FIDELITY FUNDS

# CHINA RMB BOND FUND A-ACC-RMB

QUARTERLY PERFORMANCE REVIEW

30 SEPTEMBER 2018

Portfolio manager: Bryan Collins

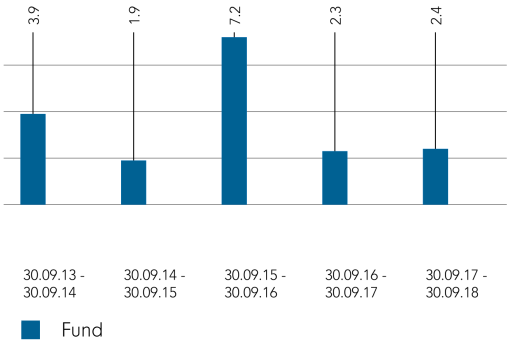
## Performance over quarter in CNY (%)

| | |
|---|---|
| Fund | 0.7 |
| Market index | - |

Market index is for comparative purposes only.

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

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




## Market Environment

Chinese renminbi denominated offshore (Dim Sum) bonds generated positive returns over the quarter, despite volatility in the US dollar and onshore bond markets. Credit spreads on investment grade Dim Sum bonds tightened, while those on the broader Dim Sum market widened slightly. 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. On the macroeconomic front, China's second quarter GDP growth slowed compared to the previous quarter, due to the impact of a crackdown on debt risks, and a sharp fall in factory output growth in June. 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. It also announced tax cuts for individuals and corporates, as policymakers aim to support economic growth amid ongoing trade tensions. In addition, the central bank adjusted its methodology to calculate the Chinese yuan's daily reference rate as part of its efforts to stabilise the currency.

## Fund Performance

The fund generated positive returns during the quarter. Stable coupon income added value, while widening of the credit spread and term structure weighed on performance.

**Allocation to property sector boosted returns**
At a sector level, the exposure to the quasi-sovereign and property sectors added value. Property sector names such as Sino Ocean and Well Hope Development contributed the most to returns. Chinese property issuers outperformed the market in August, driven by solid sales growth. Positions in some high-quality Chinese government bonds and government related Chinese onshore bonds, such as State Grid Corporation of China and PetroChina boosted performance. These bonds benefited from easing monetary conditions in the country. Conversely, holdings in offshore bonds of IL&FS Transportation Networks and Li and Fung detracted the most from returns. Recently, IL&FS came under pressure as Indian onshore rating agencies downgraded the issuer. Li and Fung, which supplies clothing and other products to retailers worldwide, reported a significant fall in first-half profits, hit by changing trends in retail. Across the rating spectrum, holdings in BBB and A rated bonds supported performance, while the allocation to unrated bonds weighed on returns.

**Term structure detracted from returns**
The fund's term structure though US dollar denominated bonds hampered performance as US Treasury yields rose on the back of strong US economic data. However, losses were partially offset by renminbi denominated bonds as the short end of the yield curve fell on the back of increased liquidity.

## Fund Positioning

Contrary to some scepticism earlier, China has demonstrated its ability to maintain its growth momentum while pushing through structural changes. The government has recently eased its deleveraging stance amid market weakness, and liquidity conditions for some Chinese issuers could improve in the second half of 2018. Investors expect an economic recovery to be led by China's private sector businesses, which have moved up the value chain. These companies have improved their balance sheets and are now investing once again. Helped by domestic demand and continued global recovery, manufacturing investment is expected to grow. Regarding potential headwinds, prospects of a trade war between the US and China could continue to drive risk sentiment. Our base case remains that the US and China will eventually resolve their differences, though the process could take longer than expected.

**Prefer high quality issuers**
The fund continues to focus on credit quality and liquidity through fundamental analysis and careful credit selection. We remain committed to delivering a diversified portfolio with an attractive income and low credit risk and volatility. A majority of the fund is invested in Dim Sum bonds, which continue to offer compelling risk-adjusted returns given their yield levels, relative quality and short duration. The portfolio also has exposure to longer dated onshore bonds, in light of their attractive valuations and low correlation to developed market bonds. Additionally, selected high-conviction China and China-related US dollar denominated bonds are held for their attractive valuations.

## 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. 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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