

Funds Commentary

Highlights					
Fidelity China Special Situations (FCSS; 101p; NR) – Index buying pushes fund to a premium, despite sharp fall in NAV:					
Details					
Fidelity China Special Situations (FCSS; 101p; NR) – Index buying pushes fund to a premium, despite sharp fall in NAV:					
Price (p)	NAV dil. (p)	Premium est. (%)	Market Cap (£m)	Yield (%)	Next News
101	94	7 premium	463	0.0	Date not known
<p>Chart 1: Fidelity China – Share price discount/premium to NAV since listing in April to 14.06.10</p> <p><i>Source: Datastream</i></p> <p><i>Oriel View: Fidelity Chinese which had been trading around NAV following its recent market debut suddenly saw its price jump up to trade on a 10% premium to NAV last week. We assume this rise in the price at least partly reflects the fact that the fund will join the FTSE 250 Index and FTSE All Share Index next week and therefore there has been some demand for the shares from Index Tracker Funds. Whilst an investment in a market such as China should be on a long term horizon, we do think this jump in the price on technical factors offers a trading opportunity. We do expect the shares to fall back to trade on up to around a 5% discount fairly quickly. Investors should take advantage of the high premium to trade the shares and perhaps switch into the long established JPMorgan China Fund which is trading on a 5% discount.</i></p> <ul style="list-style-type: none"> • FTSE 250 Index joiner: Fidelity China is due to join the FTSE 250 Index from Monday 21st June. This was announced last week and since then there appears to have been a marked increase in the trading volume in the shares. The price has also moved up sharply and the shares were trading on a 10% premium at the end of last week (Chart 1). We think this high premium reflects the 'joining the index' factor, with buying from index tracker firms pushing up the share price and putting the shares on a high premium to NAV. • Recent performance: Given the nature of an investment in a market such as China, we think investors need to take a relatively long term view of an investment in the fund. The fund was only launched a couple of months ago, and since listing in mid April with an NAV of 98.9p the NAV reached a low point of 90.5p on 25.05.10 and it has since recovered to 94p on Tuesday. This appears to be quite a sharp fall in the NAV, over a relatively short period of time, given that the portfolio was 100% cash at the time of listing. • Level of cash and market exposure: Fidelity do not appear to have released any information on the fund's level of cash or market exposure in either its daily NAV announcements, or through the monthly AIC data. The managers have also not yet published a monthly factsheet with any information on the investments in the portfolio. However, the portfolio does appear to be fairly fully invested given the volatility in the NAV. • Premium rating: As shown in chart 1, the shares which had been trading around 					

NAV following its recent market debut suddenly jumped up to trade on a 10% premium to NAV last week. Over time, we would expect the shares to typically trade between NAV and a 5% discount. We would expect the company to start issuing shares if they stay on a premium for any length of time. If on the other hand the shares trade on a discount, the prospectus also said that the board would consider implementing a tender offer on a twice yearly basis at no less than a 5% discount to NAV.

- **Switch opportunity: JPMorgan Chinese** has been investing in China for many years and is currently trading on a 5% discount. The performance has been relatively good and close to the MSCI China Index (£) performance as shown in Chart 2 below. The MSCI China Index is the reference index for the calculation of the performance fee on the Fidelity China Fund.
- **Fund objectives:** The objective of **JPMorgan Chinese** to invest in companies which are quoted on the stock exchanges of Hong Kong, China and Taiwan or which derive a substantial part of their revenues or profits from these territories. The objective of **Fidelity China** is to invest in a diversified portfolio consisting primarily of securities issued by companies listed in China or Hong Kong and Chinese companies listed on other stock exchanges. The Company may also obtain exposure to other listed companies which have significant interests in China or Hong Kong.

Chart 2 – JP Morgan Chinese vs MSCI China (£) Performance over 2 years to 14.06.10

Source: Datastream

NR = not rated

The Funds Commentary is prepared by Oriel Investment Funds Research and Sales