FIDELITY FUNDS

GLOBAL BOND FUND A-USD

Portfolio manager: Rick Patel, David Simner

Performance over quarter in USD (%)

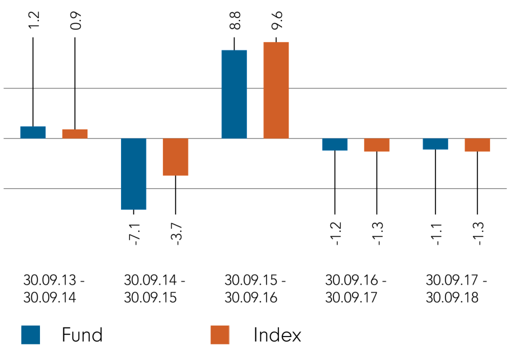
Fund	-0.8
Market index	-0.9

Bloomberg Barclays Global Aggregate Bond Index (Unhedged)

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

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 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 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 (BOJ) 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 outperformed the index over the quarter.

Credit strategy boosted returns
At the sector level, the overweight positions in financials, consumer non-cyclicals and telecommunications were the top contributors to performance as credit spreads tightened. The fund's small conviction exposure to high yield bonds also aided returns as strong economic data remained supportive of high yield earnings. At the issuer level, the holding in HCA added notable value after it announced its agreement to acquire Mission Health. However, unfavourable security selection in telecommunication giants such as Verizon Communications and AT&T weighed on returns.

Interest rate strategy was neutral
The underweight position in Japanese yen duration (a measure of sensitivity to changes in interest rates) supported relative performance as yields edged higher after the BoJ introduced greater flexibility to its bond-buying programme. The bias against euro duration also added relative value. However, this was offset by the long duration exposure to the US dollar. The small cross-market exposure to the Norwegian krone also weighed on returns amid rising government bond yields.

Fund Positioning

Trade wars are an ongoing theme and the macroeconomic backdrop remains uncertain. I expect the US economy to show signs of reduced momentum later in the year. Some demand witnessed recently, especially in the industrial sectors, is expected to reverse as it has been 'pulled-forward' ahead of President Donald Trump's implementation of trade tariffs. European markets are still at risk of volatility given the uncertainty regarding the Italian budget. I am closely watching the global markets: the Italian bond market, the Chinese US dollar denominated bond market and the direct lending and Collateralized Loan Obligation (CLO) markets in the US.

Interest rate strategy
The fund tactically managed its duration position over the quarter, moving from a short to a neutral duration position. Aside from a long duration position in the US dollar, we moved from a neutral duration stance to a long position in the Canadian dollar. The fund has maintained an underweight euro duration position given the uncertainty in Italy. We also retained an underweight stance in Japanese yen duration as yields continue to rise, driven by a healthy growth rate. The small exposure to inflation-linked bonds of Italy was maintained.

Credit strategy
We maintain a cautious stance in credit markets and are monitoring it closely for better opportunities. We struggle to find safe-havens within US investment grade corporate bonds. Our focus remains on high-conviction credits with solid fundamentals and BB rated bonds that are trading like investment grade bonds. At the sector level, we favour US and UK financials, as well as selected consumer non-cyclical and energy names.

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. 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.

Fidelity™ INTERNATIONAL

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30 SEPTEMBER 2018

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