

Portfolio manager: Steve Ellis, Eric Wong

Performance for 12 month periods in USD (%)

Performance over quarter in USD (%)

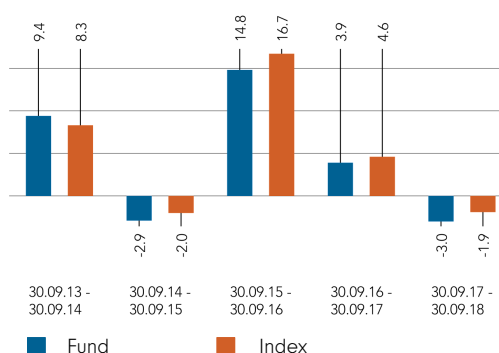
Fund 0.4

Market index 2.3

JPM EMBI Global Diversified

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

Emerging market bonds posted mixed returns over the quarter, with local currency bonds underperforming hard currency bonds. Most emerging market currencies lost ground against the US dollar and emerging market spreads tightened over the period. After posting poor performance in the second quarter, emerging market debt had staged a recovery at the start of the quarter. The market was supported by technical factors and proactive interest rate hikes from several emerging market central banks. However, the rebound did not last long and the asset class came back under pressure in August, on country-specific stories led by Turkey and Argentina. Both countries have hefty current account deficits, high inflation, loose fiscal policy, low foreign currency reserves and large external financing requirements. Markets recovered again towards the end of the quarter. Within hard currency sovereign debt, Ecuador was one of the key outperformers as its turn towards more market friendly economic policies buoyed investor sentiment. However, Zambia was the biggest laggard. Moody's downgraded Zambia to Caa1 from B3 over ongoing fiscal consolidation challenges, pointing to an increasing government debt burden. Within emerging market currencies, the Mexican peso strengthened the most against the US dollar following Andres Manuel Lopez Obrador's election victory. The peso was further supported by higher crude oil prices and optimism about the ongoing negotiations between the US and Canada regarding the North American Free Trade Association (NAFTA). Conversely, the Turkish lira and Argentine peso weakened the most against the US dollar. Elsewhere, emerging market Purchasing Managers' Index (PMI) decelerated in September and dropped faster than developed market PMI. Oil prices rose amid looming concerns around sanctions against Iran.

Fund Performance

The fund underperformed the index over the quarter, primarily due to credit selection. The fund's overall defensive position, sustaining an underweight credit beta, detracted from returns as spreads tightened. The fund's currency positioning and coupon income supported returns.

Credit holdings detracted from returns

The fund's overweight position in selected Turkish quasi-sovereign (Turkiye Vakiflar Bankasi) and banking names (Turkiye Sinai Kalkinma) weighed on returns as they suffered during the period amid concerns around its economic outlook. The fund's underweight allocation to Egypt's sovereign bonds also weighed on returns. Losses were partially offset by an overweight allocation to Ecuador's sovereign bonds, which posted positive returns over the quarter. The exposure to selected corporate names such as JBS, a Brazilian meat exporter, enhanced gains as weakness in the Brazilian real benefited export-oriented Brazilian protein producers.

Positioning in emerging market currencies supported returns

The short position in the Brazilian real contributed to returns as it suffered amid concerns around the outcome of the Presidential election. A long position in the Mexican peso and tactical positioning in the Indian rupee added further value.

Duration position was a neutral contributor

The portfolio's US dollar duration had a neutral impact on performance. US Treasury yields rose, supported by strong economic data points, balance sheet reduction and persistent interest rate hikes from the US Federal Reserve.

Fund Positioning

In terms of portfolio strategy, we continue to focus on individual country and security selection to generate alpha. Our active bets are broad based and we have an overall cautious credit beta position. We will monitor developments closely and look for any potential opportunities arising from volatile price movements. At the country level, the fund has key overweight positions in Ivory Coast, the United Arab Emirates and Saudi Arabia while it has an underweight allocation to Turkey, Egypt, Russia and Lebanon.

Credit beta positioning

The fund maintains a flexible approach to its credit beta positioning and currently has an underweight position. The portfolio is underweight in emerging market sovereigns and has a bias towards emerging market corporates. However, in recognition of the moves wider in spreads this year, we are beginning to dampen our large underweight in credit beta as more attractive valuations arise. We are currently focused on adding back risk in high relative value rated countries from our sovereign analysts and low-beta, investment grade rated countries such as Saudi Arabia and Qatar. We will also continue to add risk via new issues.

Interest rate strategy

The fund currently has an inline US dollar duration position relative to the index.

Emerging market currency risk

We maintain a modest allocation to emerging market currencies where we are also cautiously positioned to manage downside risks from a stronger US dollar. The fund has long exposures to the Nigerian naira and Peruvian sol, and short positions in the Brazilian real and South African rand. We also have short positions in the Korean won and Taiwanese dollar which are exposed to a slowdown in China.

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. This fund invests in emerging markets which can be more volatile than other more developed markets. 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.



Fidelity
INTERNATIONAL

EMERGING MARKET DEBT FUND A-USD

30 SEPTEMBER 2018

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