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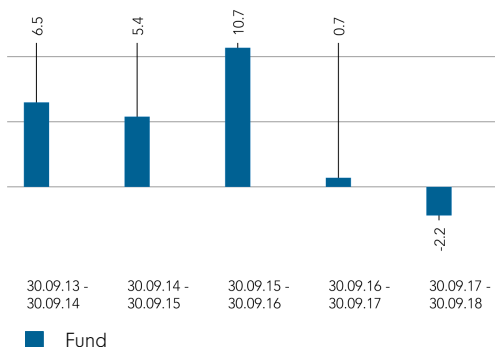
## Performance for 12 month periods in GBP (%)

## Performance over quarter in GBP (%)

|              |      |
|--------------|------|
| Fund         | -0.1 |
| Market index | -    |

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in GBP, net of fees. Other share classes may be available. Please refer to the prospectus for more details.



## 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 posted negative returns over the quarter and outperformed global government bonds but underperformed global credit.

## Interest rate strategy weighed on returns

The fund's interest rate risk exposure held back gains as most core government bond yields moved higher. The skew towards US dollar duration was the most significant detractor from performance. The exposure to sterling and euro interest rate risk also weighed on returns.

## Credit exposure enhanced gains

Credit spreads tightened as volatility eased and investors shrugged off macroeconomic tensions, including ongoing trade tensions, the prospect of tighter monetary policy and persistent emerging market pressures. Against this backdrop, the exposure to lower rated investment grade bonds and high yield bonds added value. The holdings in Wind, AT&T and Income Contingent Student Loans were the leading performers from an issuer perspective. However, conservative positioning at the security and sector level partially offset these gains. The allocation to index credit default swaps (used to reduce credit risk in the portfolio) also held back returns as credit spreads tightened.

## Fund Positioning

The monetary policy is getting tighter across the globe. The stronger US dollar and tighter offshore liquidity have already caused a mini credit crunch in emerging markets. There is also an incremental build-up of various headwinds such as trade wars, populism, Brexit and a deterioration in credit fundamentals. Additionally, structural problems, including high global debt to GDP, ageing global population and rising inequality remain intact. Therefore, we maintain a slightly more defensive stance in credit at the margin. From an asset allocation standpoint, we retained our preference for investment grade bonds over high yield bonds.

## Improving the fund's liquidity

While there were no major changes at the asset allocation level, we have been working on improving the portfolio's liquidity. We sold some less liquid holdings and rotated into attractive new issues such as Prudential and pension Insurance Corp.

## Interest rate strategy

We retain a slightly lower duration position versus the neutral duration position of six years with a skew towards US dollar duration. While the headline duration remained broadly unchanged, the fund reduced its US dollar interest rate risk exposure and closed the short duration position in the Canadian dollar.

## 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.



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