Fidelity Investments

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December 19,2003

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Fund of Fund Investments, Rel. Nos. 33-8297; IC-26198 and IA-2107, File No. S7-18-03

Dear Mr. Katz:

Fidelity Management & Research Company ("FMR") respectfully submits the following comments in connection with Investment Company Act Release No. 26198 (the "Release") regarding the proposed adoption of (i) three (3) rules under the Investment Company Act of 1940 ("1940 Act") to provide exemptions to the limits on fund on fund investing in addition to exceptions set forth in Section 12(d)(1) of the Investment Company Act of 1940 ("1940 Act"), and (ii) amendments to Forms N-1A, N-2, N-3, N-4 and N-6.

The Securities and Exchange Commission ("SEC") has proposed Rule 12d-1 which would codify and expand upon exemptive relief granted by the SEC in various orders to permit funds to enter into "cash sweep" arrangements in which a fund invests all or a portion of its available cash in a money market or similarly managed registered or unregistered fund. In addition, the SEC has proposed Rule 12dl-2 that would likewise codify and, in some cases, expand upon exemptive relief granted by the SEC in various orders to permit funds relying on Section,12(d)(1)(G) of the 1940 to invest in (i) affiliated funds without limit, (ii) unaffiliated funds up to 3% of the outstanding shares of the underlying unaffiliated non-money market or similarly managed funds in accordance with either Section 12(d)(1)(A) or Section 12(d)(1)(F) of the 1940 Act, (iii) any other securities (*i.e.,* securities not issued by a fund) without limit, and (iv) affiliated and unaffiliated money market and similarly managed funds without limit in accordance with proposed Rule 12dl-1. The SEC has also proposed Rule 12dl-3 which would also codify exemptive relief granted by the SEC in various orders to permit funds relying on Section 12(d)(1)(F) of the 1940 Act to charge a sales load greater than 1 1/2 percent provided that the aggregate sales load any investor pays (*i.e.,* the load combined distribution expenses of both the acquiring and acquired funds) does not exceed the limits on sales loads established by the NASD for funds of funds.

In addition to proposing the three rules under Section 12 of the 1940 Act noted above, the SEC has proposed to amend Form N-1A to "require that investors in a registered fund of funds receive better disclosure of the costs of investing in these arrangements." Under the proposed Form N-1A amendments, any registered mutual fund investing in shares of another fund would be required to include in the fee table in its prospectus an additional line item under the section that discloses annual operating expenses. The line item would set forth the acquiring funds pro rata portion of the cumulative expenses charged by the underlying funds in which the acquiring fund invests. Those costs would be included in the acquiring funds' total annual operating expenses, which would be reflected in the "Example" portion of the fee table. The SEC is also proposing instructions to the fee table to assist an acquiring fund in determining the amount of fees and expenses associated with underlying funds that must be reflected in the acquiring fund's fee table. The instructions would reflect expenses associated with the historical holdings in each underlying fund.

FMR is the investment manager for over 280 registered investment companies in the Fidelity Group ("Fidelity Funds"). The Fidelity Funds currently have aggregate assets in excess of $680 billion. In its role as investment manager of the Fidelity Funds, FMR and its affiliates have extensive experience with fund on fund investment structures based on the limits set forth in Section 12(d)(1) of the 1940 Act and SEC exemptive orders granted to the Fidelity Funds, FMR and its affiliates. We believe that fund on fund investing provides benefits to funds and their investors, and the rule proposals will facilitate the continued provision of such benefits. Accordingly, we strongly support the points raised and the positions taken in the comment letter submitted by the Investment Company Institute and offer the following additional comments. Our comments focus on proposed Rule 12dl-2 under the 1940 Act.

Proposed Rule 12dl-2 would permit a fund relying on Section 12(d)(1)(G) to invest, in addition to investing in both affiliated and unaffiliated funds, in securities not issued by a fund (*i.e.*, stocks, bonds, and other types of securities) without limit if such investments are consistent with the fund's investment policies. This is a welcome expansion of Section 12(d)(1)(G). Investments in securities not issued by a fund do not present any of the concerns that Section 12(d)(1)(G) was intended to address, such as fee layering or the threat of large scale redemptions, that might be associated with an improperly constructed fund of funds structure. In addition to permitting investments in securities not issued by a fund, we suggest that Rule 12dl-2 be modified to permit a fund to invest in futures contracts if such investments are consistent with the fund's investment policies. At times, a fund may find that an investment in a futures contract would provide a lower cost alternative to investing in securities. At other times, a fund may find that an investment in a futures contract would provide the fund with greater economic exposure to an index of securities than could be achieved through an investment in securities or an underlying fund. For example, a fund may find that investing in futures to "equitize" cash received late in the day permits it to be fully invested in accordance with its

investment strategy.[1] Accordingly, we posit that expanding proposed Rule 12d1-2 to permit investments in futures will allow "acquiring funds" greater flexibility to meet investment objectives that may not be met as well by investments in an underlying fund or in non-fund securities and will not present the concerns that Section 12(d)(1)(G) was intended to address.

In the Release, the SEC has not proposed to rescind "cash sweep" and "fund of fund" orders issued to various funds, their advisers and affiliates if proposed Rules 12d1-1 and 12d1-2 are adopted. As proposed, Rule 12d1-1 and Rule 12d1-2 would codify and expand upon the exemptive relief granted by the SEC in various "cash sweep" and "fund of fund" orders. Although the rules in their proposed form would provide greater investment flexibility to funds, reliance on and operation in accordance with a "cash sweep" order and/or "fund of fund" order previously granted by the SEC may, at times, be appropriate for a fund. Existing exemptive orders in general, and orders granted to the Fidelity Funds in particular, were carefully tailored to circumstances specific to a fund complex in a manner that a broad based series of rules simply cannot be tailored. Accordingly, we request that the SEC not rescind any previously granted "cash sweep" or "fund of fund" orders if the proposed rules are adopted by the SEC.

We hope that the foregoing is helpful to the SEC in its deliberations, and would be happy to provide any additional information to assist the SEC in its consideration of these matters. In addition, if you have any questions, please contact me at (617) 563-8362 or Stuart Fross at (617) 392-2698.

Very truly yours,

Brian T. Hourih
an
Assistant General Counsel

Cc: Paul F. Roye, Director
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Division of Investment Management

[1] Of course, a fund that invests in futures contracts would do so in accordance with the requirements **of** Rule 4.5 under the Commodity Exchange Act