

Multi asset income outlook

March 2018

This information is for investment professionals only and should not be relied upon by private investors. It must not be reproduced or circulated without prior permission.

- Past performance is not a reliable indicator of future returns.
- Investors should note that the views expressed may no longer be current and may have already been acted upon.
- Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.
- The value of investments and the income from them can go down as well as up and investors may not get back the amount invested.
- For funds that invest in overseas markets, changes in currency exchange rates may affect the value of an investment.
- The funds do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.
- The value of bonds is influenced by movements in interest rates and bond yields. If interest rates and so bond yields rise, bond prices tend to fall, and vice versa. The price of bonds with a longer lifetime until maturity is generally more sensitive to interest rate movements than those with a shorter lifetime to maturity. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers.
- Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the fund investing in them.
- Investments in small and emerging markets can be more volatile than other more developed markets.
- The use of financial derivative instruments may result in increased gains or losses within the fund.



Fidelity[™]
INTERNATIONAL

Outlook for bond yields

Investor attention has focused on bond yields in recent months, with 10-year US Treasury yields rising by around fifty to sixty basis points in the three months from the start of December. This relatively fast move in yields appears to have been driven by continued optimism in US growth, with yields in other markets (such as the eurozone) also reflecting investors' belief in a more positive economic backdrop.

There is further upwards pressure to US yields, but our base case is not for a significant move higher over the medium term. While there are short-term risks around higher Treasury issuance and uncertainty around the stance of the new Federal Reserve Chair, Jerome Powell, Treasury volatility should provide attractive opportunities to build defensive exposure.

Although our existing US fixed income exposure will be negatively impacted if US yields rise significantly, we have been cautious on adding to our holdings, only adding when ten-year yields are above 2.6% and markets are pricing in some downside protection. In addition, we have increased our exposure to the US dollar in the multi asset income funds. This should strengthen if the Fed is more aggressive in tightening policy or if we see US yields moving sharply higher.

Gradually adding to duration

We have been gradually adopting a more defensive stance over the past year, though this has been constricted by a lack of good buying opportunities. The recent rise in yields therefore gives us the opportunity to add further to duration, particularly markets with positive real yields such as the US.

While we have had few opportunities to add to US government bonds over the past year, we did increase our allocation to Chinese government bonds. This market has outperformed other fixed income assets in recent weeks, with Chinese yields having already risen significantly over 2017. Recent performance highlights the importance of being internationally diversified, and we believe this broad geographical approach will become increasingly important as central banks begin to withdraw accommodative policy and economic fundamentals increasingly drive asset class performance.

Loans come into their own

Rising yields have seen renewed investor interest in loans, with the asset class outperforming high yield bonds over the past three months. This is exactly what we would expect in a rate rising environment, where loans' floating rates offers protection against rising yields. Many of the loan managers that we monitor expect 2018 to be a positive year for loans, with returns generated from income as prices remain stable. While equity volatility has spilled over into some of our listed loan vehicles, this has not been significant, and its short-term nature means we continue to be comfortable with our positive view on the asset class overall.

Update on short equity positions

Our short equity positions performed well during the recent volatility, helping to offset the drawdown seen across equity markets. As the sell-off was technically driven and we believed that the market would quickly rebound, we reduced some of our short positions in the middle of February. This has proven the correct choice, with US equities having now recaptured around 50-60% of their drawdown.

We will continue with our more tactical approach to managing our short positions over the next few months. Equity markets still haven't seen the kind of fundamental correction that we would have expected to see from the move higher in yields over the past three months. Recent comments from Jerome Powell have highlighted the potential both for the central bank to raise interest rates faster than expected, and the fallout this could have on equities. We fully reinstated our short positions towards the end of February, and continue to position for increased equity volatility.



Eugene Philalithis
Portfolio Manager

EUGENE PHILALITHIS is a multi asset Portfolio Manager at Fidelity International. Eugene joined from Russell Investments in 2007, where he was responsible for managing approximately \$10 billion in multi manager fixed income mandates.

Eugene has 20 years of experience in portfolio management. He holds an MBA and a Bachelor of Engineering from Imperial College London and is a CAIA Charterholder

Current tactical outlook

	**	*	=	✓	✓✓
Income					
Investment Grade Bonds					
Government Bonds					
Cash					
EM Debt (Hard Currency)					
Hybrid					
High Yield					
Loans					
Financial & Corporate Hybrids					
EM Debt (Local Currency)					
Growth					
Equity					
Enhanced Income					
Infrastructure					
Real Estate (REITs)					

Important information

This information must not be reproduced or circulated without prior permission.

Fidelity International refers to the group of companies which form the global investment management organisation that provides information on products and services in designated jurisdictions outside of North America. This communication is not directed at, and must not be acted upon by persons inside the United States and is otherwise only directed at persons residing in jurisdictions where the relevant funds are authorised for distribution or where no such authorisation is required.

Unless otherwise stated all products and services are provided by Fidelity International, and all views expressed are those of Fidelity International. Fidelity, Fidelity International, the Fidelity International logo and F symbol are registered trademarks of FIL Limited.

The Key Investor Information Document (KIID) is available in English and can be obtained from our website at www.fidelity.co.uk/importantinformation or by calling 0800 41 41 61. The Prospectus may also be obtained from Fidelity. Fidelity Funds "FF" is an open-ended investment company (UCITS) established in Luxembourg with different classes of shares. The Authorised Corporate Director of Fidelity Investment Funds and Fidelity Investment Funds IV OEIC, and the Manager of Fidelity Unit Trusts is FIL Investment Services (UK) Limited. Please note Fidelity Unit Trusts are not registered for sale in Jersey or Guernsey.

Issued by FIL Pensions Management. Authorised and regulated by the Financial Conduct Authority.

Luxembourg: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A., rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Austria: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A., 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg as well as from the paying agent in Austria, UniCredit Bank Austria AG, Schottengasse 6-8, 1010 Vienna, or on www.fidelity.at. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Finland: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A., 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Sweden: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A., 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Norway: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A., 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Denmark: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-

annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Poland: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. This material does not constitute a recommendation within the meaning of the Regulation of the Polish Minister of Finance Regarding Information Constituting Recommendations Concerning Financial Instruments or Issuers Thereof dated October 19, 2005. No statements or representations made in this document are legally binding on Fidelity or the recipient and not constitute an offer within the meaning of the Polish Civil Code Act of 23 April 1964.

We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus, the KIID (key investor information document) and the Additional Information for Investors, which are available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg, from the representative office in Poland or on www.fidelity.pl. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Belgium: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from FIL (Luxembourg) S.A. and CACEIS België NV, with head office at Havenlaan 86C, B320, 1000 - Brussels, the financial service provider in Belgium. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Switzerland: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the articles of incorporation as well as the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from the representative and paying agent in Switzerland, BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Issued by FIL Investment Switzerland AG, authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA.

Netherlands: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors, and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. In the Netherlands, documents are available from FIL (Luxembourg) S.A., Netherlands Branch (registered with the AFM), World Trade Centre, Tower H, 6th Floor, Zuidplein 52, 1077 XV Amsterdam (tel. 0031 20 79 77 100). The Fund is authorised to offer participation rights in the Netherlands pursuant to article 2:66 (3) in conjunction with article 2:71 and 2:72 Financial Supervision Act. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Italy: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Spain: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Slovakia: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis

of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our paying agent UniCredit Bank Slovakia, a.s., Sancova 1/A 81333, Slovakia. The KIID is available in Slovak language. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Czech Republic: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our paying agent UniCredit Bank Czech Republic a.s., Zeletavska 1525/1, 14092 Prag 4 - Michle, Czech Republic. The KIID is available in Czech language. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Romania: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge upon request at FIL Gestion, authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 29 rue de Berri, 75008 Paris. The document is available in French upon request. If you do not wish to receive documents in English dedicated to Professional, please contact your Fidelity contact.

France: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge upon request at FIL Gestion, authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 29 rue de Berri, 75008 Paris. The document is available in French upon request. If you do not wish to receive documents in English dedicated to Professional, please contact your Fidelity contact.

Hungary: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our distributor Raifeisenbank Zentralbank Österreich AG, Akademie u. 6, 1054 Budapest. The KIID is available in Hungarian language. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier).

Liechtenstein: Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client. We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg as well as from the paying agent in Liechtenstein, VP Bank AG, Äulestrasse 6, 9490 Vaduz. Issued by FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier) and FIL Investment Switzerland AG, authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA.

ISG1664

