

Portfolio manager: Kristian Atkinson, Peter Khan

## Performance for 12 month periods in USD (%)

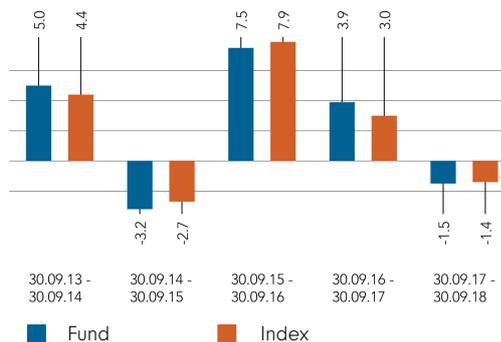
## Performance over quarter in USD (%)

Fund 0.4  
Market index 0.4

Barclays Global Aggregate Corporate Index

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.



## Market Environment

Global bonds posted mixed returns over the quarter, with corporate bonds outperforming government bonds. Growth momentum in many European, Asian and emerging markets was lacklustre, as a result of which the US was increasingly the main driver of global growth. Over the quarter, US markets posted mixed returns. While data remains supportive, US assets had to contend with the last-minute signing of a new trade agreement with Mexico and Canada; the ongoing trade spats between the US and China; and a deterioration of the relationship with Iran. Economic activity nevertheless remained positive, which prompted the US Federal Reserve to upgrade its growth forecasts and raise interest rates as expected. In Europe, the focus remained on Italy and on the ongoing Brexit negotiations, where little progress was achieved. Risk sentiment was hit towards the end of the quarter as the Italian government announcement that it would maintain a deficit target at 2.4%, well above market expectations. European bonds posted mixed returns, with corporate bonds outperforming core government bonds. Elsewhere, the Bank of Japan introduced greater flexibility to its bond buying programme, allowing the ten-year Japanese government bond yields to trade in a wider range. The central bank also introduced explicit forward guidance in its monetary policy statement. In credit markets, credit spreads tightened and the US outperformed other regions, supported by strong economic data. The uptick in US consumer sentiment in September was largely driven by an improvement in consumers' confidence in the near-term economic outlook.

## Fund Performance

The fund performed in line with the index over the quarter.

## Interest rate strategy contributed to performance

An underweight stance in Canadian dollar duration (measure of sensitivity to changes in interest rates) enhanced gains as the yield curve hedged higher. However, the overweight stance in US dollar duration weighed on returns. Of note, the overweight exposure to long-dated (30 years) US Treasuries detracted from returns as the yield curve rose. An overweight position in euro duration also hurt returns.

## Credit strategy hampered returns

The fund's underweight stance in credits, especially US credit, weighed on relative performance as credit spreads tightened, mirroring the strength in equity markets. At the sector level, the underweight positions in banks and telecommunications were the key detractors from returns. Not holding Verizon Communications and Goldman Sachs reduced relative performance. Meanwhile, the overweight position in euro credit, contributed to returns as volatility decreased. The exposure to high yield bonds also added value as strong economic data remained supportive of high yield earnings.

## Fund Positioning

Tightening monetary policies across geographies, ongoing trade-war rhetoric and turmoil in the emerging markets remain a cause for concern. We believe that the frequency of risk events has increased. On the back of this, we maintain our cautious approach to security selection. In Europe, political turmoil in Italy served as a reminder that rising populism is still a major threat to confidence and financial stability, despite a still accommodative European Central Bank.

## Marginally reduced long credit beta position

We marginally reduced our long credit beta (a measure of the fund's sensitivity to changes in credit spreads) on a DTS (Duration-Times-Spread) basis, mainly through a reduction in BB cross-over credits. We also trimmed our overweight stance in euro credits. However, the exposure to emerging market bonds was increased, though these bonds have been volatile over the year-to-date period, as we continue to look for pockets of value in the investment grade bonds. At the sector level, we maintain our focus on the regulated sectors such as banks and utilities. An overweight stance in quasi and basic industry was also retained. Meanwhile the fund is underweight banks, telecommunications and consumers. Elsewhere, we added some government bonds over the quarter.

## Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall. The investment policy of this fund means it can be more than 35% invested in Government and public securities. These can be issued or guaranteed by other countries and Governments. For a full list please refer to the fund's prospectus.

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