

GLOBAL HIGH YIELD FUND A-ACC-USD

30 SEPTEMBER 2018

Portfolio manager: Peter Khan, Kristian Atkinson

Performance for 12 month periods in USD (%)

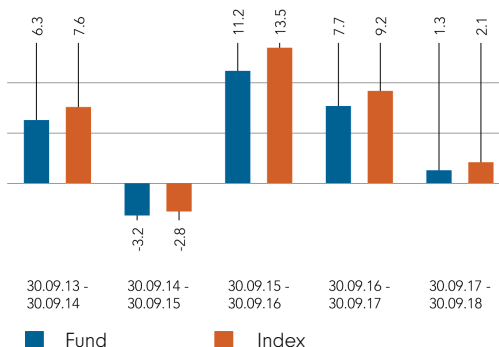
Performance over quarter in USD (%)

Fund	1.7
Market index	2.3

ICE BofAML Global High Yield Constrained Index Hedged to USD

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 also 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 by 0.25 percentage points, 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 positive absolute returns but underperformed the index over the quarter.

Defensive bias hampered returns

The high conviction exposure to BBB rated credits at the expense of BB and below rated credits detracted from performance as higher yielding bonds gained amid improving investor risk sentiment. An underweight position in double-B rated credits was the top detractor from returns. This was partially offset by the slight bias towards triple-C and below rated credits.

Overweight in capital goods added value

Credit spreads tightened amid the broad-based recovery in the global economy, as a result of which the exposure to the capital goods sector supported performance. For instance, the holding in CSVC Acquisition Corp, which specialises in engineering and complex facility maintenance, was the top contributor to returns. However, these gains were more than offset by the fund's hedging strategy through index credit default swaps.

Fund Positioning

Towards the end of the quarter, the Italian budget failed to meet market expectations. The government's focus on spending rather than productivity enhancing measures is expected to weigh on Italy's long-term debt sustainability, given its reliance on very optimistic growth projections. In light of this, we expect the Italian high yield complex to be volatile over the coming months. Furthermore, the US-led trade war will remain a dominant theme in the market, but robust US economic data should support high yield earnings. Elsewhere, the currency crisis in emerging economies, including Turkey and Argentina, and an uncertain outcome of Brexit negotiations are also weighing on investors' risk appetite.

Increased exposure towards US high yield

New positions were purchased in US high yield credits, resulting in an overweight stance in the asset class. Despite tighter liquidity conditions in the US, valuations look attractive. Credit selection is critical, however, as high beta credits are significantly correlated to the economic and earnings cycle. The exposure to US high yield bonds was increased through names such as HCA, Cheniere Energy Partners, DaVita etc.

Adequate cash balance for opportunities in primary market

The fund had a high cash balance of close to 13% at the end of September in order to provide liquidity for investment opportunities in the primary market as well as to reduce the portfolio's credit beta (a measure of its sensitivity to credit spreads). At this point in the cycle, a cautious stance is warranted and credit selection is critical to drive returns.

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.



Fidelity
INTERNATIONAL

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