

## SMART GLOBAL DEFENSIVE FUND A-ACC-USD

30 SEPTEMBER 2018

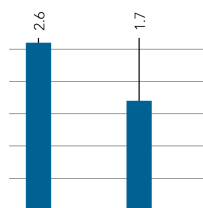
Portfolio manager: Eugene Philalithis

Performance for 12 month periods in USD (%)

## 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.

30.09.16 - 30.09.17      30.09.17 - 30.09.18

■ Fund

## Market Environment

Global equities generated positive returns over the quarter, supported by encouraging corporate earnings and easing trade tensions between the US and Europe. However, continued US-China trade tensions and concerns around emerging markets led to elevated volatility. On the monetary policy front, the US Federal Reserve (Fed) continued to raise interest rates. The Bank of England increased its key interest rate for the second time in a decade, while risks of a hard Brexit rose. The Bank of Japan also adjusted its monetary policy to make it more flexible. Against this backdrop, the US, Japan and Europe ex UK were among the best performers, while UK equities fell. Emerging markets lagged developed markets as the strong US dollar, trade frictions, and economic crises in Turkey and Argentina weighed on investor sentiment. Global bonds posted mixed returns, with corporate bonds outperforming government bonds. US economic data was positive, which prompted the Fed to upgrade its growth forecasts and raise interest rates. In Europe, the focus remained on Italy and on the ongoing Brexit negotiations, where little progress was achieved. Risk sentiment was impacted towards the end of the quarter as the Italian government announced that it would maintain its deficit target at 2.4%, well above market expectations. As a result, European bonds posted mixed returns, with corporate bonds outperforming core government bonds. In credit markets, credit spreads tightened and the US outperformed other regions. Returns in US dollar terms were undermined by its appreciation against the yen, sterling and the euro.

## Fund Performance

The fund generated positive returns over the quarter, supported by both its beta and alpha portfolios.

## Beta portfolio enhanced returns

Yield assets significantly supported performance, largely due to the exposure to dividend paying equities and global high yield debt. Growth assets also enhanced gains. The exposure to US and Japanese equities added value, supported by upbeat corporate earnings. However, this was partially offset by the allocation to UK equities, which dampened returns as uncertainty related to Brexit negotiations weighed on investor sentiment. Meanwhile, Defensive assets generated negative returns. Global inflation-linked government bonds were the key detractors from performance amid a rise in crude oil prices and government bond yields over the quarter.

## Alpha portfolio contributed to performance

Portable alpha holdings proved rewarding to returns, due to the exposure to the FF-First All Country World strategy as well as new equity holdings that were purchased during the quarter. The exposure to Alternatives, a selection of infrastructure, loans and real estate holdings, added significant value. Meanwhile, thematic and opportunistic trades and risk premia strategies delivered negative returns. Within thematic and opportunistic trades, the long position in gold was negatively impacted by a strong US dollar. A long Indonesian rupiah versus short Chilean peso and South Korean won, as well as a US Treasury yield curve steepening trade also held back performance.

## Fund Positioning

The fund targets a specific volatility range and is expected to deliver capital growth over a market cycle. The fund is structured in two parts, the Beta portfolio (broad market exposure with systematic asset allocation) and Alpha portfolio (discretionary investment ideas designed to add value independent of market direction).

## Beta portfolio allocations changed

Asset allocation of the Beta portfolio is determined by a proprietary volatility management model that aims to maintain the portfolio's volatility within a target range. Overall, realised volatility has stabilised, as a result of which there were no significant changes to the allocation to Defensive vs Yield and Growth assets.

## Changed Alpha portfolio holdings

We added new holdings in the portable alpha space, increasing the diversification of the portfolio in terms of risk and style. We retain the same overall gross exposure, with an allocation to the existing First All Country World strategy, complemented by three new Fidelity strategies, Fidelity World, Fidelity Global Demographics and Fidelity Global Dividend. The beta of these strategies is hedged using the appropriate mix of regional index futures. The short position in Japanese government bonds was sold as yields rose after the Bank of Japan announced a change in its yield target range for 10-year bonds. From a regional perspective, the short position in emerging market equities was sold following the significant sell off in the region. Instead, a short position in Spanish equities was added to reflect the negative stance on European equities.

## 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. 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.



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