

Portfolio manager: Rick Patel

Performance for 12 month periods in USD (%)

Performance over quarter in USD (%)

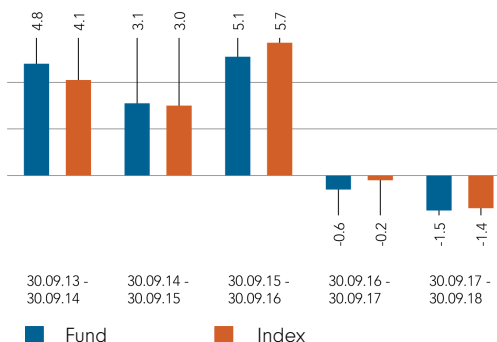
Fund -0.3

Market index 0.0

ICE BofAML US Large Cap Corporate & Govt 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.



Market Environment

US dollar bonds posted mixed returns over the quarter. US assets had to contend with the last-minute signing of a new trade agreement with Mexico and Canada; ongoing trade frictions between the US and China; and a deterioration of the relationship with Iran. Nevertheless, economic activity remained positive, which prompted the US Federal Reserve to upgrade its growth forecasts. The Federal Open Market Committee (FOMC) unanimously decided to raise interest rates for the third time in 2018. US Treasury yields edged higher and government bonds posted losses. Meanwhile, in credit markets, credit spreads tightened amid healthy corporate earnings and rising government bond yields. On the macroeconomic front, the final estimate for second quarter GDP came in at 4.2%, the highest growth rate since the third quarter of 2014. The uptick in US consumer sentiment in September was largely driven by an improvement in confidence in the near-term economic outlook.

Fund Performance

The fund underperformed the index over the quarter.

Interest rate strategy hampered performance

The fund's overweight duration (a measure of sensitivity to changes in interest rates) position in the US dollar weighed on returns as US Treasury yields edged higher. The small allocation to sterling duration also held back gains as UK government bond (Gilt) yields rose on hopes of fiscal restraint in Italy and higher US Treasury yields. However, favourable positioning across the euro curve added value.

Credit strategy added value

At the sector level, the overweight position in financials was the top contributor to performance. This was partially offset by the underweight stance in the consumer cyclical and utility sectors, as investment grade credit spreads tightened. The small conviction exposure to high yield bonds aided returns as strong economic data supported high yield earnings. At the issuer level, the holding in HCA added notable value after it announced its agreement to acquire Mission Health. However, the lack of exposure to telecommunication giants Verizon Communications and AT&T weighed on returns.

Fund Positioning

Trade wars are an ongoing theme and the macroeconomic and geopolitical backdrop remains uncertain. I believe that US corporate earnings drive yields on US Treasuries. 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. I am closely watching three key parts of 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's overall long duration position was increased over the quarter. The fund tactically managed its US dollar duration position. Aside from the long position in the US dollar, I moved from a neutral stance to a long position in the Canadian dollar. The overall underweight euro duration position was maintained over the quarter given the uncertainty in Italy.

Defensively positioned in credit

I maintain a cautious stance in credit markets due to valuations. I struggle to find safe-havens within US investment grade corporate bonds. My focus remains on high-conviction credits with solid fundamentals and BB rated bonds that are trading like investment grade bonds. At the sector level, I favour US financials that have a domestic focus, as well as consumer non-cyclicals. For instance, I bought securities in HSBC and Prudential Financial.

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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