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

Fidelity Funds – Asian Bond Fund

31 August 2024

For existing investors in the Fidelity Funds – Asian Bond 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 1.9%[1] (for the A-ACC-USD share class in USD terms) and 1.8%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- Global investment grade (IG) markets continued to deliver positive returns in August, driven primarily by a decline in US treasury yields across the curve, particularly on the shorter-end. Asia IG outperformed both US and Europe IG. US Fed Chair Jerome Powell adopted a dovish stance at the Jackson Hole conference, signalling a rate cut in September and placing more emphasis on downside risks in the labour market. Credit performance was mixed with Asia IG spreads tightening, Euro IG spreads widening and US IG spreads remaining roughly unchanged.
- The Fund continued to post positive returns in August and outperformed its index[2]. The yield component, which includes stable carry and coupon income performed in line with the benchmark. Term structure outperformed, primarily driven by contribution from US and some contribution from Singapore rates. Credit also outperformed.
- On a country level, the overweight in Japan helped the most while the underweight in China and Singapore had some impact on relative performance.
- On a sector level, the overweight in insurance and financial names contributed the most while the underweight in energy names were the main relative detractors.
- At an issuer level, key credit contributors include overweight positions in Sumitomo Life Insurance, Perusahaan Listrik Negara and Indonesia Asahan Aluminium. Key credit detractors include the underweight positions in Indonesia government bonds and Petronas Capital, and our overweight position in Singapore Technologies.

Outlook / Expectations

- Asia IG fundamentals continue to be supportive, with certain central banks in the region starting to show signs of pivot. Asian countries' ample foreign exchange reserves also provide them with greater resilience in a shifting global macro environment.
- From a valuation perspective, Asian IG credit spreads have tightened since the beginning of the year but recent spread widening amid market volatility has resulted in selective alpha-generating opportunities. We believe that macro and technicals will stay supportive in 2024 as net financing is expected to remain negative although supply has picked up in recent months. We remain opportunistic, aiming to strike a balance between rich valuations, strong technical momentum and stable fundamentals.
- In terms of portfolio positioning, the Fund duration has continued to increase in August with the overweight allocated across multiple markets including the US, Singapore China, Japan and Indonesia. We are also overweight credit beta with the exposure in higher quality markets such as Japan, South Korea and Singapore.
- Over the month, we added positions in China and Indonesia sovereign/quasi-sovereigns, China and Singapore financials, and South Korea technology media and telecommunication (TMT) names. Conversely, we reduced outperformers and lower-yielding names, including quasi-sovereigns and financials across the Philippines, Indonesia, Singapore and South Korea.
- The Fund remains focused on yield as the primary return driver for the portfolio. We continue to look for high quality names with good credit ratings to add to the portfolio, along with high-coupon, short-dated names for cash parking purposes.
- As at 31 August 2024, the Fund's yield to maturity[4] was 5.5%, running yield[5] was 5.4%, duration[3] was 6.4 years and average credit rating[6] was BBB+.

We remain confident that the Fund could continue to meet its objectives of **generating regular yield from its underlying investments and to offer lower volatility relative to equity during difficult market conditions over the medium and long term.**

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 Funds – Asian Bond Fund A-ACC-USD and A-MINCOME(G)-SGD (hedged)* share classes are 4.99% and 3.24% respectively.
2. The reference benchmark is the ICE BofA Asia Dollar Investment Grade Index.
3. 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.
4. 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.
5. 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.
6. 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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