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Fidelity China Special Situations (FCSS)

FCSS' highly differentiated portfolio might capture China's recovery potential.

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Overview

Investment objective

To achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies in China, both listed and unlisted, as well as Chinese companies listed elsewhere. The company may also invest in companies with significant interests in China.

Source: Morningstar

As at:	09/11/2026
Trust Name	Fidelity China Special Situations
Ticker	FCSS
Management Company	Fidelity Management & Research Company
Manager Name	Dale Nicholls
Association of Investment Companies (AIC) Sector	China / Greater China
Dividend Yield	3.9%
Dividend Distribution Frequency	Annually
Latest Market Capitalisation	£1,045,345,005
Latest Net Gearing (Cum Fair)	21%
Latest Ongoing Charge Ex Perf Fee	0.92%
Shares Outstanding	449,610,755
(Discount)/ Premium (Cum Fair)	-6.8%
Daily Closing Price	232.5p

Fidelity China Special Situations (FCSS) offers investors exposure to a wide range of opportunities in China as a result of manager Dale Nicholls' highly flexible mandate. He has the ability to invest across the market-cap spectrum, in the multiple Chinese stock markets as well as in private holdings. In addition, he can short stocks, enabling him to generate alpha from a wide range of sources which can deliver a very different **Performance** profile to comparators.

The Chinese market has undergone a challenging period over the past year, with many sectors being impacted by the increasing prevalence of AI. Dale has taken some profits from his best performers which have been on the right side of this trend and rotated into a mixture of new opportunities. This includes additions to the next leg of potential AI beneficiaries, such as autonomous driving and robotics stocks, as well as perceived AI-spenders/AI-losers, such as tech platforms Tencent and Alibaba. In addition, Dale has selectively added to some consumer-facing stocks as the headwinds that have affected the outlook for a few years appear to be subsiding (see **Portfolio**).

Whilst primarily growth focused, FCSS has a strong **Dividend** track record following 16 years of consecutive growth, including a double-digit increase on the year prior. As a result of the challenges faced by the market, the historic yield is now c. 4%, with the future dividend well supported by reserves.

Analyst's View

Investors' attention in Asia has been firmly focused on Taiwan and Korea after their exceptional, technology-led rally. However, as a result, China has been somewhat overlooked, despite its economy still being nearly two-times larger than the other economies of Asia ex-Japan combined. One outcome of China slipping from the focus is that its markets have endured a pullback, to the extent that almost all the gains made in the post-stimulus rally in 2025 have gone, despite the economy proving itself to be considerably more resilient to the numerous geopolitical factors **that have occurred since**. As such, we believe China looks like an attractive contrarian option at this juncture.

There are several aspects of FCSS which could make it an excellent way of capturing this opportunity, in our view. Dale's small- and mid-cap bias should be a tailwind in a market recovery, whilst the additional exposure through **Gearing** also adds to the upside potential. We note the trust significantly outperformed in the 2025 rally, with similar factors proving supportive although we caution the reverse has been the case in the subsequent pullback. Furthermore, recent changes made to the **Portfolio** have also enhanced the trust's alpha potential, with profits being taken from the high-flying AI names where investors are concentrated, into overlooked opportunities with strong fundamentals.

This profile further adds to the trust's long-term appeal of being a highly differentiated portfolio with a wide range of potential **Performance** drivers. Investing in stocks from across the market cap spectrum, private companies and the ability to short stocks means FCSS will continue to be a unique offering, enabling shareholders to access the huge range of opportunities in China.

Bull

- Highly differentiated portfolio with wide range of holding sizes and types
- Country is trading at attractive valuations relative to other Asian markets
- Attractive yield with an impressive dividend growth track record

Bear

- High level of gearing has been a drag in falling markets
- Trust has struggled in market led by narrow band of winners
- Smaller companies bias could be exposed by economic slowdown

Portfolio

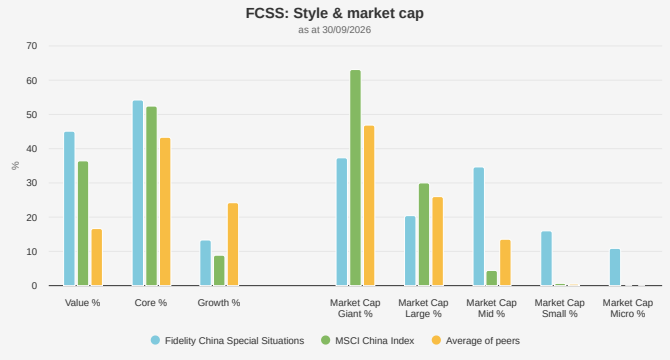
Manager Dale Nicholls has considerable flexibility when it comes to building the portfolio of Fidelity China Special Situations (FCSS). He can select equities from across the listed market cap spectrum, into private companies, as well as taking short positions in stocks to potentially benefit from a fall in share price.

To help cover this wide investable universe, Dale uses the analyst teams across the numerous offices Fidelity has in the region, including within mainland China itself, as well as key hubs such as Hong Kong and Singapore. This on-the-ground resource helps Dale identify stocks from the bottom up, looking for undervalued opportunities that can help deliver attractive returns over a three-to-five-year view. As a result of the large investable universe, and willingness to look at areas other investors may not have the resources to analyse, the trust's portfolio will often look considerably different to both its benchmark, the MSCI China Index, as well as the three-strong peer group, of which FCSS is the largest trust by assets by a

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considerable margin. As we show below, the trust has a significant bias to smaller companies, as well as to more value-orientated names.

MARKET CAP & STYLE BREAKDOWN



Source: Fidelity
Past performance is not a reliable indicator of future results.

Whilst the range of potential investments is large, key exposures are centred around four areas; technological innovation, consumption, industrial upgrading and healthcare, although these are simply at outcome of where the manager is finding the best ideas rather than a target. The former two of these are where the most changes have taken place over the past year.

Technology is a key growth industry in China and has undergone a significant period of change over the past few years as AI adoption has continued. This has led to strong **Performance** from several holdings, in which Dale has taken profits, including one of the top contributors Lenovo. Proceeds have been used to add to areas deemed earlier in the cycle for AI integration such as autonomous driving and robotics. The manager believes these areas have been overlooked by investors and therefore offer good relative value. As such, technology remains a key exposure within the portfolio, although there has been rotation within the allocation as the backdrop evolves.

Many of the tech-exposed stocks Dale has identified are categorised as industrials. This is a common feature of the Chinese market, with firms often classified in sectors not fully representative of the drivers of their underlying business. This has meant that the industrials sector is the largest overweight, although much of the reason for this exposure relates to tech innovation. One example is top ten holding CATL, one of the world's leading battery manufacturers. Whilst primarily an electric vehicle story, the manager notes increased demand from AI data centres as energy storage systems (ESS) which is improving the earnings outlook. As such, the marginal driver of the share price is arguably technology, although the holding will show as industrial exposure in the portfolio.

Dale has also been adding to the consumer discretionary sector, however, this is again primarily to very tech-driven companies, such as Alibaba. He notes the stock has been heavily sold and is out of favour despite offering attractive fundamentals. One reason for this is the firm as seen as an AI loser, although the manager does not believe this is the case. For one, the business is very diverse and has many areas completed unaffected by increased AI adoption, but also, the scale and network effect means it will also benefit from the cloud business and AI adoption, and that as a tech-enabled firm, Alibaba should be able to integrate AI to improve its offering. The position has been added to recently with the underweight position having narrowed. Similarly, he has increased his position in Tencent which has sold off on a similar dynamic. These stocks are now the two largest in the portfolio.

TOP TEN HOLDINGS

COMPANY	GICS SECTOR	FUND	RELATIVE
Tencent	Communication Services	12.1	-1.7
Alibaba	Consumer Discretionary	8.8	-0.6
Douyin (ByteDance)	Communication Services	6.5	6.5
PDD Holdings	Consumer Discretionary	3.4	1.7
Ping An insurance	Financials	3	1
CATL	Industrials	2.4	1.5
NetEase	Communication Services	2.3	0.5
Venturous Holdings	Financials	2.2	2.2
China Resources Land	Real Estate	2	1.5
Full Truck Alliance	Industrials	1.9	1.7
Total		44.6	

Source: Fidelity, as at 30/09/2025

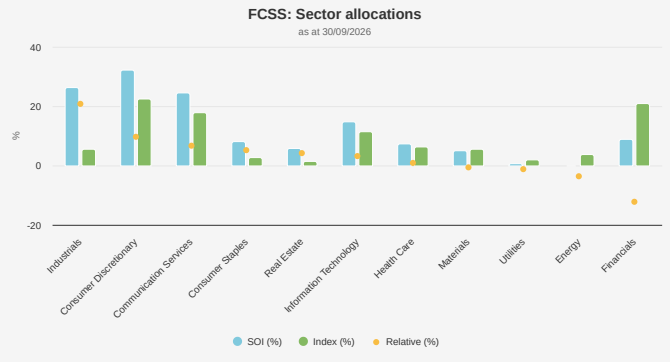
The addition to Alibaba has also increased the exposure to the consumption theme, with other selective additions. This includes to areas of discretionary spending, through both sportswear and travel and leisure firms. Meanwhile, the manager has also been adding to consumer staples names, in particular those with more traditional cyclical businesses. One example is to China Mengniu Dairy, where supply and demand headwinds have eased, and competitive pricing fading, improving the earnings outlook.

One factor behind these additions is a change in the outlook for the wider consumer. Spending has been heavily impacted by the struggles of the property market, which is used as a store of wealth in China. Falling property values have impacted consumer sentiment and had a knock-on impact on spending. However, Dale notes that there have been some positive policy tweaks which could change the supply and demand imbalances and ease some of the issues. The sector remains subdued, but the downtrend has now lasted five years and brought prices down by c. 30%, which is the average length of other global property cycles. As well as the additions in consumer facing stocks, Dale has also added very selectively to some real estate positions, making the sector modestly overweight.

The biggest underweight sector is financials, largely as a result of a low ownership of the sector's banks. These are typically mega-cap, state-owned enterprises and do not have the growth characteristics Dale is targeting. These firms have performed well in 2026 as analysts have upgraded their guidance on the back of better dividend payout ratios, a factor Dale acknowledges, however, he believes better long-term growth stories exist elsewhere in the financials sector. This includes within insurance, such as through PingAn Insurance which is benefitting from structural trends as wealth trends increases demand for their products. In addition, some tweaks to regulations in the insurance industry could lead to improved profit margins. Despite this, the sector is the largest underweight due to a low holding in the mega-cap banks that dominate.

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SECTOR ALLOCATIONS



Source: Fidelity
Past performance is not a reliable indicator of future results.

The manager can also own private companies, helping differentiate the trust from some of its peers as well as providing alpha opportunities. There has been one new addition in the past year, drone manufacturer Antigravity. Best known for its 360-degree cameras, the firm is the second private drone company alongside DJI. Capacity emerged in the private portfolio following the listing of cryptocurrency exchange platform HashKey. However, following the upwards valuation revision of ByteDance, owner of TikTok and Chime Bio, private holdings are now over 15% over NAV and therefore there will not be any new additions to this portion of the portfolio until one of the six holdings goes public or a holding is sold.

PRIVATE HOLDINGS

Company	Initial purchase date
DJI International	May-18
ByteDance	Nov-18
Venturous Holdings	Dec-20
Chime Biologics	Mar-21
Fuijan Yangteng Innovations	Feb-25
Antigravity	Jul-26

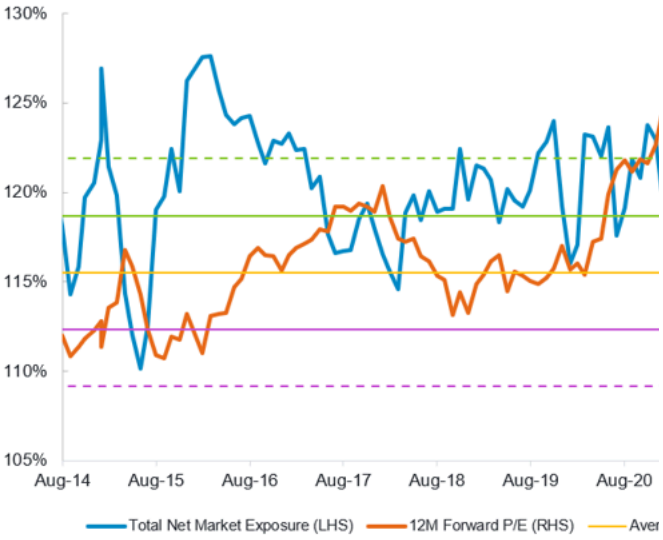
Source: Fidelity

Gearing

Dale has used gearing persistently throughout his tenure of FCSS with the aim of enhancing returns over the long term. At present, additional exposure is taken through CFDs rather than traditional loan facilities. CFDs are financial instruments that allow the manager to take more exposure than the amount invested on both the wider index and on individual stocks. They can also be used to take short positions in stocks and the index, and have been the sole gearing facility since February 2024 when the previous loan facility expired. The board has stated it is willing to use fixed-term facilities in the future, although only should interest rates become more competitive.

The level of gearing will depend on the number of opportunities Dale can identify as well as broader market valuations, with the level of net exposure typically moving in an inverse level to the forward price-to-earnings ratio of the wider market. As at 30/09/2026, FCSS had gross market exposure of 123.4% and net exposure was 117.1% indicating short exposure of c. 6%. This short figure down slightly on the figure earlier in 2026, as Dale has removed a short positions on an electric vehicle firm, although the level of net gearing is over one standard deviation above the long-term average, and reflects the pullback in market valuations over the past year, as we show in the chart below.

GEARING



Source: Fidelity, as at 31/08/2026

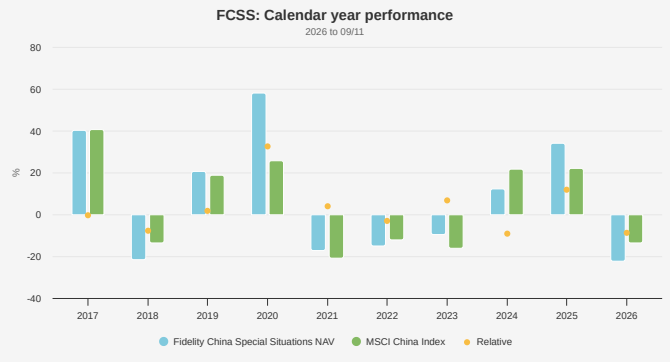
Performance

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Dale's flexible approach, including the ability to invest in small-caps and private businesses has meant the trust can generate performance from a wide range of potential sources. As such, the performance profile can look substantially different to the trust's benchmark, the MSCI China Index. The focus on individual security selection means that the quality of Dale's stock picks will be the primary driver of performance.

Clearly, not every differentiated holding will outperform in every environment, although over the long-term it is expected that they contribute more than they detract. The past ten calendar years are a good example of this different profile with FCSS, including 2026 to date (10/11/2026), outperforming in exactly half. When the trust has outperformed, it has done so by an average of 11.3 percentage points, a figure nearly double the average underperformance of 5.5 percentage points. We note one exception to this was 2025, in which positivity returned to the market and Dale significantly outperformed a rising market.

CALENDAR YEAR PERFORMANCE



Source: Morningstar
Past performance is not a reliable indicator of future results

The nearer-term performance is a good example of how the wide range of opportunities can contribute to performance. In the 12-month period to 31/08/2026, the top ten contributors to performance include private holding ByteDance, a short position and a mix of both large and small caps. The two largest contributors to relative performance were also both sizeable stock bets from Dale.

The biggest contributor was Xiaomi, a firm with a sizeable index weight (c. 2.5%) but not held in FCSS. The stock has fallen over 30% in 2026, as markets have become concerned over the firm's future growth, as well as margin pressure in its smartphone division due to rising memory costs. This contributed over 170bps of alpha in the year to 31/08/2026. ByteDance was the second biggest contributor after its value was written up, following strong AI development, as well as the easing of US regulatory threat over TikTok. Dale continues to hold the stock and believes there is considerable upside still to come from the firm, with it now the largest active position in the portfolio.

Whilst ByteDance has considerable exposure to technology, it is categorised in the communications services sector. This is a similar situation for many Chinese tech-enabled companies which are subject to sometimes questionable categorisation. Regardless, both the communication services and technology sectors were positive contributors to performance in the past year, with stock selection proving particularly positive in both cases. This was aided by the likes of ByteDance and Xiaomi, as well as stock picks from tech hardware firm Lenovo and optical transceiver firm Zhongji Innolight also contributing positively. The large internet platform stocks also fit within this theme and offered mixed returns. Whilst the underweight in Alibaba was positive to relative performance, this was offset by the overweight to Tencent, with both falling due to concerns over the threat of AI disrupting their businesses. However, Dale believes the strong ecosystem both apps have mean integrating AI will be very positive for them and has changed his positioning to capitalise on this (see **Portfolio**).

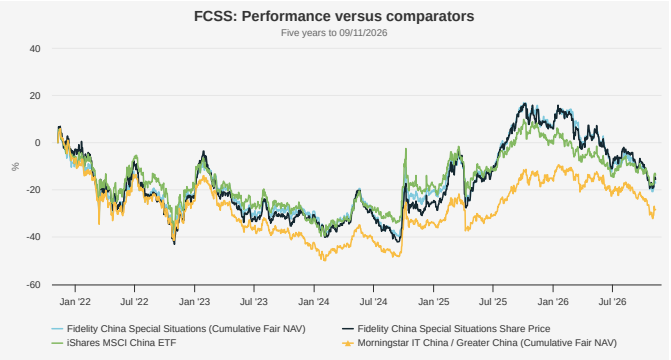
Despite many positives, the overall picture was one of underperformance. A major factor in this was the bias to small- and mid-caps, which have struggled in a falling market. The additional exposure from the **Gearing** also weighed. Furthermore, the flipside of the SMID positioning was an underweight to mega-caps and in particular, the large state-owned banks. These have performed well as investors began looking for defensive areas, backed by the positive capital return story, something the government has been pushing for. However, Dale is focused on long-term growth and believes the potential from the banks is considerably lower than from small and mid-sized stocks. To this end, three of the top six detractors were banks, meaning both the underweight position and stock selection from the sector dragged on relative returns.

An underweight in the energy sector has also been a headwind to performance, with several stocks rallying as a result of the war in Iran pushing up prices for oil and gas. Dale does not own these stocks, and he sees limited long-term growth potential. The healthcare sector meanwhile, is a minor overweight, although this also weighed on performance. This was primarily due to stock selection though, with the best performers coming from the biotech side of the industry as pressure from the US eased, although Dale was underweight key beneficiary WuXi Biologics due to better risk-reward opportunities elsewhere. The manager's holding in private company Chime Biologics was a positive contributor however after being valued upwards following strong performance.

Whilst recent performance has been a challenge in both absolute and relative terms, Dale remains positive on the outlook. This is largely due to tailwinds from his key themes (see **Portfolio**) and resulting uplift potential in the likes of the technology and consumer related sectors. He still expects innovation to be a strong growth driver, although the rapid adoption of AI has meant several holdings have fallen the wrong side of this trade. However, areas such as robotics and autonomous driving should be beneficiaries, yet the rally has not fed through to these areas yet.

As a result, 2026 to date has been another year of underperformance, which has dragged on cumulative returns, with the trust having fallen by c. 17% in the five years to 10/11/2026, compared to a fall of 12% for the trust's benchmark. The trust has outperformed the unweighted peer group average though, which returned -28.3% over the same period. FCSS is the largest trust in the peer group by a margin, making up c. 75% of the assets in the three-strong sector. As such, we have used unweighted averages for comparisons.

FIVE-YEAR PERFORMANCE



Source: Morningstar
Past performance is not a reliable indicator of future results

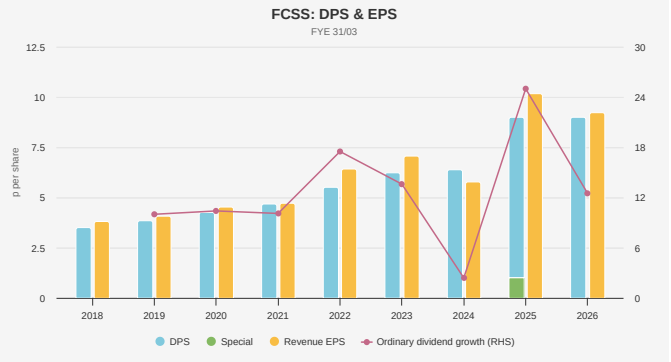
Dividend

FCSS has developed an impressive dividend growth track record, having increased the amount paid to shareholders in every year since inception in 2010. This means that despite Dale being primarily focused on capital growth opportunities and income simply being an output of the stock selection, the trust has 16 years of consecutive dividend growth, making it the AIC China sector's only next generation dividend hero.

The dividend is paid annually in June and is based on the revenue generated by the underlying portfolio. In the most recent financial year, to 31/03/2026, the dividend was fully covered by revenues, with a small amount added to revenue reserves. In the past, these reserves have been used occasionally to support the progressive dividend if required. Despite this, they remain substantial at 1.6x the 2026 dividend.

The latest annual dividend was 9p per share, which indicates an historic yield of c. 3.9% as at 19/10/2026. The amount is a 12.5% increase on the ordinary dividend of the year prior, the second year in a row of double-digit growth, despite the FY25 dividend benefitting from a sizeable one-off payment from an underlying holding we discussed in our previous note. This enabled the payment of a 1p per share special dividend, which has not been maintained although the ordinary dividend this year is equivalent to the combined total of the year prior.

EPS & DPS



Source: Fidelity
Past performance is not a reliable indicator of future results

Management

Dale Nicholls has been managing FCSS for over ten years, having taken over management from Anthony Bolton, the trust's first portfolio manager, in April 2014. Dale worked with Anthony for some months before taking over full management responsibilities. He has c. 30 years of investment experience and also manages the open-ended Fidelity Funds Pacific Fund. This gives him a regional perspective on the markets, which should be helpful in building a picture of the competitive position of companies in China.

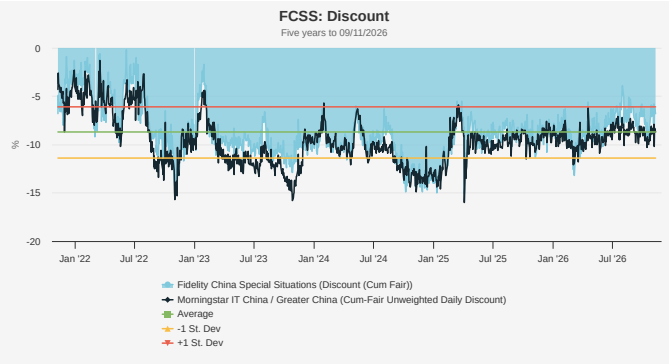
Dale spends much of his time speaking to management teams and competitors of companies in which he invests or may choose to invest, engaging with over 100 companies each year. He began his career with Fidelity in 1996, working in the Japanese equity analyst team and covering various sectors. Dale was promoted to portfolio manager for the FF Pacific Fund in 2003 and portfolio manager for the FF Asian Smaller Companies Fund in 2011. He is based in Hong Kong and Singapore and draws on the work of over 15 dedicated Greater China analysts based in Shanghai and Hong Kong, with a further support for sustainable and derivative analysis, as well as their regional colleagues and dedicated China small-cap analysts.

Discount

FCSS trades at a discount of c. 6.8% at the time of writing, slightly narrower than the five-year average of 8.7%. The trust did benefit from a re-rating in mid-2026, having traded close to average for a year, although the discount has subsequently widened out to beyond its five-year average in September, and has been volatile since as NAV has fallen. We note this five-year timeframe includes a period where Chinese equities were particularly out of favour, following the implementation of a zero-Covid policy which caused significant economic challenges. As such, we believe the current discount represents an attractive entry point to the strategy, enabling investors to access the depressed valuations of the wider asset class and at an even more discounted level.

The board has been active in managing the discount, using share buybacks with the aim of keeping the discount in single figures. In the latest financial report (to 31/03/2026), 33m shares were repurchased, equivalent to c. 7% of issued. Since then, a further capital with another c. 11.5m since, with the latest buyback being 23/10/2026.

DISCOUNT



Source: Morningstar
Past performance is not a reliable indicator of future results.

Charges

The charging structure of FCSS has two key features designed to provide a fair balance between rewarding management and shareholder returns. The first of these is the tiered structure, which passes on the economies of scale as they are achieved. The first £1.5bn of net assets, attracts a charge of 0.85%, which then falls to 0.65% for amounts above this. Based on net assets of £1.1bn as at 20/10/2026, meaning tiered rate has yet to kick in, although we note net assets will fluctuate with market performance.

In addition, there is a variable element to the management fee, which can be increased or decreased by up to 0.2% based on performance relative to the trust's benchmark. This figure is calculated daily and applied monthly and is based on three-year rolling performance. This means that the management fee will be reduced in the event of underperformance, giving something back to shareholders. As at the end of August 2026, the adjustment figure was 0.17%.

As a result, the latest OCF is 0.92%, by far the lowest of the three-strong peer group, reflecting the benefits of economies of scale as FCSS is the largest trust in the sector. We note that the OCF reflects charges already incurred in the NAV and is not deducted from the share price.

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ESG

ESG considerations are embedded in the investment process, primarily through the implementation of the Fidelity Proprietary Sustainability Rating. This is a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on specific indicators appropriate for companies, depending on the subsector they are located in. Additionally, analysts produce a Climate Rating, which captures their assessment of which companies are in the best position to transition to net zero, or which have a positive trajectory towards transition. The responsibility falls first on the analysts working on the business fundamentals, but they are supported by a Sustainable Investing Team responsible for consolidating the approach to ESG firm-wide and who assist with ongoing engagement. Managers can also consider external ratings before internal ratings are available, but the internal ratings are ultimately relied upon. Dale is not prohibited from investing in companies which score poorly, but he does have to justify the ESG ratings and carbon footprint of the portfolio in the quarterly fund reviews with Fidelity's CIO, alongside investment risks, such as beta, tracking error, and any concentrated positions.

Morningstar have not given FCSS a rating for sustainability, although we note coverage of the portfolio is quite low at 65%, likely a result of the high allocation to small-caps and private companies.

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