

Portfolio manager: Eric Wong, Bryan Collins

Performance for 12 month periods in USD (%)

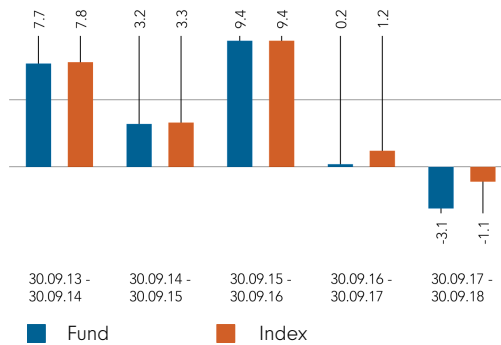
Performance over quarter in USD (%)

Fund	0.6
Market index	0.8

The BofA Merrill Lynch Asia Dollar Investment Grade 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

US dollar denominated Asian investment grade bonds posted positive returns over the quarter, driven by yield contribution and tighter credit spreads. This was partially offset by the duration position on the back of a rise in ten-year US Treasury yields. As widely expected, the US Federal Reserve (Fed) raised its target rate in September and retained a slight tightening bias for the next year, pushing yields across the US Treasury curve higher. Investor sentiment was mixed, as liquidity in onshore China improved, while negative headlines around Turkey and Argentina led to fears of contagion in other emerging market/Asian countries. At a country level, economic data releases in China were lacklustre. Retail sales and imports were above estimates, while bank lending, fixed asset investment and exports fell below estimates in August. Chinese authorities announced a number of initiatives to counter the negative impact of trade tensions. These included proposals to lower import tariffs on a wide range of products, guidelines to boost consumer spending and an acceleration in investments in toll roads and bridges. The Indian government raised import tariffs on certain goods to support the Indian rupee, and announced measures to ease borrowing norms for the manufacturing sector. It reiterated its commitment to fiscal discipline by sticking to its fiscal deficit target of 3.3% of GDP. The Central bank of Indonesia raised interest rates for the fifth time since May to protect the rupiah from a sell-off in emerging markets. In the Philippines, inflation surged to the highest level in nine years in August, led by an increase in prices of food and non-alcoholic beverages. Against this backdrop, the central bank raised interest rates in August to control rising inflationary pressures and support the Philippine peso.

Fund Performance

The fund generated positive absolute returns but underperformed the index on a net basis. The overweight position in US dollar duration detracted from performance, while coupon income and credit selection contributed to returns.

Credit selection added value

At a sector level, the allocation to bank and brokers and the insurance sector supported returns. Conversely, the underweight to quasi-sovereign bonds weighed on performance. Looking at individual credits, holdings in Heungkuk Life Insurance and Westpac Banking contributed the most to performance. Korean insurer Heungkuk Life was under pressure due to weak sentiment around its and other perpetual bonds. However, these bonds were well supported given the recent improvement in sentiment and muted supply from similar issuers. We remain comfortable with the issuer due to its high quality and solid fundamentals. Westpac Banking's financial results for the first half of 2018 remained strong, as its net profit was supported by broad-based growth across operating divisions. Conversely, the underweight positions in Indonesian and Philippine government bonds weighed on performance. These bonds benefited from their respective central banks' moves to stabilize their economies. Emerging market outflows also reversed towards the end of the quarter as attractive valuations presented buying opportunities for investors.

Allocation to BBB rated bonds contributed to performance

Across the rating spectrum, the exposure to BBB and BB and below rated bonds supported returns. However, holdings in A rated bonds held back gains

Fund Positioning

Looking ahead, Asian investment grade bonds should remain supported by stable fundamentals and a continued favourable technical backdrop. The continued development of trade tensions will continue to drive the direction of US Treasury yields to some extent. Geopolitical uncertainties and country specific events in emerging markets will continue to be a source of market volatility and should fuel the technical demand for higher quality assets such as Asian IG bonds. Additionally, amid the current climate, policymakers in China are likely to find it more difficult to continue deleveraging and impose other tightening measures. We could see this 'step backward' on the fixed income side through reduced tightening or even short-term monetary or fiscal easing - both of which would be positive for bond prices.

Under a rising interest rate environment and surging US Treasury yields, we retain a cautiously optimistic view on US policy rate normalization, from a long-term perspective. Over the last 20-years we have seen two policy hiking cycles (excluding the current one), and in each case, the Asian Investment Grade asset class has delivered over 5% total returns per year on average.

Interest rate and credit risk positioning

The fund has an overweight duration position. We also have an overweight credit beta (duration times spread) position versus the index, as the recent volatility introduced some attractive opportunities in the asset class. We also retain a cash buffer for potential new issuance and liquidity purposes.

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. This fund invests in emerging markets which can be more volatile than other more developed markets. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell. 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.

ASIAN BOND FUND A-ACC-USD

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