GLOBAL HYBRIDS BOND FUND Y-ACC-EURO (HEDGED)

30 SEPTEMBER 2018

Portfolio manager: Kristian Atkinson, Andrei Gorodilov

Performance over quarter in EUR (%)

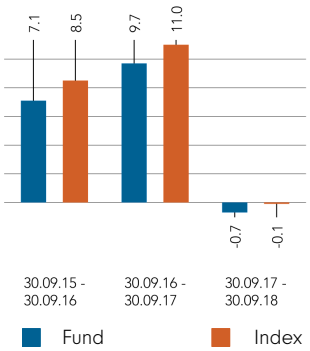
Fund	1.1
Market index	1.7

50% BofA Merrill Lynch Contingent Capital Index (COCO) Hedged to EUR; 50% BofA Merrill Lynch Global Hybrid Corporate Index (G0EC) Hedged to EUR

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.

Performance for 12 month periods in EUR (%)



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.

Underweight position in financials hampered returns
Financials posted a strong recovery following a turnaround in investors' risk sentiment. However, the bias against the sector held back relative gains. For instance, the underweight positions in Deutsche Bank and HSBC Holdings hampered relative performance. Moreover, contingent convertible bonds (CoCo) outperformed corporate hybrids over the quarter. Against this backdrop, the underweight stance in CoCos detracted from relative returns. For instance, the bias against Intesa Sanpaolo's CoCo bonds were among the top detractors from performance.

Credit selection in corporate hybrids added value
An overweight position in sectors such as property and telecommunications enhanced gains. From an issuer standpoint, the bias towards high beta issuers such as Telefonica and Koninklijke KPN were the top contributors to returns.

Fund Positioning

Tightening monetary policies across geographies, ongoing trade-war rhetoric and turmoil in emerging markets remain a cause for concern. Against this backdrop, we maintained our short duration position and moved from a long credit beta position to a neutral stance at the end of the quarter. The fund remains underweight in additional tier 1 bonds and insurance corporate hybrids, with a preference for bank debt that sits higher in the capital structure and corporate hybrids.

Remain cautious on additional tier-1 bonds
We maintained our long standing underweight stance in additional tier-1 (AT1)/ CoCo bonds given the inherent volatility in the asset class. Central banks in the Group of Four (G4) countries have started to contract their balance sheets, leaving leveraged capital structures exposed. Volatility is expected to remain high across geographies, in light of Italian budget concerns, Brexit woes and the political and financial crisis in Turkey. Against this backdrop, we seek opportunities in high quality credits that offer relative value.

Actively managed corporate hybrid portfolio
We bought a position in Bayer due to strong fundamentals and attractive valuations. Instead, the holding in French government-owned utility EDF was sold. Cash levels in the fund range between 5% and 10%, to provide a buffer for outflows, reduce credit beta and allow us to participate in new issues.

Important Information

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. 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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