

Fidelity Canadian Opportunities Fund

Quarterly Investment Review

June 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.

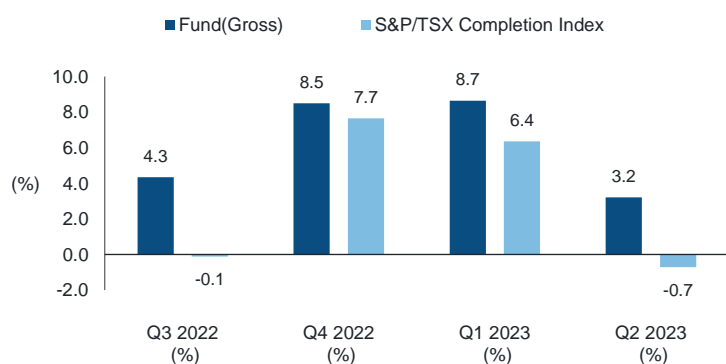
PERFORMANCE RETURNS (%)

	Cumulative					Annualized				
	Q3 2022	Q4 2022	Q1 2023	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Fidelity Canadian Opportunities Fund - Series O	4.34	8.50	8.65	3.21	12.14	26.95	19.81	16.91	13.69	12.97
S&P/TSX Completion Index	(0.11)	7.65	6.35	(0.72)	5.58	13.54	11.75	5.96	6.49	7.07
Relative Return	4.45	0.85	2.30	3.93	6.56	13.41	8.06	10.95	7.20	5.90

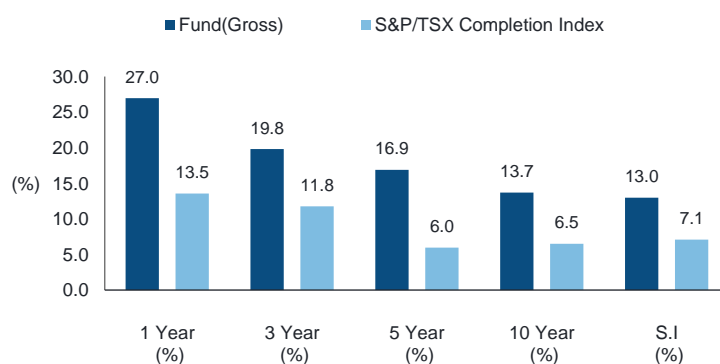
Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

Cumulative Quarterly Performance



Annualized as of June 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 and information technology sectors contributed the most to relative returns.
- In industrials, investments in Finning International and Boyd Group Services boosted relative returns. In information technology, investments in Lightspeed Commerce and CGI contributed the most. In other sectors, holdings in Onex and Dollarama were the primary contributors.
- The Fund's underweight exposure to the energy sector detracted from relative returns.
- In energy, lack of exposure to an oil and gas company detracted the most from relative returns. In other sectors, notable detractors included investments in, and lower-than-benchmark exposure to, Air Canada and Fairfax Financial Holdings.

12 Month Fund Commentary

- The Fund's holdings in, and overweight exposure to, the informational technology and consumer discretionary sectors were the primary contributors to relative performance. The Fund's underweight exposure to utilities also contributed.
- In information technology, an allocation to CGI made the primary contribution. In consumer discretionary, investments in Restaurant Brands International, Five Below and Frontdoor added value. In other sectors, notable contributors included investments in Boyd Group Services, Ero Copper and SNC-Lavalin Group.
- The Fund's holdings in, and underweight exposure to, the financials sector detracted from relative returns.
- In financials, lower-than-benchmark exposure to Fairfax Financial Holdings weighed on performance. In other sectors, notable detractors included lack of exposure to an aircraft manufacturing company and investments in Colliers International.

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. In his opinion, returns have been highly concentrated at the top in the S&P 500 Index, with 10–20 stocks leading the way. If those stocks were excluded, the returns would be negative for the index year-to-date.
- Considering the narrowness of the market, and because Hugo is a contrarian investor, he is not chasing the top winning stocks. He is instead looking at 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 – he increased the Fund's exposure to the segment during the quarter. U.S. railways 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 deliveries for 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 climate beneficiaries because they emit significantly less carbon than trucks.
- Hugo is taking a closer look at private equity firms because investors are increasingly worried about a credit crunch caused by higher interest rates. Onex, a top holding as at June 30, has been trading at a significant discount to net asset value in Hugo's opinion. He believes that as new management teams rationalize existing strategy, good opportunities to narrow the valuation gap could arise. This thesis continues to play out: Onex was one of the most notable contributors to the Fund for the quarter in review.
- 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)
INFORMATION TECHNOLOGY	12.39	4.41	7.99	6.72	1.96	4.76	59	17	76
CONSUMER DISCRETIONARY	12.09	3.24	8.86	4.80	(2.70)	7.50	89	(16)	73
INDUSTRIALS	14.49	17.87	(3.38)	8.93	3.47	5.46	80	(8)	71
UTILITIES	2.52	8.42	(5.90)	(8.42)	(6.57)	(1.85)	(5)	36	31
MATERIALS	12.19	19.20	(7.01)	(7.60)	(6.06)	(1.54)	(21)	52	30
FINANCIALS	15.51	14.84	0.67	8.56	7.36	1.20	20	7	27
REAL ESTATE	3.04	9.68	(6.64)	(7.72)	(5.75)	(1.97)	(11)	34	24
CONSUMER STAPLES	3.19	3.12	0.07	1.00	(3.46)	4.46	16	2	18
HEALTH CARE	1.79	1.76	0.02	10.26	0.46	9.80	22	(6)	16
COMMUNICATION SERVICES	4.51	1.14	3.37	0.22	0.53	(0.32)	(2)	11	9
ENERGY	5.31	16.32	(11.00)	2.98	0.99	1.99	8	(17)	(9)
SUBTOTAL	87.04	100.00	(12.96)	3.51	(0.72)	4.23	256	111	366
CASH AND OTHER	12.96	-	-	-	-	-	-	-	27
TOTAL	100.00	100.00	0.00	3.21	(0.72)	3.93	-	-	393

Note: Differences may be due to rounding.

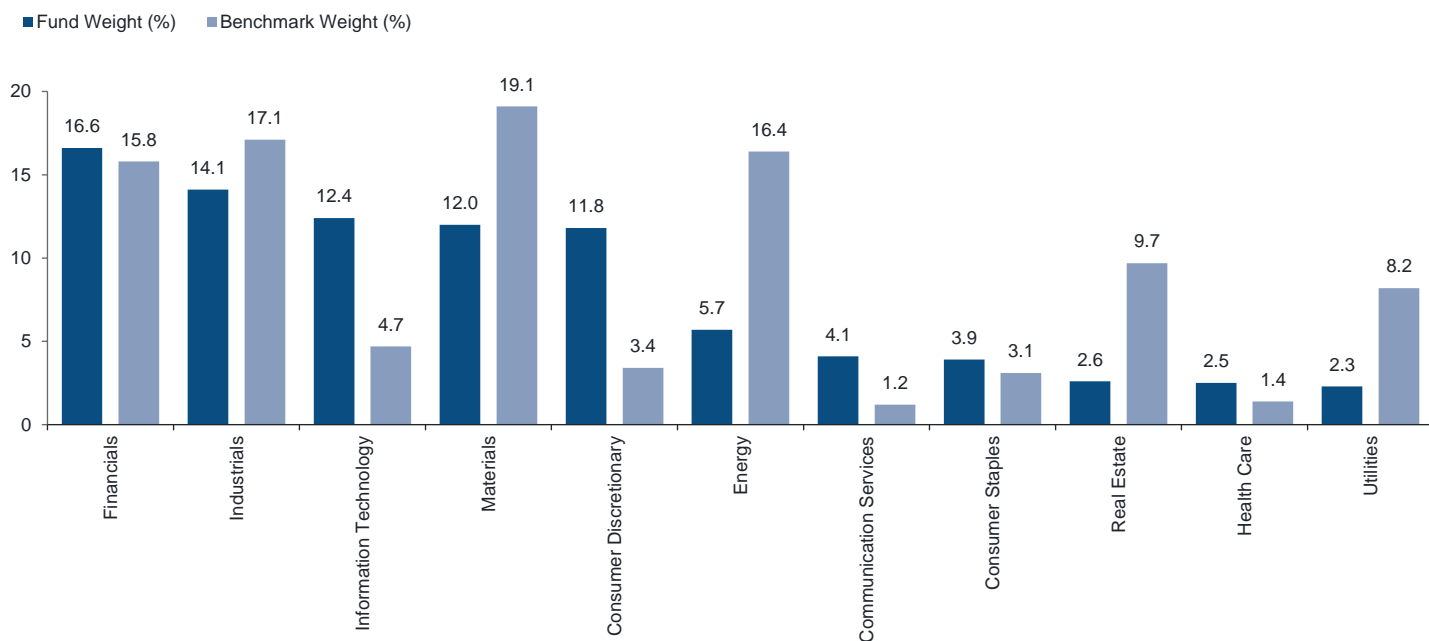
SECTOR ATTRIBUTION SUMMARY - 1 YEAR

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)
INFORMATION TECHNOLOGY	11.98	4.26	7.72	31.39	14.22	17.17	191	45	236
UTILITIES	2.77	8.84	(6.06)	(8.53)	(13.07)	4.54	15	202	217
CONSUMER DISCRETIONARY	11.95	3.14	8.81	31.09	14.55	16.55	189	23	212
MATERIALS	14.07	17.98	(3.92)	24.10	19.62	4.48	105	46	151
INDUSTRIALS	16.89	18.12	(1.23)	40.95	32.07	8.88	137	(13)	124
REAL ESTATE	4.67	10.38	(5.70)	(1.78)	(2.01)	0.23	14	109	123
ENERGY	4.42	17.32	(12.90)	26.07	9.08	16.98	69	53	123
CONSUMER STAPLES	3.44	3.10	0.34	28.00	0.73	27.27	133	(15)	118
HEALTH CARE	1.46	1.85	(0.39)	28.91	(12.46)	41.37	70	21	91
COMMUNICATION SERVICES	5.30	1.13	4.17	8.61	7.86	0.75	11	14	25
FINANCIALS	12.36	13.89	(1.53)	24.23	27.71	(3.49)	(22)	(16)	(37)
SUBTOTAL	89.32	100.00	(10.68)	29.32	13.54	15.78	912	471	1,383
CASH AND OTHER	10.68	-	-	-	-	-	-	-	(42)
TOTAL	100.00	100.00	0.00	26.95	13.54	13.41	-	-	1,341

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
LIGHTSPEED COMMERCE INC	INFORMATION TECHNOLOGY
ROGERS COMM INC CL B NON VTG	COMMUNICATION SERVICES
DOLLARAMA INC	CONSUMER DISCRETIONARY
SNC-LAVALIN GRP INC	INDUSTRIALS
BOYD GROUP SVCS INC	INDUSTRIALS
FINNING LTD	INDUSTRIALS
FRANCO-NEVADA CORP (CANA)	MATERIALS
PARKLAND CORP	ENERGY
METRO INC	CONSUMER STAPLES

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