FIDELITY FUNDS ASIAN HIGH YIELD FUND

Fund Perspective

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Asian High Yield in 2012:
Greater depth offers more opportunities

***Bryan Collins** is the portfolio manager of FF Asian High Yield Fund and based in Hong Kong. He joined FIL Limited in 2006 as a Fixed Income Trader and assumed his current position in 2009. He became the Asian High Yield discipline lead portfolio manager in October 2009. Prior to joining FIL Limited, Bryan held a variety of roles in Credit Suisse Asset Management (Australia) Limited in Sydney, starting as a client consultant responsible for Fixed Income in 2000. His most recent role at Credit Suisse was the Senior Trader for Fixed Income and Foreign Exchange between 2003 and 2006.*

The fourth quarter of 2011 saw deteriorating market sentiment as a result of uncertainties around the European debt crisis and macro growth. While the European situation will remain a key concern for markets in 2012, investors who have the risk appetite and are looking for attractive investments in this "two-speed" world may find Asian high yield an interest proposition. Bryan Collins, Portfolio Manager of the Fidelity Funds Asian High Yield Fund and Asian Bond Fund, shares his thoughts on the current market volatility and the outlook of the Asian high yield bond market.

THE FINANCIAL MARKETS HAD A TURBULENT YEAR IN 2011. HOW HAS THE VOLATILITY CONTRIBUTED TO THE PERFORMANCE OF ASIAN HIGH YIELD?

Despite the constructive tone underlying Asian credit at the start of the year, Asia's hope for insulation against a worsening economic outlook in the US and Europe dimmed over the summer months as risk assets globally slumped amid a US downgrade and the continual contagion of European sovereign distress. Investors in the region were unnerved by the prospect of a sharper than expected slowdown in China as it faced the dual setback of weak investment at home and fading demand abroad.

Since the heavy selloff in October, Asian high yield has rebounded strongly reflecting the severely oversold valuations, improved sentiment and more encouraging US economic data. However, liquidity has remained tight as investors prefer to wait for a clearer resolution to emerge to contain the European financial market stress.

HOW HAS THE EUROPEAN SOVEREIGN DEBT CRISIS IMPACTED ASIAN ECONOMIES AND THEIR BANKING SECTORS?

Most companies, particularly in Asia, are expected to enter into the new year in much better shape than they did after crisis in 2008. Asian corporates generally have built adequate liquidity to withstand difficult market conditions, in the near term, given better management of their cost bases and balance sheets. Whilst consensus forecasts now anticipate lower growth guidance for China and most export-dependent EM economies, recent policy responses, including easier monetary and fiscal policies from major central banks around the world, should provide an encouraging backdrop for Asian economies.

We also view the banking sector in Asia as generally stable and supportive of financing for companies in the region. With adequate liquidity profiles and good profitability, Asian banks overall continue to compare favorably to their European and US counterparts.

WHAT IS YOUR OUTLOOK OF THE CHINESE PROPERTY AND BANKING SECTORS IN LIGHT OF A POSSIBLE SLOWDOWN IN THE CHINA ECONOMY?

The Chinese real estate sector represents a large pool of bond issuers with varying levels of sophistication. Our funds focus on industry leaders that are top-tier companies which generally have flexible capital structures, a historical track record of managing liquidity and superior ability to absorb short-term shocks to margin pressure. Despite its exposure to headline risk which has been apparent in the recent selloffs, the property sector continues to offer attractive income and selected opportunities in some of the higher quality names, given current pricing.

With dampened inflation risks, there has been encouraging news from the Chinese policymakers who appear to have started an easing cycle. Indeed, the PBOC's recent surprise move to lower the reserve requirement rate appeared to be another step towards further fiscal stimulus and credit creation, which are short-term positives for both the Chinese banking system and economy.

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ASIAN HIGH YIELD SPREADS ARE AT ELEVATED LEVELS COMPARED TO HISTORICAL AVERAGE. HAVE THERE BEEN ANY DEFAULTS RECENTLY?

Despite the selloff in recent months, it is worth noting that over the past 12 months, not a single Asian high yield bond has defaulted to date. As evident in the previous crisis, the default rate in Asia peaked at considerably lower levels compared to the global average. Nevertheless, especially if an economic slowdown persists, we expect defaults to pick up from current low levels, albeit much less than the significant rise implied by current spreads. Within the Asian high yield universe, despite valuations, only two companies are currently priced at severely distressed levels, indicating they may default.

Overall, the dislocation in financial markets has pushed a disproportionate number of Asian high yield bonds to distressed levels that are simply not justified by company fundamentals and therefore present attractive opportunities for seasoned investors.

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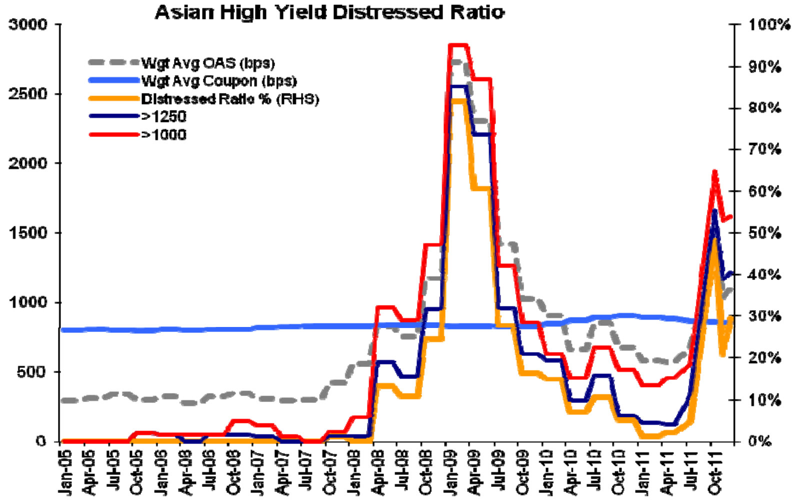
Bryan Collins, Portfolio Manager,

Fidelity Funds Asian High Yield Fund



Source: FIL, BoAML Indices. Q490: Blended Index: ACCY, 20% Lvl4 Cap 3% Constrained, Dec 2011
Distressed Ratio for Asian High Yield defined as the percentage of bonds trading with an Option Adjusted Spread (OAS) of >1500 basis points (bps)

WHAT ARE THE KEY THEMES OF YOUR INVESTMENT STRATEGIES AND FUND POSITIONING INTO 2012?

2012 may still be a challenging year for risk assets with the European debt crisis still at the forefront of investors' minds. We expect the market volatilities to continue in the near term amid the resulting sovereign and macro outlook uncertainties. As such the fund continues to be defensively positioned with a strong emphasis on liquidity and running yield. The fund maintains an underweight to subordinated bank papers, primarily Indian banks, and modest overweight positions across numerous issuers with stronger earnings visibility and more flexible capital expenditure plans. We are actively monitoring new issuance and discounted opportunities to prudently add exposure to high conviction names. Overall, we retain a cautious outlook but see valuations as compelling over the medium to longer term and would use periods of undue weakness as opportunities to selectively add to our higher conviction positions.

In addition, in recent weeks we have seen increasing institutional participation in the greater Asian high yield market. This is a positive development in our view and will likely provide greater depth and liquidity which will lead to enhanced market standards and lower volatility in the longer term.

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