Fidelity INTERNATIONAL

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

Fidelity Funds – Asian Bond Fund

30 September 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 September 2024?

- The Fund returned 1.4%[1] (for the A-ACC-USD share class in USD terms) and 1.1%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- All the major global investment grade (IG) markets posted positive returns in September, driven primarily by a decline in US Treasury (UST) yields across the curve. The front-end saw a greater drop due to the US Federal Reserve's larger magnitude of a 50 basis-point rate cut rather than 25 basis points. US IG outperformed owing to the longer duration nature of the asset class but Europe (EU) and Asia also posted decent gains.
- The UST curve bull-steepened and the 2-10 year UST spread turned positive for the first time since mid-2022 with the curve no longer inverted. In terms of credit spread, Asia IG and EU IG spreads were roughly flat compared to August, while US IG spreads tightened slightly.
- The Fund continued to post positive returns in September and outperformed its index[2] due to higher yield (including carry and income) and credit selection.
- On a country level, the underweights in China and Hong Kong and overweight in Japan helped the most, while the overweight in the Philippines slightly impacted relative performance.
- On a sector level, the overweight in banks & brokers and underweight in quasi-sovereigns contributed the most, while the overweight in insurance detracted slightly for the month.
- At an issuer level, notable contributors for the month include overweight positions in HSBC, BPCE and Woori Bank.
- Slight credit detractors include the underweight positions in Indonesia Government, Tencent Holdings and Petroliam Nasional BHD.

Outlook / Expectations

- Asia IG fundamentals remain 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. Furthermore, the increasing policy support from China and a lower interest rate trajectory by the Fed is supportive of Asian dollar credits.
- From a valuation perspective, Asian IG credit spreads have tightened since the beginning of the year. 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.
- The overall Fund level duration remained unchanged, representing an overweight against the benchmark. The overweight is spread across multiple markets including China, Singapore, Japan and Indonesia. The Fund's credit beta is slightly overweight with exposures in higher quality markets of Japan, Singapore, Hong Kong and Australia.
- Over the month, we added local currency credits in China within financials, quasi-sovereigns and energy due to attractive yield pick-up when hedged back to USD. We also added to areas with good value such as China technology, media and telecommunications (TMT), Japan financials, Indonesia energy and Malaysia consumer. We reduced lower-yielding names in Korea financials and Philippines TMT.
- 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 30 September 2024, the Fund's yield to maturity[4] was 5.3%, running yield[5] was 5.3%, 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 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 Funds – Asian Bond Fund A-ACC-USD and A-MINCOME(G)-SGD (hedged)* share classes are 8.46% and 6.42% 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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Hong Kong

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