For Investment Professionals Only

FIDELITY FUNDS

ASIAN TOTAL RETURN BOND FUND A-ACC-USD

QUARTERLY PERFORMANCE REVIEW

31 MARCH 2018

Portfolio manager: Eric Wong, Bryan Collins

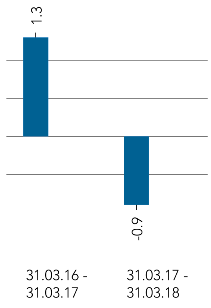
Performance over quarter in USD (%)

Fund	-2.5
Market index	-

Market index is for comparative purposes only.

Source of fund performance is Fidelity. Basis: nav-nav with income reinvested, in USD, net of fees. Other share classes may be available. Please refer to the prospectus for more details.

Performance for 12 month periods in USD (%)



Market Environment

US dollar denominated Asian bonds posted negative returns, while Chinese renminbi denominated offshore bonds (Dim Sum) posted positive returns in the first quarter. US dollar bonds were adversely impacted by rise in US treasury yields and widened credit spreads. The US Treasury yield curve edged higher after the US Federal Reserve (Fed) raised interest rates in March, following strong economic data releases and an unexpected increase in wage inflation in the US. However, towards the later part of the quarter, weak risk sentiment pushed 10 year US Treasury yields to a low level. The decline was led by fears over a trade war between the US and China along with a rise in equity volatility. Against this backdrop, Asian corporate credit spreads widened. From a macroeconomic data perspective, the manufacturing Purchasing Managers' Index (PMI) for Asian economies pointed towards further expansion. At the country level, China's GDP growth was reported at 6.9% for FY 2017, which was slightly above market expectations. This marked China's first annual acceleration in growth in seven years, mainly led by fixed asset investment and a recovery in exports. Further, NPC, China's ruling Communist Party, amended the constitution to abolish the term limit of the country's president and vice president positions. This paved the way for President Xi Jinping to remain in power indefinitely. India's GDP for the fourth quarter of 2017 surpassed estimates, due to strength in the services sector and a rebound in agriculture and manufacturing. Indonesia's fourth quarter GDP rose at a higher-than-anticipated pace, due to a pickup in exports. At the monetary policy level, the Malaysian central bank raised interest rates in January, but is unlikely to aggressively normalise rates. Elsewhere, Asian central banks kept interest rates on hold as inflation remained subdued. China appointed Yi Gang as the new governor of the Peoples' Bank of China. Looking at yields, onshore yields fell during the period, while offshore yields fell at the short end but rose at the long end of the curve.

Fund Performance

The fund posted negative total returns during the quarter. Term structure and credit allocation were the primary detractors from performance, while stable income returns supported returns.

US dollar duration detracted

The fund's exposure to US dollar duration (a measure of its sensitivity to changes in interest rates) through overweight positions via futures detracted from returns as yields on the US Treasury yield curve rose. These losses were partially offset by the underweight position in smaller dated US Treasury bonds.

Coupon income and rating allocation added value

Coupon income from US dollar denominated and Chinese renminbi denominated bonds drove returns. Across the ratings spectrum, the allocation to AA and BB and below rated bonds supported, while holdings BBB rated bonds weighed on performance.

Fund Positioning

Looking ahead, Asian investment grade bonds should remain supported by stable fundamentals and a continued favourable technical backdrop. The US Fed has started to normalise its balance sheet. We believe that investors are overly optimistic about a further acceleration in the US economy. Therefore, we believe that once economic data disappointment becomes more pronounced, sentiment will weaken and US Treasury yields will fall in the near-term. Compared to western peers, Asian countries are tightening at a much slower pace and have greater policy headroom to engage in monetary/fiscal easing given contained inflation and lower levels of debt to GDP. The market is likely to focus on the outcome of the potential trade war between the US and China in the next few months, though from a fundamental viewpoint, we see limited impact on the Asian credit market.

Interest rate and credit risk positioning

From a long-term perspective, we retain a cautiously optimistic view on US interest rate normalisation. While global liquidity should remain supportive even as developed market central banks gradually unwind their quantitative easing programmes, the expected rise in US Treasury yields may be a headwind for the market. From a positioning perspective, the fund has a duration position of 6.7 years. We also retain our bias towards higher quality bonds, and have a preference for investment grade securities. Should fundamental and valuation views warrant it, we aim to selectively add high yield exposure. The fund maintains an average investment grade rating.

Important Information

Past performance is not a reliable indicator of future results. The fund's returns can be affected by fluctuations in currency exchange rates.

The value of investments and any income from them may go down as well as up and an investor may not get back the amount invested. The use of financial derivative instruments may result in increased gains or losses within the fund. This fund invests in emerging markets which can be more volatile than other more developed markets. Liquidity is a measure of how easily an investment can be converted into cash. Under certain market conditions assets may be difficult to sell. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall. The investment policy of this fund means it can be more than 35% invested in Government and public securities. These can be issued or guaranteed by other countries and Governments. For a full list please refer to the fund's prospectus.

Fidelity INTERNATIONAL

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