EMERGING MARKET TOTAL RETURN DEBT FUND A-ACC-USD

30 SEPTEMBER 2018

Portfolio manager: Steve Ellis, Eric Wong

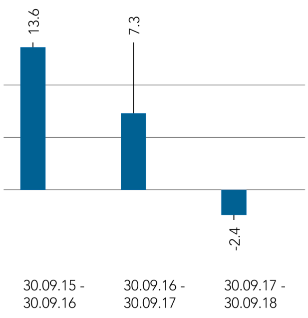
Performance over quarter in USD (%)

Fund	-0.8
Market 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.

Performance for 12 month periods in USD (%)



Market Environment

Emerging market bonds posted mixed returns over the quarter, with local currency bonds underperforming hard currency bonds. Most emerging market currencies lost ground against the US dollar and emerging market spreads tightened over the period. After posting poor performance in the second quarter, emerging market debt had staged a recovery at the start of the quarter. The market was 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 led by Turkey and Argentina. Both countries have hefty current account deficits, high inflation, loose fiscal policy, low foreign currency reserves and large external financing requirements. Markets recovered again towards the end of the quarter. Within hard currency sovereign debt, Ecuador was one of the key outperformers as its turn towards more market friendly economic policies buoyed investor sentiment. However, Zambia was the biggest laggard. Moody's downgraded Zambia to Caa1 from B3 over ongoing fiscal consolidation challenges, pointing to an increasing government debt burden. Within emerging market currencies, the Mexican peso strengthened the most against the US dollar following Andres Manuel Lopez Obrador's election victory. The peso was further supported by higher crude oil prices and optimism about the ongoing negotiations between the US and Canada regarding the North American Free Trade Association (NAFTA). Conversely, the Turkish lira and Argentine peso weakened the most against the US dollar. Elsewhere, emerging market Purchasing Managers' Index (PMI) decelerated in September and dropped faster than developed market PMI. Oil prices rose amid looming concerns around sanctions against Iran.

Fund Performance

The fund posted negative returns over the period, weighed down by its duration and currency positioning.

US dollar duration position hampered performance
The fund's US dollar duration detracted from returns. US Treasury yields rose, supported by strong economic data releases, balance sheet reduction and persistent interest rate hikes from the US Fed.

Emerging market currencies weighed on returns
Within currency positioning, a long position in the Turkish lira hampered performance as it weakened against the strong US dollar. On a positive note, a long position in the Mexican peso contributed positively to returns. Tactical positioning in the Indian rupee also supported gains. Meanwhile, exposure to Chilean breakevens further added to returns as inflation rose. Inflation had been rising for the most part of the review period before moderating for the first time in five months in August. Conversely, exposure to Turkish local rates detracted from returns.

Credit selection contributed positively
The fund's exposure to Saudi Arabia's sovereign bonds contributed positively to returns. The fund recently added risk in high relative value rated countries from our sovereign analysts and low-beta, investment grade rated countries such as Saudi Arabia. The shrinking of royal succession risks and the upcoming inclusion into the JP Morgan EMBI indices supported bond returns. The fund's allocation to JBS, a Brazilian meat exporter, enhanced gains as weakness in the Brazilian real benefited export oriented Brazilian protein producers. However, gains were partially offset by allocation to selected Turkish banking names amid ongoing economic crisis in the country.

Fund Positioning

The fund's strategic allocation guides overall beta decisions, with tactical allocations driving alpha generation. The fund maintains a high degree of diversification across sovereign, corporate and currency positions, while retaining the flexibility to shift between sectors should opportunities arise from changing market conditions.

Credit beta positioning
We maintain a flexible approach to credit beta (a measure of the fund's sensitivity to credit spreads) positioning. Our annual strategic allocation rebalancing guides overall beta decisions. Tactically, we remain underweight in terms of duration times spread. We also continue to take advantage of selective positioning. Among hard currency sovereigns, the fund has long credit beta positions in United Arab Emirates, Saudi Arabia the Ivory Coast. Within corporate credit, we have long credit beta positions in Turkey, Brazil and Argentina.

Interest rate strategy
The fund currently has tactical underweight positions in EM nominal and real rates. Our key long local nominal duration bets are in Indonesia and Thailand. We also have long real duration positions in Chile, Russia and Colombia.

Emerging market currency risk
We remain cautious on emerging market currencies against the US dollar. The fund has long exposure to the Peruvian sol and Polish zloty, and short positions in the high beta currencies such as Israeli shekel, Indian rupee and Brazilian real along with Korean won and Taiwanese dollar, which are exposed to a potential slowdown in China.

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