Absolute Return Global Fixed Income Fund Y-ACC-USD

31.03.2023 Quarterly Performance Review

For Investment Professionals Only

Marketing Communication

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Performance over quarter in USD (%)

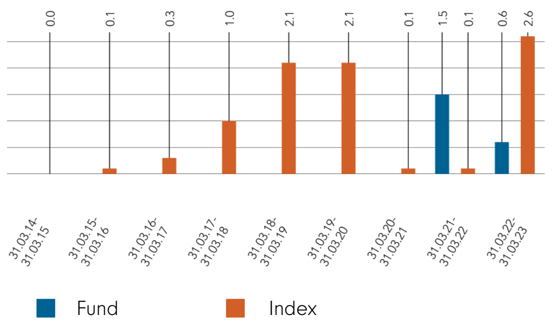
Fund	1.7
Market index	1.1

ICE BofA 0-3 Month US Treasury Bill 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

Fixed income markets registered broad-based gains during the quarter. The period started on a positive note, as investors were hopeful that monetary policy tightening may be coming to an end. China's economic re-opening and a fall in natural gas prices in Europe led to expectations of an improvement in global growth. However, sentiment turned negative in February, as strong economic data from the US and higher than expected inflation pointed to the likelihood of future rate hikes. The US Federal Reserve (Fed) said that it is prepared to increase the pace of rate hikes in light of persistent inflation, thus bringing the possibility of a 0.50 percentage point hike back on the table. However, markets witnessed substantial volatility in March after the collapse of Silicon Valley Bank (SVB), which led to fears over broader contagion across the banking system. Credit Suisse also dominated headlines as it came under investor scrutiny and was finally acquired by UBS with guarantees from the Swiss government. The significant market turmoil in March saw investors recalibrating future rate hikes, thus leading to the strong performance of global government bonds. For instance, the two-year US Treasury yield fell at the fastest pace since 1987. Credit spreads also tightened amid a positive risk sentiment, particularly at the start of the period. On the Purchasing Managers' Index (PMI) front, the US' composite PMI jumped to 53.3 in March (according to preliminary data), recording the fastest growth since May 2022. Data appeared encouraging across regions, with emerging markets such as India, Indonesia and Thailand emerging as bright spots. China's PMI moved into expansionary territory in January for the first time in months, as production and business activity geared up on the back of reopening measures. In March, the eurozone's flash composite PMI reached a 10-month high of 54.1, driven by services demand, even as factory output remained weak.

Fund Performance

The fund posted positive net returns of 1.7% over the quarter.

Long/short credit positioning contributed to returns
Fund's discretionary model was the primary contributor to returns. Within discretionary, all the three long/short credit portfolios added value over the period. Credit spreads remained largely resilient in January and February amid positive risk sentiment, but widened significantly across the board in March following the banking crisis, which led to fears over a broader contagion across the banking system. Subsequently, our long bias to European investment grade financial names such as Deutsche Bank and Credit Agricole weighed on returns. However, losses were offset by short positions through index credit default swaps.

Interest rate strategy contributed to returns
The interest rate risk strategy through US-dollar and euro duration position added value as sovereign yield curves on US Treasuries and German bunds flattened over the period. Investors repriced terminal interest rate expectations lower, weighing the possibility of an earlier economic slowdown following the collapse of SVB in the US and the subsequent failure of Credit Suisse in Europe. We added US Treasury 5s30s steepener position late in February which enhanced returns.

Fund Positioning

The impact of COVID-19 and the war in Ukraine continue to reverberate across markets, with fissures appearing in the global banking system in light of the fastest series of interest rate hikes in history. Central banks are facing an increasingly difficult trade-off between financial stability and controlling inflation that is still high. In the near term, we expect key central banks to continue to tighten policy rates until labour markets have cooled enough to bring inflation in line with their target. However, keeping interest rates high for a longer period will increase the pressure on financial systems in the form of higher borrowing costs for corporates and tighter financial conditions, thereby increasing the risks of a recession across developed markets.

Focus on portfolio rotation
In this environment, we remain cautious on credit and are focussing on portfolio rotation rather than on adding too much exposure. Over the quarter, we used the market volatility to book profits in our tactical short positions across IG and HY discretionary portfolios and selectively added long positions in US-dollar credit portfolio amid attractive valuations. Meanwhile, we lean towards reducing directional risks by hedging the portfolio using At-the-money credit derivatives.

Interest rate strategy
On the rates front, we moved from a neutral to a slightly longer stance in DM rates. In the US, we moved 2s10s steepener to 5s10s position given the latter's' better carry and rolldown profile. Meanwhile, we shaved off some sterling financials and added sterling duration using UK government bond (Gilt) futures.

Important Information

ESG Metrics

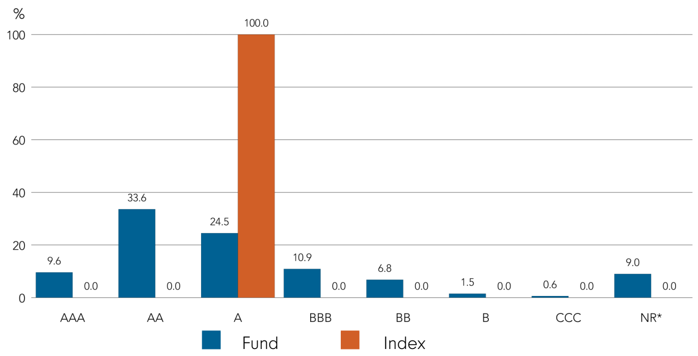
The factsheet is a snapshot of the portfolio at the date indicated above. ESG ratings distribution may vary over time. Representation of this data is for informational purposes only. If the SFDR classification is shown as 6 below then this fund does not promote environmental or social characteristics nor does it have a sustainable investment objective. If it is shown as 8, the fund promotes environmental or social characteristics. If it is shown as 9, the fund has a sustainable investment objective. Product-specific information can be found on our website at www.fidelityinternational.com

Sustainability Characteristics (31.03.2023)

	Fund	Index
MSCI ESG Fund Rating (AAA-CCC)	N/R	N/R
Weighted Average Carbon Intensity (tCo2e/$M Revenue)	183	
SFDR Classification	6	N/A

N/A - Not Applicable
N/R - Not Rated

MSCI Ratings Distribution % (31.03.2023)



Glossary

MSCI ESG Fund Rating: This shows the fund's ESG rating based on the Quality Scores given to the fund by MSCI. This ranges from AAA, AA (Leader), A, BBB, BB (Average) to B, CCC (Laggard). To be included in MSCI ESG Fund Ratings, 65% of the fund's gross weight must come from covered securities (and excluding cash), the fund's holdings date must be less than one year old and the fund must have at least ten securities.
Weighted Average Carbon Intensity: is calculated as the sum of each portfolio weight multiplied by the Co2e per $M of Revenue of each holding. This metric provides a snapshot of the fund's exposure to carbon-intensive companies and includes scope 1 and scope 2 carbon emissions. For carbon data, the coverage of underlying securities must be over 50% for data to be shown.
SFDR Classification: Shows the classification given to each fund as part of the EU Sustainable Finance Disclosure Regulation (SFDR). Article 9 funds aim to achieve an ESG outcome and are products with ESG objectives. Article 8 funds focus on promoting ESG characteristics and this must be a primary focus of the product. Article 6 funds integrate sustainability risks into investment analysis and decision-making, without the funds promoting environmental or social characteristics or having sustainable investments as their objective.
MSCI Ratings Distribution: This shows the percentage distribution of ESG ratings in the fund, based on the Net Asset Value of holdings excluding cash, liquidity funds, derivatives and Exchange Traded Funds.

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