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Fidelity Enhanced Reserve Fund*

31 October 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 October 2024?

- The Fund returned -0.1%[1] (for the A-ACC-USD share class in USD terms) and -0.3%[1] (for the A-MINCOME(G)-SGD (hedged) share class* in SGD terms).

Reasons for performance

- There was significant repricing in US Treasury (UST) yields in October owing to the stronger-than-expected US economic data along with anticipation of the US elections. UST yields rose across the curve except the ultra-short maturities (below 6 months), with longer duration assets underperforming while relatively shorter duration assets fared better.
- All the major investment grade (IG) markets were under pressure, driven primarily by the rise in UST yields. From a credit perspective, Asia and US IG and Asia high yield (HY) spreads tightened over the month but this was more than offset by the UST yield increase.
- Despite the sharp rise in UST yields, the Fund held up relatively well, with marginally negative returns for October – the first month of negative returns for this year. Yield and credit contributed positively, while term structure (interest rate movements) detracted from performance.
- Top contributors to performance included Singapore Treasury bills which offered protection against interest rate volatility, with positions hedged back to US dollars for attractive yield pick-up over UST bills.
- Other contributors were relatively spread out among issuers and there were no notable credit detractors over the month.
- In terms of portfolio changes, we have engaged in tactical opportunities over the month by deploying some liquidity, adding to local currency bonds for attractive total yield after foreign exchange (FX) hedge. We have also rotated into other attractive opportunities by reducing Treasuries and some credits where spreads have tightened. We have moderately reduced duration amidst US election uncertainty.
- Some key trades included adding quality cross-over and BB exposures with solid or improving credit fundamentals that offer decent carry, an attractive Australian megabank that provides good value and high probability of call over the next year, and good quality

short-dated JPY bonds for attractive total yield after FX hedge. Conversely, we sold near-term Treasuries and names where spreads are tight across South Kora and Indonesian corporates.

Outlook / Expectations

- We continue to view the fundamentals of issuers in this Fund as solid though concern is more centred on valuations as spreads continue to grind tighter over the year, supported by limited supply issuances. We think now is not a good time to add credit exposure.
- Our focus continues to be on quality IG and less on HY as the relative value between BBB and BB names have tightened. In addition, a risk-off event would impact higher quality names less than higher beta names.
- Within HY, our exposures are diversified across BB rated financials, infrastructure, gaming and industrials. Our limited non-BB exposure is mostly 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 1-1.5 years. As the Fed embarks on monetary easing, this provides investors with the opportunity for capital appreciation.
- As at 31 October 2024, the Fund's yield to maturity[2] was 5.4%, running yield[3] was 4.2%, duration[4] was 1.3 years and average credit rating[5] was A.

We remain confident that the Fund could **continue to provide 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 October 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 3.89% and 2.04% 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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