HARDMAN & CO.

18 March 2022

Closed End Investments

Source: Refinitiv

Market data

EPIC/TKR	FCSS
Price (p)	**253.5**
12m high (p)	446
12m low (p)	211
Shares (m)	513.96
Mkt cap (£m)	1,303
NAV (16 Mar'22, p)	255.2
Discount to NAV	0.7%
Country of listing	UK
Market	STMM (FTSE250)

Description

The investment objective of Fidelity China Special Situations (FCSS) is 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 invest in companies with significant interests in China.

Company information

Chair	Nicholas Bull
NEDs	Linda Yeuh (SID), Mike Balfour, Vanessa Donegan, Alastair Bruce
Fund Mgr.	Dale Nicholls

https://investment-trusts.fidelity.co.uk/fidelity-china-special-situations/?p=0&c=10

Key shareholders

Fidelity, HL, II	40.6%
Lazard AM	10.0%
Allan & Gill Gray Foundation	7.2%
City of London IM	5.6%

Diary

Mid-Mar'22	End-Feb factsheet

Analyst

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FIDELITY CHINA SPECIAL SITUATIONS PLC

The time to "be greedy when others are fearful"?

One of Warren Buffett's more famous quotes is to "be fearful when others are greedy, and be greedy when others are fearful." In this note, we explore what is making some investors fearful of China, identifying three key risks: i) regulation; ii) geopolitical tension; and iii) COVID-19. All three were explored in detail in *our initiation*. Understanding why regulations are being introduced means investors can identify companies that will be affected and when restrictions will end. Geopolitical tension, while harder to assess, is at above normal levels, but this is not new. China has managed COVID-19 well. Pricing anomalies create research-led new opportunities.

- **Risk:** The key to understanding risk exposures is to analyse why they are happening. By way of example, looking at regulations of large companies, we believe the key driver is the long-term threat such businesses may pose to government power. By looking at that, investors can focus on which companies regulation will target.

- **Opportunities:** Market dislocations create stock-specific pricing anomalies. Research by a long-established, large, local team is a competitive advantage over global players, while access to Fidelity's global analysts, and the manager's regional experience, give a perspective unavailable to domestic peers.

- **Valuation:** FCSS's portfolio is largely listed equities. It trades at a 0.7% discount to NAV. The discount has been falling since 2016, but recently rose on the concerns above. Peer ratings have been volatile (FCSS in the pack), but its performance is significantly better. The yield is now 1.8%, and buybacks have recently been done.

- **Risks:** Further regulation in China is a risk, but FCSS's exposure appears limited, and noise around the issue can create investment opportunities. Geopolitics may affect sentiment, but FCSS is domestically focused. Sentiment can go against FCSS's investment style, and returns are expected to be volatile.

- **Investment summary:** In general, FCSS invests in the huge opportunities from New China, with growth in the middle classes and supportive government policies towards domestic demand and innovation expected to underpin superior GDP growth. Fidelity's stock-picking, gearing, being able to make illiquid investments, and the compounding benefits from investment outperformance have seen total share returns ca.2x the market since launch. There are risks from further regulations, but these may also create opportunities. Investor appetite for FCSS's style may vary, and investors should expect volatile returns. As noted, the share price is at a 0.7% discount to NAV.

Financial summary and valuation

Year-end March (£000)	2018	2019	2020	2021	2022E	2023E
Total income	29,000	30,910	33,016	32,781	47,865	34,108
Gains/losses on fin. inst. FV	212,441	(25,386)	(57,341)	725,388	(888,583)	130,747
Invest management fees	(14,193)	(11,543)	(9,440)	(18,591)	(16,505)	(13,199)
Other expenses	(1,630)	(1,214)	(1,177)	(1,368)	(1,300)	(1,350)
PBT	274,675	(77,177)	(82,587)	991,375	(826,940)	181,888
Investments (£m)	1,496	1,423	1,290	2,167	1,307	1,471
Cash	80,439	86,963	38,523	66,404	67,133	51,323
NAV (£m)*	1,503	1,402	1,273	2,183	1,329	1,482
NAV per share (£)	2.73	2.55	2.36	4.23	2.59	2.88
Discount to NAV	12%	8%	9%	1%	-2%	-12%
Yield	1.4%	1.5%	1.7%	1.8%	2.0%	2.2%

**2018-21 NAV on year-end s/p, 2022-23E NAV on current s/p. Source: Hardman & Co Research*

Regulatory risk

How Fidelity can add value in a high regulatory risk environment

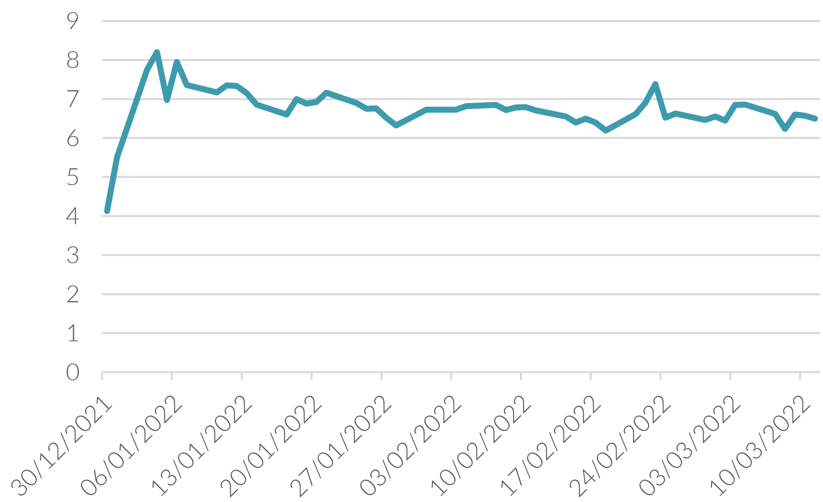
Not all technology businesses face regulatory risk – SenseTime is FCSS's third-biggest overweight position

We highlighted in our initiation and earlier in this note that the key to understanding risk exposures is to analyse why they are happening. If one were to read some articles, you may believe that every Chinese technology company had seen its share price collapse under the weight of regulatory pressure. This is simply not the case. Deep fundamental analysis using extensive experience both of the market in question but also of regulatory risk in other markets can give insights as to which companies are, and which companies are not exposed to regulatory risk. By way of example, we highlight SenseTime Group, which, at the end of January 2022, was FCSS's fifth-largest holding and its third-biggest overweight position as a percentage of net assets against the index.

Share price up 50% this year

SenseTime is a global artificial intelligence technology business, primarily focused on facial recognition, image recognition, object detection, optical character recognition, medical image analysis, video analysis, autonomous driving, and remote sensing. The business was only founded in 2014 and FCSS became an investor in June 2018 when the business was still unlisted. It listed at the end of 2021, and the share price rose sharply post IPO and has been very stable since. Its current price is still over 50% up on the end of 2021. This is an example of a business in technology where regulatory risk is not an issue and where strong returns have been made.

SenseTime share price since listing (HK$)



Source: Refinitiv, Hardman & Co Research

Also shows benefit of being able to take private company stakes

We also highlighted in our initiation that a competitive advantage of FCSS was its flexible mandate in that it could take unlisted positions. SenseTime is an example of this advantage too.

What are the Chinese objectives?

Understanding why regulations are changing helps appreciate where future risks may lie

Three key drivers:

i) concerns on social inequality – most impact on largest companies and those with poor consumer/worker protections…

… ii) data protection and related national security – mainly affecting technology and tech-enabled businesses…

…iii) preservation of Communist Party power by limited development of potential domestic and international rivals – impact on largest companies with wealthiest investors

Understanding why the regulations are changing helps appreciate where future risks may lie. We have identified three key themes, each of which will have a dramatically different impact on specific stocks:

- Concerns about social inequality – in China, the top 10% share of national income has risen from just over 30% in 1990 to an estimated 42% now, while China's share of wealth has increased from just over 40% to nearly 70%.[1] For a communist country, it is not surprising that such a trend may be a cause for concern, and we note that Chairman Xi's slogan of "common prosperity" appears to have been gaining increasing traction. This theme has seen:
  - The moves on private education, which were seen as being advantageous only to those who could afford it. Similarly, while biotech continues to see strong government support, big drug manufacturers are under pressure to cut prices for mass medication.
  - As part of the common prosperity, worker protection was enhanced by the end-July 2021 Supreme People's Court and Ministry of Human Resources joint announcement that the "996" overtime policy (i.e. working 9am to 9pm six days a week) was illegal. Market commentary is that this poses a particular threat to the technology industry.[2]
  - Competition and consumer rights appear to be the driver behind the Ant group restructuring, which saw a new holding company established, so that it would be regulated more like a bank. Ant set up a new personal credit reporting company to prevent abuse of data, and the links between Alipay and its credit card and consumer businesses were cut.
- Data protection and national security, including the 17 August 2021 State Council passing of "*regulation to strengthen protection over critical information infrastructure*"[3] (this covered a very broad range of "*network infrastructure and information systems in public telecommunications, information services, energy sources, transportation and other critical industries and domains, in which any destruction or data leakage will have severe impact on national security, the nation's welfare, the people's living and public interests*") and the July 2021 investigation of the ride-hailing app Didi, the share price of which halved that month. The focus is on access to data, rather than infrastructure and systems, and it is companies with such access that would appear most at risk.
- In our view, Chinese authorities have a long-term focus, and they may have seen a threat to the Communist Party control, if they thought money and power could be concentrated in just a few private or overseas hands. In a "Real Politik" move, the rug has been pulled from under the feet of potential rivals. This is part of a wider trend to ensure autonomy/independence in supply chains, with, for example, a strong push to build semiconductor capacity to reduce dependence on overseas supplies.

[1] World Inequality Database https://wid.world/country/china/
[2] *https://www.ft.com/content/a794faf1-2ee9-4d19-abc6-72620227396c* or https://edition.cnn.com/2021/08/27/tech/china-supreme-court-996-intl-hnk/index.html
[3] http://english.www.gov.cn/policies/latestreleases/202108/17/content_WS611b8062c6d0df57f98de907.html

Why has the effect from regulations on some share prices been so dramatic?

Effect has been dramatic, because:

i) China can take action more rapidly than many other countries...

...ii) announcements were not expected...

...iii) they were poorly communicated, creating uncertainty as to what would be affected next

The reasons why the market reaction was so dramatic include:

- As a one-party regime, China could act rapidly. US/European/UK debates on data protection were, and continue to be, a very extracted process. From the European Data Protection Supervisor, publishing its approach in June 2011, GDPR regulations were not adopted until 2016, and did not actually get applied until May 2018.[4] In contrast, China, to a degree, caught up with data protection, by implementing new policies within months. The market did not have time to adjust to new policies.
- The moves were unexpected. While FCSS's Report and Accounts' "Principal Risks" section noted legal and regulatory risks within the market, in addition to economic and geopolitical risk, and there was a comment about domestic and foreign investor sentiment risk, we do not believe the market anticipated the specific proposals that have emerged.
- Several commentators have observed that communication of the policies left the markets feeling extremely uncertain as to how wide regulatory changes might be, driving a more general sell-off. Education was seen as one of the "Three Big Mountains" (the others are medical services and housing). The use of "Three Big Mountains" carries significance, given its similarity to Chairman Mao's 1948 term "Three Great Mountains" (imperialism, feudalism and crony capitalism).

Will there be more effects?

We expect more regulations as Chinese economy matures into developed market...

...but impact on markets will vary, and unlikely to stop smaller and middle-sized businesses developing...

Yes, is the simple answer. Increasing degrees of regulation are a global phenomenon and, given that China is evolving into a more modern economy, further regulations appear probable. However, China also needs strong growth to ensure social cohesion (we have seen some estimates that 6%-7% real GDP is necessary to ensure a smooth transition from a rural to a modern, urban society). This requires a dynamic market and that, in turn, needs freedom, with economic vibrancy and liberation, especially in smaller and middle markets. We believe this plays fundamentally to FCSS's core investment thesis on in-depth analysis in identifying companies that may be overlooked by the market. Indeed, the opening of a new exchange for exactly this market could be seen as a regulatory development favouring this market.

...and the worst may be coming to an end

The dramatic rise in many Chinese share prices on 16 March 2022 following news that that the government should "actively introduce policies that benefit markets" has led to the expectation that the worst of regulatory risk on internet companies may be coming to an end (at least for the moment) and that the government will also prevent a disorderly collapse in the property market. In our view, having been above-average noise for some time, regulatory risk may now revert to a more normal level.

[4] https://edps.europa.eu/data-protection/data-protection/legislation/history-general-data-protection-regulation_en

Secondary costs

Investors should focus not only on direct costs but also on secondary ones, like compliance

Some companies trying to head off changes with their own "common prosperity" initiatives, but this will come at a cost

Investors need to consider the secondary costs of the recent wave of regulatory news. It is likely that, over time, increased regulation will be an administrative burden on companies. While these can, at times, act as a barrier to new entrants, there is the risk of higher costs. Additionally, we think that some companies may try to head off future changes by compromising now. Alibaba, for example, said, on 3 September 2021, that it would give away RMB100bn ($15.5bn, two thirds of 2020 net income) across 10 key initiatives to promote common prosperity in China. This followed Tencent's April announcement of RMB50bn to "*fund initiatives in areas including basic science, education innovation, rural revitalisation, carbon neutrality, food/energy/water provision, assisting with public emergencies, technology for senior citizens and public welfare*". The *Financial Times* reports that this figure has subsequently been doubled. Smaller businesses in FCSS's sweet spot are likely to be beneficiaries of such trends.

China: geopolitical risk

Recent concerns

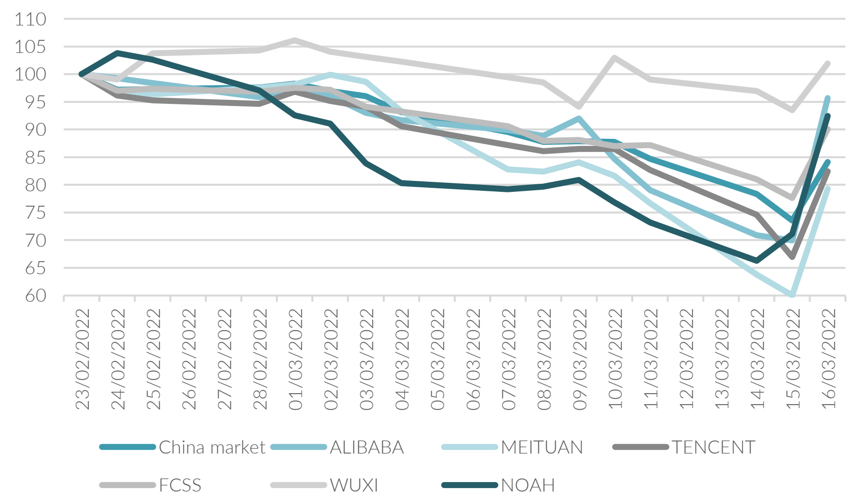
Multiple points of tension over many years

We believe that geopolitical tension is nothing new in the relationship between global super-powers. In our initiation, we noted that "*FCSS, like several other funds heavily invested in China (e.g. SMT), has the same view as us that high, and variable, levels of tensions between the US and China are likely to feature for the long term. There are simply too many points of friction (including Hong Kong, trade deficit, intellectual property, Uyghur) for relations to be "normal". It is probable that, as these issues evolve, tension, and perceptions of its impact, will be a factor for FCSS*".

Conflict in Ukraine is an escalation – so, at present, above normal trend, but tension is nothing new

The conflict in Ukraine has added a new potentially very serious dimension to geopolitical risk in that China is potentially allied to Russia and the US to Ukraine. The chart below shows how, in the initial stages of the conflict, the impact on the market, FCSS and a number of its key holdings and exposures (Meituan is a large underweight) was relatively modest, but there has been an acceleration in the past week. The sharp rise on 16 March reflects the lower regulatory risk noted above.

Market prices indexed to 23 February 2022 rebased to100



Source: Refinitiv, Hardman & Co Research

Unclear what next effects will be, but some effects to consider include effect on global demand and sentiment volatility…

At this stage, exactly what will happen next is open to wide speculation and press commentary but, based off recent observations, the US is advising China of "consequences" of large-scale sanctions, evasions and support to Russia[5], and warning of "isolation and penalties"[6]. Interesting articles are also reporting that the discussions in Rome on 15 March covered topics including North Korea and Taiwan, which confirms our observation that geopolitical tension is a normal consideration well beyond the conflict in Ukraine.

…real effect and impact on US consumers in an election year

We believe we can add limited value to the speculation of what the eventual outcome of specific discussions will be, but we would observe that:

Direct portfolio risk limited, but there could be indirect effects through supply chains

- The impact on global growth from heightened global tension and higher fuel/commodity/food prices is likely to be adverse.

[5] https://www.bbc.co.uk/news/world-asia-china-60732486
[6] https://www.nbcnews.com/news/world/us-warns-china-helping-russia-ukraine-invasion-rcna20034

- Speculation tends to come and go, and will create both positive and negative volatility on Chinese equities with the news flow.

- There are material impacts on the domestic US consumer of many sanctions, which could be a factor in the mid-term elections on 8 November 2022. Given commentary on high inflation and the impact on voter sentiment, it is unclear how this could affect sanctions or prospective retaliatory measures.

- In trying to analyse the direct impact of US/China trade tension, we note the disclosure in FCSS's interim 2021 report, which gave information on investee company sources of revenue. It highlighted that the US is a very small percentage of revenue (3%) and that FCSS has invested in businesses that will be driven by Chinese revenue streams. Supply chains and end-customers may also be affected by trade wars, but this disclosure gave further evidence that FCSS is driven by domestic Chinese demand, and not US trade flows.

Previous US/Chinese context

In recent past, seen regulation on US securities

As we noted above, there have been a range of frictions over many years. The start of 2022 saw intense commentary over Taiwan, while human rights abuses saw the diplomatic boycott of the Beijing winter Olympics. Looking more specifically at financial sanctions, on 15 December 2020, the MSCI removed 10 Chinese securities from its indices, following similar moves by Dow Jones Indices and FTSE Russell. In its release, MSCI noted "*Based on feedback from more than 100 U.S. and non-U.S. market participants, the Order may have a significant impact on the investment processes of global investors… In particular, non-U.S. market participants noted that the extensive presence of U.S. entities, such as commercial banks, broker-dealers, and custodians, within their chain of financial intermediaries would significantly limit their ability to transact in the impacted securities*". It is indicative of a risk that investment decisions could be affected by unilateral US action, and 18% of January 2022 TNA is in companies listed on US exchanges.

FCSS showed no share price reaction on days of US announcements in 2020

FCSS had the following (table below) share price reactions on the days when specific sanctions were announced. We do not regard any as being significant, and we believe that the market was not unduly concerned that FCSS would be affected by any of these announcements, or a potential fallout from them.

Share price reaction to sanction announcements

Date	Sanction announced	S/P move
9 Jul'20	Sanctions and visa restrictions against senior Chinese officials, including CCP Politburo members Chen Quanguo, Zhu Hailun, Wang Mingshan and Huo Liujun.	+2.5p
12 Nov'20	President Donald Trump signed Executive Order 13959, entitled "Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies". The executive order prohibits all US investors from purchasing or investing in securities of companies identified by the US Department of Defense as "Communist Chinese military companies".	+5.5p
7 Dec'20	Sanctions on entire 14 Vice Chairpersons of the National People's Congress of China.	+2.0p

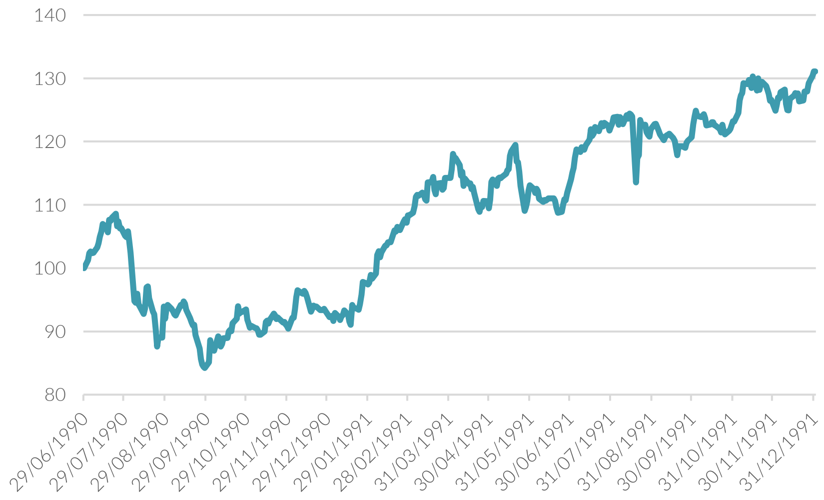
Source: LSE, Hardman & Co Research

Gulf War as wider precedent

50% recovery in Hong Kong market year after Gulf War

The chart below shows what happened to the Hong Kong stock market through the political uncertainty around energy and the Gulf War (2 August 1990 to 28 February 1991), and the subsequent market recoveries (in case investors are wondering, our Chinese market data base only starts in 1992). As can be seen, an investment made shortly after the initial attack would have seen a return of 25% over the following six months and nearly 50% over the following year.

Hong Kong stock market through first Gulf War



Source: Refinitiv, Hardman & Co Research

COVID-19 resurgence

Precautionary lockdown for 5,000 cases – about 3% of number seen in UK on same day

A number of Asian countries have recently seen a rise in COVID-19 cases, and China was reported, on 15 March, to have imposed material lockdown restrictions in a number of areas, including the Jilin province and Shenzhen.[7] In addition, Hong Kong has, for some weeks, been reporting a record number of cases. In the initial stages of COVID-19, China adopted very draconian lockdowns, which appeared to have been very successful at limiting the economic damage from the pandemic by restricting its spread – so the latest round of lockdowns has raised some concerns that there will be further disruption to supply chains and production. This may be compounded by concerns that, given the relatively low historical transmission rates, the immunity levels within the population may be lower than those countries that suffered more in the previous rounds of the pandemic.

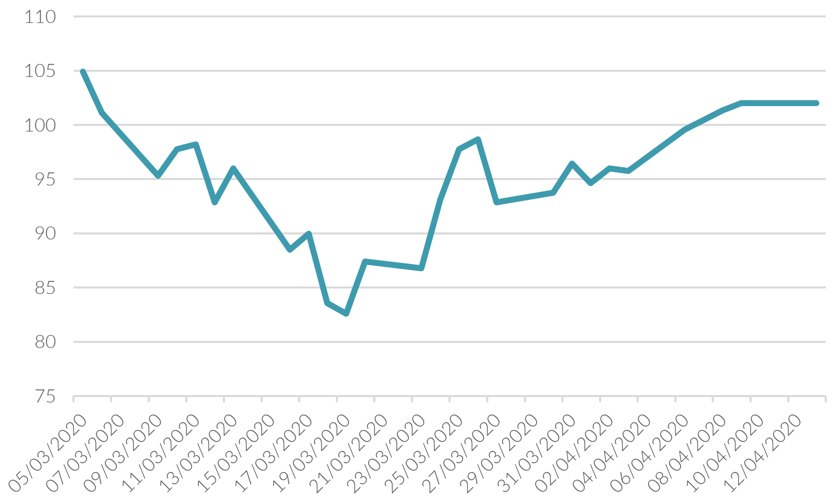
We would observe:

- The current number of cases remains tiny by western standards – we understand, from *BBC* reporting, that the 24 million people locked down were because of ca.5,000 cases, primarily in Jilin. The unlocked-down UK reported 170,985 cases on the same day.
- China, historically, was very effective at keeping the pandemic under control, and has the state tools to do so in a way that western democracies would find unacceptable.
- According to the January 2022 IMF *World Economic Outlook,* China's real GDP growth in 2022 was 2.3%, when the rest of the world contracted by 3.1%. This was despite a wide range of lockdowns, and, at present, it is unclear how many more will be required, if any.

Rapid recovery seen when first lockdowns seen to be effective

The chart below shows how FCSS's total return reacted to the initial stages of the pandemic. The huge uncertainty led to an immediate sentiment-driven sell-off, but as the authorities' strict lockdowns were seen to be effective, there was a rapid recovery.

FCSS's total return in initial stages of COVID-19 pandemic



Source: Refinitiv, Hardman & Co Research

[7] https://www.bbc.co.uk/news/world-asia-china-60703301

Opportunities for FCSS

Opportunities for FCSS include:
i) market dislocations create stock-specific anomalies…

…ii) general market sell-off creates value opportunities in unaffected businesses…

…iii) ESG regulations will create new markets, like EV, where Fidelity's global research can help identify local opportunities…

…iv) research and active management better identify real risks…

…v) long-term Chinese growth driver of domestic demand unaffected…

…vi) FCSS's bias to small/medium cap less affected by government targeting largest players…

…vii) more domestic listings play to Fidelity's local analytical resources

We see a range of opportunities for FCSS from the market dislocations and investor sentiment creating stock-specific pricing anomalies. Making a macro call on geopolitics is not the nature of the trust, but when such a factor, or regulatory risk, means that specific share prices become mis-priced, this creates an opportunity for a research-led house, such as FCSS.

- Market dislocations create stock-specific pricing anomalies. Research by a long-established, large, local team is a competitive advantage over global players, while access to Fidelity's global analysts, and the manager's regional experience, give a perspective unavailable to domestic peers.

- Sentiment may affect all share prices, even when the risk is concentrated in specific names and sectors. This general market sell-off creates value opportunities, and we note that FCSS has increased its gross gearing to take advantage of such opportunities. Clearly, gearing will have been to FCSS's disadvantage in the periods of market weakness (at end-January 2022, the trust equity exposure was 118% of total net assets), but it provides upside when the market rallies then rallies.

- Looking at the ESG plans, China is likely to see a rapid growth in electric vehicles (EV). The target is 20% of new sales by 2025, meaning that China will be the biggest and fastest-growing EV market in the world. Fidelity's global analyst network helps it to identify the best opportunities across the whole supply chain.

- FCSS's research means that it can take an informed view of the risks, and avoid areas where either risk is known to be high or there is uncertainty. FCSS has a limited exposure to the education sector, having exited most after-school tutoring positions in 1H'21.

- Stock market concerns and sentiment to Chinese stocks have a very limited impact on the stock-specific values that drive the trust – the rise of middle-class discretionary spending and a modernising economy, including online delivery. The main themes in which FCSS is investing remain robust.

- FCSS's bias to small-cap companies may further benefit from sentiment swinging it its favour. Furthermore, growth in such companies is a counter-balance to the largest companies and may be welcomed by the authorities as an alternative to further regulation of large-cap names.

- It appears likely that some companies, which might have listed previously on overseas markets, will now choose to have their quotes on Mainland China or Hong Kong exchanges (we also note the new Beijing exchange targeting small and medium-sized enterprises). Given Fidelity's long-term local presence and large analyst team, such a move may see it having more mis-valuation opportunities than companies open to the broader scrutiny on global exchanges.

Valuation

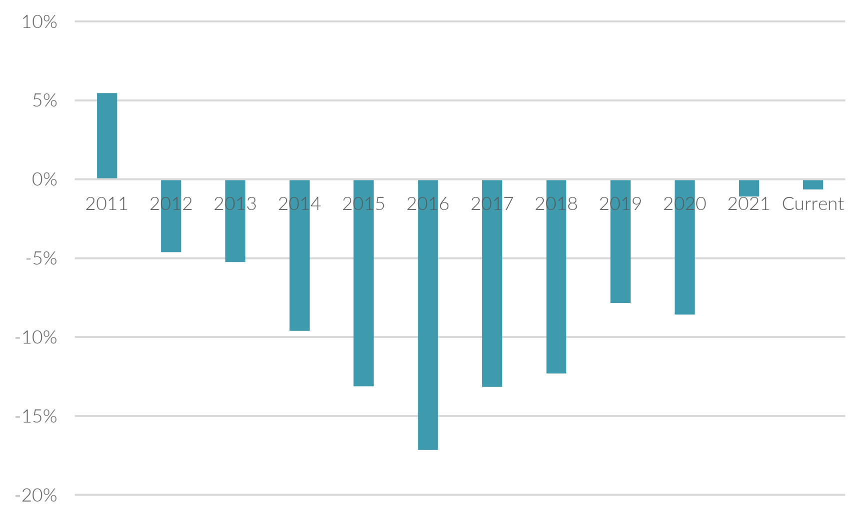
Historical trend

Strong performance in 2017-18 saw discount to NAV reduce

With relative performance through COVID-19, this became a modest premium, before recent factors have seen it driven back to discount

As can be seen in the chart below, for 2015-18, FCSS typically traded at a double-digit NAV discount, reflecting both the political uncertainty at the time and the weak performance of the benchmark index (2016 total return -16%, against flat for FCSS). This changed with the strong performance of the trust and index. The strong relative performance of China through the pandemic saw the NAV rise to a modest premium, before more recently falling back on regulatory concerns (and the small effect of lagging unlisted valuations). The recent rating has been volatile.

Historical discount to NAV at March year-ends, and current level

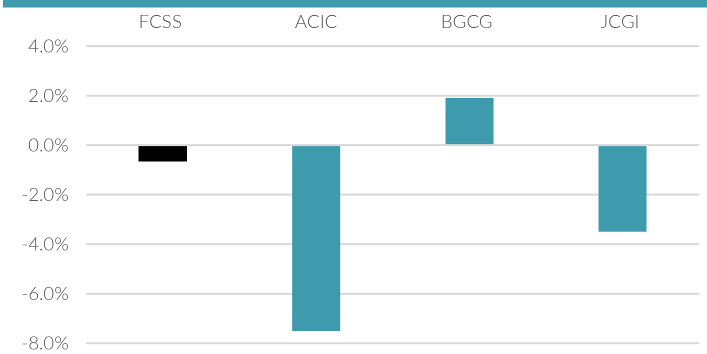


Source: FCSS Report and Accounts (FY ended March, LSE NAV announcement and share price dated 16 March 2022), Hardman & Co Research

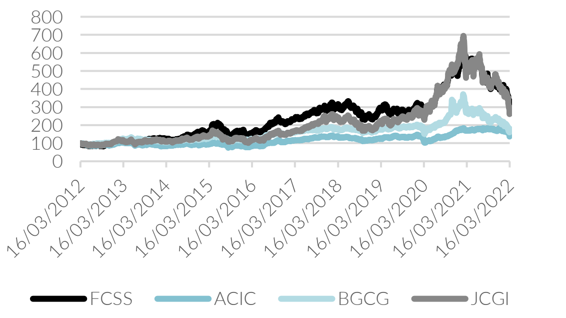
Peer comparisons

Noting recent rating volatility. FCSS's discount to NAV is in the pack for Chinese-specific investment trusts (see left-hand chart below). Over 10 years (see right-hand chart below), its total return has been 234%, compared with 45% at ACIC (FCSS on a slightly similar discount) and 80% at BGCG (on a premium). JCGI has returned a closer 197%, but, again, FCSS is on a slightly smaller discount. This pricing appears anomalous.

Discount to NAV vs. immediate peers (%)



10-year share price return vs. immediate peers (%)



Source: LSE (priced on 16 March 2022), Refinitiv, Hardman & Co Research

Financials

Our forecasts have been reduced significantly to reflect the year-end of March being close. We had previously assumed NAV of £3.25, and now assume £2.59, in line with the current NAV, with the adjustment taken through the "Gains/losses on inv. at FV through P&L" line.

Income statement (£000)

	2021			2022E			2023E		
Year-end Mar	**Revenue**	**Capital**	**Total**	**Revenue**	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
Investment income	21,012		21,012	34,676		34,676	20,919		20,919
Derivative income	11,689		11,689	11,689		11,689	11,689		11,689
Other income	80		80	1,500		1,500	1,500		1,500
Total income	32,781		32,781	47,865		47,865	34,108		34,108
Gains/losses on inv. at FV through P&L		**725,388**	**725,388**		**(888,583)**	**(888,583)**		**130,747**	**130,747**
Losses on derivative instruments		**266,752**	**266,752**		**40,593**	**40,593**		**40,593**	**40,593**
Foreign exchange gains on other net assets		(12,401)	(12,401)		-	-		-	-
Foreign exchange losses on bank loans		7,825	7,825		-	-		-	-
Total income and losses	**32,781**	**987,564**	**1,020,345**	**47,865**	**(847,989)**	**(800,124)**	**34,108**	**171,340**	**205,448**
Expenses									
Investment management fees	(4,119)	(14,472)	(18,591)	(3,912)	(12,593)	(16,505)	(3,128)	(10,071)	(13,199)
Other expenses	(1,260)	(108)	(1,368)	(1,300)		(1,300)	(1,350)		(1,350)
Profit/(loss) before finance costs and taxation	27,402	972,984	1,000,386	42,654	(860,583)	(817,929)	29,630	161,269	190,899
Finance costs	(2,253)	(6,758)	(9,011)	(2,253)	(6,758)	(9,011)	(2,253)	(6,758)	(9,011)
Profit/(loss) before taxation	25,149	966,226	991,375	40,401	(867,341)	(826,940)	27,377	154,511	181,888
Taxation	(760)		(760)	(808)		(808)	(548)		(548)
Profit/(loss) after taxation for the year	24,389	966,226	990,615	39,593	(867,341)	(827,748)	26,830	154,511	181,340
Earnings/(loss) per ordinary share (p)	**4.70**	**186.11**	**190.81**	**7.68**	**(168.33)**	**(160.65)**	**5.22**	**30.06**	**35.28**

Source: FCSS Report and Accounts, Hardman & Co Research

Balance sheet

@ 31 March (£000)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Investments	1,001,043	987,878	1,295,266	1,495,818	1,423,161	1,289,807	2,167,275	1,307,465	1,471,353
Current assets									
Derivative instruments	43,907	20,275	48,639	37,518	19,235	39,152	33,296	33,296	33,296
Amounts held at futures clearing houses and brokers	1,383	12,740	2,069	30,247	81,451	39,495	19,872	19,872	19,872
Other receivables	3,388	3,531	13,154	10,714	737	1,407	22,749	22,749	22,749
Cash and cash equivalents	14,932	30,266	47,722	80,439	86,963	38,523	66,404	67,133	51,323
Total current assets	63,610	66,812	111,584	158,918	188,386	118,577	142,321	143,050	127,240
Total assets	1,064,653	1,054,690	1,406,850	1,654,736	1,611,547	1,408,384	2,309,596	1,450,516	1,598,593
Current liabilities									
Derivative instruments	(2,134)	(28,082)	(33,458)	(34,841)	(90,161)	(45,183)	(22,208)	(22,208)	(22,208)
Bank loans	(101,014)	(104,315)	-	-	(115,331)	-	-	-	-
Other payables	(17,370)	(13,815)	(9,933)	(10,054)	(4,467)	(9,855)	(31,937)	(26,905)	(21,909)
Total current liabilities	(120,518)	(146,212)	(43,391)	(44,895)	(209,959)	(55,038)	(54,145)	(49,113)	(44,117)
Net current assets	944,135	908,478	1,363,459	1,609,841	1,401,588	1,353,346	2,255,451	1,401,403	1,554,476
Long-term liabilities									
Bank loans	-	-	(119,665)	(106,975)	-	(80,299)	(72,474)	(72,474)	(72,474)
Net assets	944,135	908,478	1,243,794	1,502,866	1,401,588	1,273,047	2,182,977	1,328,929	1,482,002
NAV per share (£)	1.653	1.642	2.254	2.725	2.550	2.363	4.235	2.586	2.884

Source: FCSS Report and Accounts, Hardman & Co Research

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