

GLOBAL INCOME FUND A-ACC-EURO (HEDGED)

30 SEPTEMBER 2018

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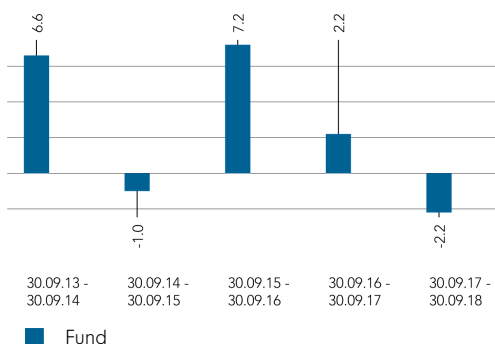
Performance for 12 month periods in EUR (%)

Performance over quarter in EUR (%)

Fund	0.5
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 (BOJ) 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 returns over the quarter.

Credit allocation supported performance

The exposure to corporate bonds aided returns as credit spreads tightened. The allocation to a mix of sectors such as financials, consumer-non-cyclicals, energy and utilities added value. The holding in Caixa Geral de Depósitos in the banking sector was the top contributor to performance owing to the sector's higher beta. The position in energy sector giant Andeavor Logistics 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.

Emerging market bonds had a neutral impact on returns

Hard currency bonds outperformed local currency bonds. Spreads tightened over the quarter, supported by technical factors and proactive interest rate hikes from several emerging market central banks. However, the rebound did not last long and the asset class came back under pressure in August, on country-specific stories particularly in Turkey and Argentina.

Interest rate strategy held back gains

The exposure to US dollar duration (measure of sensitivity to changes in interest rates) weighed on returns as US Treasury yields edged higher. However, the fund's short Canadian dollar duration via interest rate futures added some value.

Fund Positioning

The US-led trade war will remain a dominant theme in the market, but robust US economic data should support high yield earnings. The spread between short and long-term interest rates has continued to shrink, which is usually a signal that economic growth is peaking. Elsewhere, the currency crisis in emerging economies, including Turkey and Argentina; and an uncertain outcome of Brexit negotiations are likely to slow down the pace of economic expansion in the eurozone. The risks are more balanced, but global rates are likely to rise. On balance, we are maintaining a cautious stance towards credit.

Sector strategy

We looked to improve the fund's liquidity through increased allocation to government bonds while reducing holdings in high yield bonds, which remain vulnerable in this environment. We also took advantage of the recent spread widening in investment grade credits to increase our exposure to the asset class. We tactically added Italian credit amid the recent volatility in Italy. At the sector level, we reduced the position in basic industry and consumer cyclicals, while adding to financials. We bought holdings in Commerzbank and ING Group.

Duration strategy

The portfolio's headline duration was reduced marginally over the quarter, mainly through US dollar and euro interest rate risk as core government bond yields are expected to edge higher, led by US Treasuries. Overall, the fund's duration remains skewed towards the US dollar interest rate risk.

Inflation strategy

We are tactical and look for better opportunities to reload our real duration positions. We added exposure to US Treasury inflation-linked bonds, thus increasing the fund's real duration position.

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Past performance is not a reliable indicator of future results. Currency hedging is used to substantially reduce the effect of currency exchange rate fluctuations on undesired currency exposures. There can be no assurance that the currency hedging employed will be successful. Hedging also has the effect of limiting the potential for currency gains to be made.

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.



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