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

Fidelity Enhanced Reserve Fund*

30 September 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 September 2024?

- The Fund returned 0.7%[1] (for the A-ACC-USD share class in USD terms) and 0.5%[1] (for the A-MINCOME(G)-SGD (hedged) share class* in SGD terms).

Reasons for performance

- The US Federal Reserve finally delivered a long-awaited rate cut of 50 basis points at its September meeting with chairman Powell delivering a slightly hawkish statement. Nonetheless, global credit markets took it as a further sign of a soft-landing scenario for the US economy, leading to lower US Treasury (UST) yields and tighter spreads over the month.
- The UST curve bull-steepened with the 2-10 year portion no longer inverted. From a credit perspective, Asia investment grade (IG) and high yield (HY) spreads generally widened out in the first half of the month owing to gloomy data from China. But this reversed later in the month as China delivered a stronger-than-expected stimulus package in the last week of September with improved sentiment spilling over into the Greater China region. In addition, US and global spreads also tightened as the narrative on the US economy shifted more towards a soft-landing scenario.
- In this context of lower yields across the curve and global spread compression, the Fund performed well, generating positive returns with relatively low volatility. Yield and term structure contributed positively while credit was flat.
- Top contributors to performance included Singapore Treasury (SGT) bills, which mitigated against interest rate volatility and provided stronger risk-reward given the inverted yield curve. The positions were also hedged back to US dollar which provided an attractive yield pick-up.
- There were no notable credit detractors over the month.

Outlook / Expectations

- We view that fundamentals of issuers in this fund remain solid. Our concern is more centred on valuations as spreads continue to grind tighter over the year, and 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 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 delivered its first rate cut. This provides investors with the opportunity for capital appreciation.
- In terms of portfolio changes, we have diversified capital from maturing bonds towards short-dated higher-quality BB bonds maturing in four months to three years across the US, Europe and emerging markets ex-Asia corporate issuers. As a result, our HY exposure increased slightly.
- We also rolled over our capital into short-dated SGD T-bills that are hedged back to USD for yield pick-up over US T-bills.
- As at 30 September 2024, the Fund's yield to maturity[2] was 5.0%, running yield[3] was 4.1%, 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 30 September 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 4.28% and 2.45% 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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