

Fidelity Enhanced Reserve Fund*

31 July 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 July 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 fixed income markets continued to post positive returns in July, primarily driven by the rates rally as US Federal Reserve chairman Powell reinforced expectations for a start to rate cuts in September. As more rate cuts were priced over the next few quarters, the US 10-year treasury yield fell below 4.0% for the first time since February 2024.
- The US treasury (UST) curve bull-steepened over the month with the 2-year yield compressing on weaker inflation prints, softer US economic data and a more dovish Fed. From a credit perspective, both Asia and US investment grade (IG) bonds widened by a few basis points.
- Despite some negative spread performance on the index level, the high-quality nature of the Fund and lower UST yields especially at the short end resulted in positive performance in July.
- Both yield and term structure contributed positively to performance, while some widening in credit spreads offset some gains.
- The top contributors to performance were SG Treasury bills (T-bills) which offered protection against interest rate volatility and favourable risk-reward given the inverted yield curve. The position is hedged back to USD which provides an attractive yield pick-up.
- There were not many notable detractors over the month, with one being Melco Resorts Finance.



Outlook / Expectations

- We view that the fundamentals of issuers in this fund remain solid. Our concern is more centred on valuations as many names are trading around post-global financial crisis (GFC) lows in spread terms and we think now is not a good time to add credit exposure.
- Our focus is hence on quality IG and less on high yield (HY) as we can achieve the yields we need in IG bonds, which should also be less affected in a risk-off event.
- Technicals in Asian IG remain supported with limited new issuance and negative net supply which should continue to offer support.
- Given where we are in the cycle, we are comfortable with managing the portfolio duration at the upper band of between 1-1.5 years, especially as we approach the Fed's rate-cutting cycle.
- In terms of portfolio changes, we added marginally to attractive new issuances in financials across US, North Asia and UAE, mostly in 3-year tenor bonds.
- We redeployed maturing capital to high quality financial issuers in the US and Middle East to help with some regional diversification and also added to attractive new financial issuances in South Korea and China. We added to good quality short-dated JPY bonds for attractive total yield after foreign currency hedge.
- We rolled over capital into short-dated SG T-bills and trimmed some exposures here as well as in US T-bills to raise cash.
- As at 31 July 2024, the Fund's yield to maturity² was 5.4%, running yield³ was 3.6%, duration⁴ was 1.3 years and average credit rating⁵ 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 July 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 3.21% and 1.46% 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.



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Singapore

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