4.49	7.53	(8.10)	(5.27)	(2.83)	(35)	(36)	(70)
ENERGY	4.95	17.96	(13.01)	17.01	19.10	(2.09)	(10)	(235)	(245)
<b>SUBTOTAL</b>	<b>91.01</b>	<b>100.00</b>	<b>(8.99)</b>	<b>(1.70)</b>	<b>(0.70)</b>	<b>(1.00)</b>	<b>186</b>	<b>(274)</b>	<b>(88)</b>
CASH AND OTHER	8.99	-	-	-	-	-	-	-	2
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>(1.56)</b>	<b>(0.70)</b>	<b>(0.86)</b>	<b>-</b>	<b>-</b>	<b>(86)</b>

Note: Differences may be due to rounding.

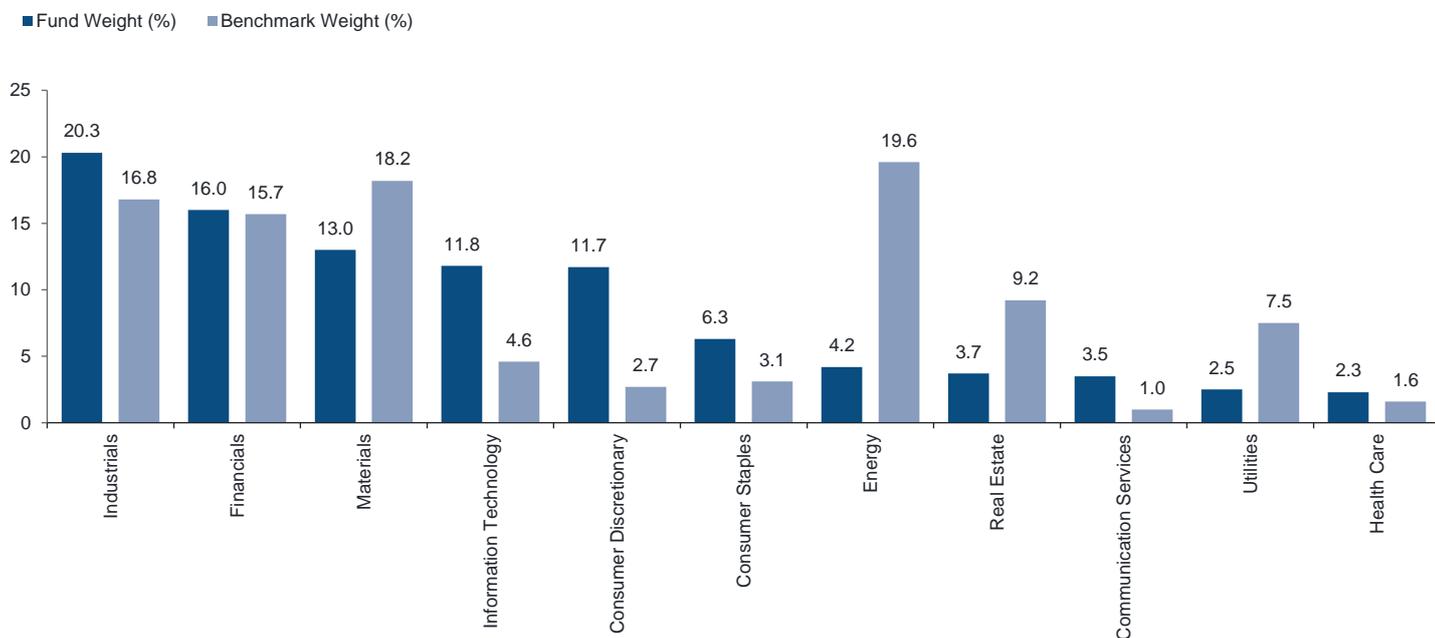
### SECTOR ATTRIBUTION SUMMARY - 1 YEAR

Sector	Average Fund Weight (%)	Average Benchmark Weight (%)	Relative Weight (%)	Fund Return (%)	Benchmark Return (%)	Relative Return (%)	Security Selection (bps)	Sector Selection (bps)	Total Relative Contribution (bps)
UTILITIES	2.45	8.30	(5.85)	(27.76)	(21.12)	(6.64)	(24)	248	225
MATERIALS	13.50	18.51	(5.00)	17.39	9.25	8.14	127	72	199
INDUSTRIALS	16.59	18.16	(1.57)	35.65	22.45	13.20	200	(20)	180
REAL ESTATE	4.03	10.04	(6.01)	7.44	0.16	7.28	31	89	120
CONSUMER DISCRETIONARY	11.88	3.15	8.73	13.92	(8.14)	22.06	288	(195)	93
INFORMATION TECHNOLOGY	12.52	4.30	8.22	16.08	9.55	6.53	86	(1)	85
COMMUNICATION SERVICES	5.19	1.10	4.09	10.44	9.88	0.57	0	24	24
CONSUMER STAPLES	3.46	3.09	0.37	8.94	10.00	(1.06)	3	2	5
HEALTH CARE	1.75	1.84	(0.09)	(0.86)	3.37	(4.23)	(39)	36	(3)
FINANCIALS	13.54	14.60	(1.06)	26.53	31.15	(4.62)	(19)	(17)	(36)
ENERGY	4.44	16.91	(12.46)	34.37	27.36	7.01	17	(182)	(164)
<b>SUBTOTAL</b>	<b>89.35</b>	<b>100.00</b>	<b>(10.65)</b>	<b>21.37</b>	<b>12.87</b>	<b>8.50</b>	<b>670</b>	<b>58</b>	<b>728</b>
CASH AND OTHER	10.65	-	-	-	-	-	-	-	(38)
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>19.77</b>	<b>12.87</b>	<b>6.90</b>	<b>-</b>	<b>-</b>	<b>690</b>

Note: Differences may be due to rounding.

## Fund Positioning

### SECTOR ALLOCATION



Sector breakdowns are only applied to equities and convertibles and the allocation percentages may not add to 100%.

Fund and benchmark weights are based on end weights as at each quarter end.

### TOP 10 HOLDINGS

Holding	Sector
ONEX CORP SUB-VTG	FINANCIALS
SNC-LAVALIN GRP INC	INDUSTRIALS
LIGHTSPEED COMMERCE INC	INFORMATION TECHNOLOGY
FRANCO-NEVADA CORP (CAN)	MATERIALS
ROGERS COMM INC CL B NON VTG	COMMUNICATION SERVICES
BOYD GROUP SVCS INC	INDUSTRIALS
CANADIAN NATL RAILWAY CO	INDUSTRIALS
METRO INC	CONSUMER STAPLES
DOLLARAMA INC	CONSUMER DISCRETIONARY
FINNING LTD	INDUSTRIALS

## Investment Process

### Sources of information and investment ideas

- Notes from internal research (Team Canada & Global Sector Analysts), meetings with company management, conferences, broker research, Bloomberg, Newswire, trade publications, magazines, daily newspapers

### Investment style and portfolio construction

- Fundamental, bottom-up stock selection is the primary driver of portfolio construction and performance.
- The Fund has a small-mid cap bias with a primary focus on Canadian stocks
- Employs a contrarian style, seeking value in out-of-favour stocks while also aiming to mitigate downside risk and manage fund volatility

Types of stocks targeted in the Fund:

1. Companies where the operating margin is bottoming and has lots of potential to expand and drive earnings higher
2. Companies with high substantial ROIC, where the stocks are cheap on EV/EBIT
  - Other key company fundamentals include positive earnings growth, and strong balance sheets and cash flow/ sales ratio
  - Considers the quality of management and management track record
  - Looks for companies with a competitive advantage in industry/sector
  - Emphasis on companies with valuation metrics which support downside protection
  - Key catalyst supporting future growth is not required
  - Will also actively pursue new opportunities in major secular trends and turnaround stories (e.g. secular growth stories with solid growth potential but also looks to take shorter term advantage of mispriced securities)
  - Employs a gradualist approach, tends to buy small positions and build as conviction in thesis increases
  - Sector weights result from bottom up stock selection
  - An element of top down enters the construction equation when assessing the attractiveness of the cyclical sectors
  - Within these cyclical sectors, bottom-up analysis is a primary decision making tool
  - Benchmark weights are a secondary consideration in the construction process
  - Buy/sell decisions are purely a function of relative valuation and company fundamentals; improvement/deterioration in fundamentals will trigger trading decisions
  - Target portfolio turnover is expected to be moderate
  - Comfortable being naked a sector or substantially overweight if conviction is high
  - Foreign exposure will typically be 10% or less (will utilize Fidelity's global research capabilities)
  - Will own attractive private company investments deemed to be approaching IPO status
  - Typical number of holdings: 75-100 stocks

### Risk Control

- Looks for stocks offering the best risk/reward profile (upside/downside potential)
- Thoroughness of analysis is the key risk control measure
- Manager runs a diversified portfolio but is willing to have significant under/overweights at stock or sector level; position size is a function of conviction and is considered in relative terms
- Fund concentration is driven by market conditions and manager conviction
- Shifts portfolio beta based on market environment and whether market will pay for taking on a higher level of stock or portfolio risk
- Potentially wide sector deviations which may be driven by macro/sector views
- Up to 10% of Fund assets may be invested in private placements
- When there is a complete lack of attractive investment opportunities, cash position may build to a 30% maximum