# Sustainable USD EM Bond UCITS ETF Income Shares

31.12.2023 Quarterly Performance Review



## Portfolio manager: Lucette Yvernault, Ilia Chelomianski

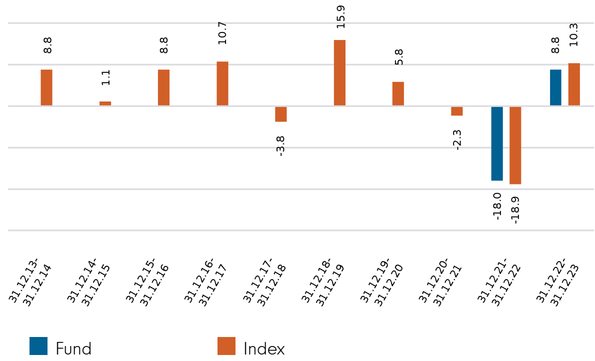
## Performance over quarter in USD (%)

| | |
|---|---|
| **Fund** | 8.3 |
| **Market index** | 9.0 |

J.P. Morgan ESG (JESG) EMBI Global Diversified Index
Market index is for comparative purposes only.

Source of fund performance is Fidelity. 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 positive returns over the quarter, with all three sub-asset classes posting gains. Hard currency bond performance was supported by tighter credit spreads, with high yield bonds outperforming investment grade bonds. Investor optimism stemmed from expectations that the US Federal Reserve (Fed) had largely concluded interest rate hikes in light of cooling inflation, slowing economic growth and a stabilisation in commodity prices. The US Fed maintained its key interest rate at 5.5% which contributed to the positive sentiment and bonds rallied amid investors' anticipation of aggressive interest rates cuts next year. During the latest policy meeting, the Fed adopted an unexpectedly dovish tone and forecast 75 basis points in rate reductions for the coming year. Local currency bond returns were supported by positive currency moves as the US dollar weakened and yields slid due to easing inflationary pressures. Inflation has fallen significantly, allowing some EM central banks, particularly in Latin America, to cut interest rates which led to a decline in sovereign bond yields.

## Fund Performance

The Fidelity Sustainable USD EM Bond UCITS ETF delivered a positive performance of 8.25% (net of fees) but trailed the benchmark which delivered a return of 9.02% during the quarter. Both credit and term structure positioning led to detraction in relative returns. Investment in BBB securities contributed to the performance. At a security level, there were no major contributors and detractors.

## Fund Positioning

The portfolio is managed by the Fidelity Systematic Investing team and is constructed using a rigorous and repeatable investment process. The fund aims to deliver index-aware EM bond exposure by using our proprietary analysis to select and weight securities while capturing the characteristics of the index. It offers an enhanced sustainability profile with a combination of negative screens and a best-in-class approach. The portfolio management team continues to focus on fundamental, sustainability, and quantitative research for select countries and securities, with the ability to outperform their peers in the current environment of increased risk and volatility. Top Overweight names include Emirate of Abu Dhabi (UAE) and Republic of Philippines whereas Kingdom of Saudi Arabia and Republic of Turkey were the top underweight names.

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