For Investment Professionals Only

FIDELITY FUNDS

QUARTERLY PERFORMANCE REVIEW

CHINA HIGH YIELD FUND A-ACC-USD

30 SEPTEMBER 2018

Portfolio manager: Bryan Collins

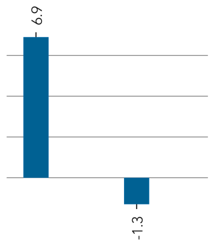
Performance over quarter in USD (%)

Fund	1.8
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

US dollar denominated Chinese high yield bonds posted positive returns during the quarter as credit spreads tightened significantly. Credit spreads widened at the start of July, as concerns around tight liquidity in the onshore Chinese financial system raised fears around the possibility of increased defaults. Sentiment was further impacted by the unexpected weakness of the renminbi. However, towards the second half of July, markets witnessed a sharp and rapid turnaround and credit spreads tightened due to several new considerations. Most importantly, investors responded favourably to various monetary policy measures implemented by Chinese authorities to ease financial conditions. Technical factors, such as low new supply during the last weeks of July, also supported the market. Returns in August was largely flat, as negative headlines in emerging markets offset looser monetary conditions in onshore China as well as solid first half results from Chinese property issuers. 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.

Fund Performance

The fund posted positive returns over the quarter, primarily due to higher coupon income. Wider credit spreads and US dollar duration were the main detractors from performance.

Property sector contributed to performance
Positions in China Evergrande, Road King Infrastructure, Redco Properties and Agile Group boosted returns. These bonds were supported by the positive sentiment around the sector, owing to strong first half results from most Chinese developers. Elsewhere, the allocation to Baoxin Auto Finance (a subsidiary of Grand Baoxin Auto Group) added value. Evergrande agreed to invest about US$ 2.11 billion in Xinjiang Guanghui. Grand Baoxin, in which Xinjiang Guanghui indirectly holds a stake, benefited from the news. Conversely, holdings in Envision Energy and IL and FS Transportation Network weighed on returns. Envision suffered due to concerns over the US-China trade war. IL and FS' bonds came under pressure as Indian onshore rating agencies downgraded the issuer. Its issuers got defaulted on a number of payment obligations.

Term structure detracted from returns
US dollar duration detracted from performance due to the rise in US Treasury yields. As widely expected, the US Federal Reserve (Fed) raised interest rates in September and retained a slight tightening bias for the next year, pushing yields across the US Treasury curve higher.

Fund Positioning

Looking at the second half of 2018, the manager remains cautiously positive on China's high yield market. Sentiment has improved since mid-July in light of the policy response by Chinese authorities, which aims to strike a finer balance between deleveraging and maintaining growth. Over the year to date period, there were indications of higher US inflation and interest rates. A strong US dollar also put pressure on certain emerging market countries such as Turkey and Argentina. However, China is generally in a better position compared to the rest of the emerging market, given strong foreign exchange reserves and proactive policies to counter the strong US dollar. Valuations, even after the rebound in July, are still attractive compared to developed markets.

Focus on 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 attractive income. The portfolio's US dollar duration exposure is 2.7 years. In addition to its cash holding, the fund has 10–15% market weight in short dated (<1year)/near-term callable bonds to ensure a robust liquidity profile and maintain high natural income. This also keeps the fund's overall volatility relatively low.

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.

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