

Portfolio manager: Harley J Lank

Performance for 12 month periods in USD (%)

Performance over quarter in USD (%)

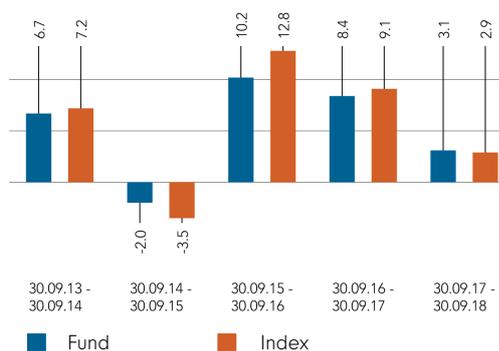
Fund 2.2

Market index 2.4

ICE BofAML US High Yield Constrained 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

The US high yield market finished the third quarter on a positive note rising 0.58% in the month of September, and by 2.44% over the quarter. The US Federal Reserve (Fed) continued to tighten its monetary policy in light of a strengthening economy, fuelled by strong business investment and an ever-tightening labour market. The US Fed raised interest rates for the third time this year, with ten-year treasury yields crossing 3% mid-month and rising to a high of 3.11% in late September. This led investors out of high yield, with Lipper reporting outflows of \$2.1 billion in September. The BB sector which is the high yield sector most correlated to interest rates weighed on the asset class, underperforming the lower quality sectors. The BB-rated sector returned 0.30% on the month, whereas the B and CCC and lower rated paper returned 0.70% and 1.03%, respectively, as measured by the ICE BofAML US High Yield Constrained credit quality indices. On the macro-economic front, consumer confidence continued to surge and ended the quarter at an 18-year high of 138.4, led by a second quarter GDP growth rate of 4.2% (annualised), the strongest since 2014.

Fund Performance

The fund posted positive absolute returns but underperformed the index.

Credit selection in health care and services added value

The health care sector was the largest contributor to performance over the quarter with overweight positions in bonds issued by HCA, Community Health and Valeant leading gains. Home security firm Vivint added significant value. Technology holdings also buoyed returns as the sector received contributions across a wide number of credits, most notably Softbank and Veritas. Lastly, positive legislative changes in the US helped boost returns from gaming concern Eldorado Resorts.

Telecommunications and most gaming investments eroded gains

Telecommunications firms CenturyLink and Altice were both leading detractors during the quarter. The out-of-benchmark position in Macau gaming firm Melco Crown also detracted from results despite its strong credit fundamentals. Lastly, a modest overweight to Rite Aid weighed on returns as the drugstore chain fell on news that a merger with Albertsons was not approved.

Fund Positioning

A strong macro-economic environment, solid corporate balance sheets, extended maturity profiles and low expected default rates have provided a conducive base for the US high yield asset class. However, outcomes from the tariff rhetoric remain a risk and valuation continues to remain less compelling. On the other hand, spreads remain at sustainable levels to make the yield pickup versus other options attractive. Against this backdrop, we have been gradually de-risking the portfolio to selectively rotate into securities that offer a margin of safety as well as potential price appreciation or yield improvement.

Sector allocation maintained

From a sector perspective, the fund is overweight financials and utilities. I also believe fundamentals and valuations in the gaming sector offer attractive opportunities and therefore have positive bias. Conversely the three largest underweights continue to be in homebuilders, telecommunications, and retail.

Overweight in CC rated bonds

The US Federal Reserve is expected to continue its monetary tightening policy. In light of this, I favor credit sensitivity over interest rate sensitivity and continue to keep a quality bias toward CC-rated issues. This positioning yields a portfolio that is modestly overweight risk but with a profile that can be shifted in accordance with changes to my outlook.

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. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell. 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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