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

Fidelity Funds – Asian Bond Fund

31 October 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 October 2024?

- The Fund returned -1.9%[1] (for the A-ACC-USD share class in USD terms) and -1.9%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- All the major global investment grade (IG) markets were under pressure in October, driven primarily by a rise in US Treasury (UST) yields following the stronger-than-expected jobs data at the beginning of the month.
- 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. On the other hand, credit was supportive during the month with IG spreads tightening the most in Europe, followed by Asia and the US.
- September’s US employment data, which showed better-than-expected job gains has calmed fears about labour market weakness and the market has now repriced the expected number of rate cuts to 25 basis points cut each in November and December.
- The Fund posted negative returns in October, underperforming the index[2] due primarily to term structure (i.e. interest rate movements). On the yield component, which includes stable carry and coupon income, the Fund outperformed, while it underperformed on term structure.
- The Fund’s credit selection contributed to performance. On a country level, our underweights in Singapore and India, and overweight in Japan and the Philippines helped the most, while the underweight in China slightly impacted relative performance.
- On a sector level, the overweight in banks and brokers, insurance and consumer cyclicals contributed the most, while the underweight in quasi-sovereigns detracted slightly for the month.
- On an issuer level, notable contributors include overweight positions in CLI Treasury and Huarong Finance, and underweight positions in Indonesia Government Bonds.
- Slight credit detractors include the underweight positions in CK Hutchison, SINOPEC Group Overseas and TSMC Global.

Outlook / Expectations

- Asia IG bonds are expected to remain attractive given favourable macro conditions. We expect near-term returns to be driven by: 1) favourable fundamentals as seen by credit spreads, which have tightened since the beginning of the year; and 2) supportive technical due to the limited supply of new issuances in recent years in a higher dollar funding cost environment.
- Yield generation remains our key source of alpha generation in the near-term. We continue to look for high-quality names which offer attractive yield while being selective of crossover credits that offer good value. We also see opportunities in Asian local currency bonds. As the Fed continues to cut interest rates, we expect more local central banks to follow due to the desire to maintain currency stability.
- In terms of country positioning, we are broadly neutral on China given the structural changes and headwinds in the economy. However, we see opportunities in selective areas such as China local currency duration given the deflationary environment and supportive policies. Elsewhere, we see more value in higher-quality and lower-beta markets such as Hong Kong, Singapore and Australia. We also favour Japan and Yen-denominated bonds as there are attractive opportunities due to their stability and the potential tailwinds from the Yield Curve Control adjustment.
- Over the month, we added local currency credits in areas such as China quasi-sovereigns, China utilities and Singapore treasuries which offer attractive total yields after hedging the exposure to US dollar. We also added to credits with good value such as Japan consumer cyclicals and Indonesia financials. We reduced lower-yielding or credits with tight spreads mostly in financials in Australia, Hong Kong and Japan.
- As at 31 October 2024, the Fund's yield to maturity[4] was 5.7%, running yield[5] was 5.3%, duration[3] was 6.3 years and average credit rating[6] was BBB+.

We remain confident that the Fund could continue to meet its objectives of **generating income 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 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 Funds – Asian Bond Fund A-ACC-USD and A-MINCOME(G)-SGD (hedged)* share classes are 7.96% and 5.99% 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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