In Hong Kong, this material is intended for Professional Investors only

Fidelity Enhanced Reserve Fund*

31 August 2024

For existing investors in the Fidelity Enhanced Reserve Fund ('the Fund') only.
Thank you for investing in the Fund. We would like to use this opportunity to give you an update on the Fund's performance. Please note that this is not a product advertisement or solicitation for investment in the Fund.

How has the Fund performed in August 2024?

- The Fund returned 0.8%[1] (for the A-ACC-USD share class in USD terms) and 0.6%[1] (for the A-MINCOME(G)-SGD (hedged) share class* in SGD terms).

Reasons for performance

- Global markets had a volatile month with a sharp repricing of risky assets in the first week of August as the consensus view shifted from a soft-landing scenario towards one with a higher probability of a US recession. This was driven by a string of weak economic data especially US employment surprising to the downside. However, markets quickly found a floor and recovered over the month.
- US Treasury yields fell across the curve, particularly at the shorter end owing to the risk-off sentiment. Global credit spreads also sold off in the first week of August but gradually compressed over the month with Asia credit and US investment grade (IG) both ending the month almost flat in spread terms.
- In this context of falling yields and generally flat IG spread movements, the Fund performed well, generating positive returns with relatively low volatility. Yield, term structure and credit all contributed positively.
- Top contributors to performance include Singapore Treasury bills (SG T-bills), which acted as protection against interest rate volatility and stronger risk-reward given the inverted yield curve. The position is also hedged back to US dollar, which provides an attractive yield pick-up.
- There were no other contributors or notable detractors over the month.

Outlook / Expectations

- We view that fundamentals of issuers in this fund remain solid. Our concern is more centred on valuations, and we think now is still not a good time to add credit exposure.
- Our focus continues to be on quality IG and less on high yield (HY) as higher quality names are impacted less than higher beta names in a risk-off event as we saw in early August. Technicals in Asian IG remain supported with limited new issuance and negative net supply which should continue to offer support.
- Within HY, our exposures are diversified across BB-rated financials, infrastructure, gaming and industrials. Our limited non-BB exposure is within the Macau hospitality sector which is on a credit improvement trajectory.
- We are comfortable with managing the portfolio duration at the upper band of between 1-1.5 years as we approach an impending Fed rate-cut cycle. This provides investors with the opportunity for capital appreciation.
- In terms of portfolio changes, over the month, we reinvested capital from maturing bonds towards attractive primary and secondary market issuances. These were mostly in quality financials across Europe and Asia Pacific region in USD, CNY and JPY-denominated bonds, with all bonds hedged back to USD. We also rolled over capital into short-dated SG T-bills, hedged back to USD for a yield pick-up over US T-bills.
- We took profit on our position in a China technology media and telecommunications (TMT) issuer after its strong performance over the last few quarters.
- As at 31 August 2024, the Fund's yield to maturity[2] was 5.3%, running yield[3] was 4.0%, duration[4] was 1.3 years and average credit rating[5] was A.

We remain confident that the Fund could **continue to meet its objectives of providing liquidity, relatively lower volatility versus equity and potential yield pickup above cash positions** over the medium and long term.

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Source: Fidelity International, as at 31 August 2024.

1. The stated returns are computed on a NAV-NAV basis, with dividends reinvested in their respective currencies. They do not take into account the amount of initial sales charge, which may be levied by your distributor. The stated returns will be reduced when the applicable sales charge is being taken into account. Please note that past performance is not indicative of future returns. The 1-year return, net of sales charge of 3% for the Fidelity Enhanced Reserve Fund A-ACC-USD and A-MINCOME(G)-SGD (hedged) share classes are 4.00% and 2.23% respectively.

2. Yield to Maturity is the internal rate of return earned on a bond, assuming that the bond will be held until maturity and all coupon and principal payments will be made. It is an estimation of future return, as the rate at which coupon payments can be reinvested when received is unknown.

3. Running Yield describes the income investors get from their portfolio as a percentage of market value of the securities (incorporating the effect of derivatives) and does not include the impact of fees. It should not be relied on as a measure of expected fund return. The running yield does not reflect the total return over the life of the bond and takes no account of reinvestment risk or the fact that bonds usually mature at par value

4. Duration is a measure of sensitivity of the fund value to changes in interest rates and includes all investments in the fund including derivatives. It takes into account that expected cash flows will fluctuate as interest rates change and affect a bond's price.

5. Average Credit Rating is the weighted average of all the bond credit ratings in the fund. It takes into account all investments in the fund including derivatives. This measure gives an idea of how risky the fund's bonds are overall: the lower the average credit rating, the riskier the fund. With a Linear weighted average the weight assigned to each issue is equal to its market value weight.

Important Information

Singapore

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Hong Kong

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