

GLOBAL STRATEGIC BOND FUND A-ACC-EURO (HEDGED)

30 SEPTEMBER 2018

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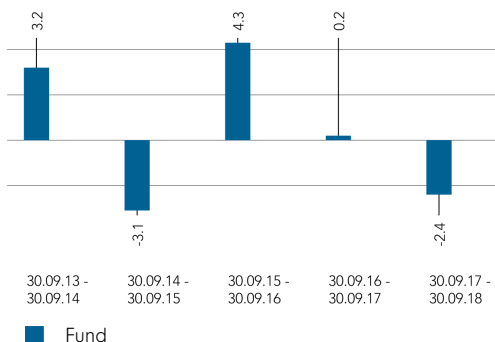
Performance for 12 month periods in EUR (%)

Performance over quarter in EUR (%)

Fund	-0.2
Market index	-

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in EUR, 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 posted small negative returns over the quarter.

Interest rate strategy hampered performance

The fund's duration (sensitivity to changes in interest rates) exposure had a negative impact on performance. In particular, the US dollar duration position weighed on returns as core government bond yields edged higher. The exposure to euro and sterling duration also held back gains. The real duration exposure to the US dollar hampered performance as yields on inflation-linked US Treasuries rose in line with their nominal counterparts.

Credit exposure aided returns

The allocation to corporate bonds supported performance as credit spreads tightened across investment grade and high yield corporate bonds. The allocation to a mix of sectors such as financials, consumer-non-cyclicals, telecommunications and energy added value. The holding in Wind Tre in the telecommunications sector was the top contributor to performance. The position in energy sector giant Star Energy also supported returns amid rising oil prices. These gains were partially offset by the exposure to index credit default swaps (used to reduce credit risk in the portfolio), which held back gains.

Fund Positioning

We have a structurally positive medium-to-long-term view on US inflation, where we see a tight labour market and upside risks from tariffs. In the short term, however, negative momentum and outflows temper this view. The Consumer Price Index in the UK is expected to fall in the near term, as the effect of currency depreciation and the unexpected increase in inflation in September fades. However, we will keep a close watch on any Brexit related sterling weakness, which would push UK inflation higher. On rates, the spread between US short and long-term interest rates has continued to shrink, which is usually a signal that economic growth is peaking. The risks are more balanced, but global rates are likely to rise. On balance, we are maintaining a cautious stance towards credit.

Interest rate strategy

The fund's duration exposure was increased over the quarter, mainly through sterling interest rate risk as UK government bonds (Gilts) underperformed. Meanwhile, we reduced our interest rate risk in the US dollar as US Treasury yields are expected to edge higher. The real duration position was also reduced, mainly via sterling real duration exposure. We maintain a small position in US Treasury inflation-linked bonds.

Credit strategy

We looked to improve the fund's liquidity through increased allocation to investment grade bonds. We also took advantage of the recent spread widening in euro investment grade credits to raise our exposure to the asset class. At the sector level, we increased the allocation to banks. However, we reduced credit risk on a selective basis by lowering positions in the telecommunications sector.

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