TRANSCRIPT

Using ETFs for fixed income investing

Presenters: Montanna Saltsman, Celso Muñoz, Benjamin Harrison, and Trey Jarrell

Trey Jarrell: All right, good afternoon. And thanks, everyone, for joining us today. My name is Trey Jarrell. I'm here with educational events at Fidelity Investments. I want to take a moment to welcome all of our viewers out there, not only those of you watching from Fidelity.com but also through our YouTube channel and through Fidelity's mobile app. Very excited about today's topic. Our webinar is titled Using ETFs for Fixed Income Investing. And we've got a great panel in here for us today, one of our investment product managers, Montanna Saltsman, as well as portfolio managers, Celso Muñoz, and Benjamin Harrison. Why don't we go ahead and get started. I will introduce Montana Saltsman here to get us going. Thanks for joining us today.

Montanna Saltsman: Good afternoon, everyone. As Trey mentioned, my name is Montana Saltsman, and I'm an investment product manager within the Fidelity Management and Strategy Group. I'm responsible for the full lineup of fidelity ETFs. And so I'm going to cover the current state of the fixed income ETF market, some best practices when it comes to trading-- to ETF trading and our fidelity fixed income ETF offering.

So to the next slide, the current state of fixed income ETFs. So as you can see, the fixed income ETF market has exponentially grown within the last few years, and the market now sits at nearly $1.3 trillion in assets from less than 700 billion five years ago.

And nearly 200 of the 542 ETFs in the market today have launched in the last two years. So this really shows the increased demand for the ETF product in fixed income. Additionally, bond ETFs have had positive flows each year since the first fixed income ETF launched, which was in 2002. And as you can see

with the year-to-date flows, although equity ETFs continue to dominate industry flows, fixed income funds do continue to gain traction. Year-to-date they have seen $70 billion of inflows.

So if we move to the next slide, I will cover a few best practices to consider when you're trading ETFs just to ensure that you are receiving the best possible execution when placing a trade. So to start limit orders, very important as they allow you to set your desired price to avoid unwanted execution prices. Additionally, ETFs tend to have wider spreads and more volatile pricing around the open and close of the market.

So if you can, it's best to avoid the first and last around 15 to 20 minutes of the trading day. also understanding that the asset class that the ETF that you're trading represents is important. For example, if an ETF that you're trading is made up of international securities, those foreign markets may be closed when the ETF is trading here in the US, which will affect the ETF trading price here in our markets. So keeping these general best practices in mind will really help you make more informed trading decisions when you're trading ETFs.

So the next slide, I'll cover the 51 ETFs that fidelity offers, covering active equity, thematic, factor, sector, and fixed income products to ensure that we're providing our clients with a product offering that fits their needs. And our 51 funds currently have a little over $30 billion in assets.

So we have a lineup of 11 bond ETFs, and I will cover those in more detail in a moment. In terms of our factor strategy, our offering consists of 13 ETFs covering both US and international strategies. These utilize rules based and methodologies to bridge the gap between active and passive strategies.

We offer ETFs covering all the core factors, including low volatility, quality, and momentum. In the past year, fidelity has launched six thematic products, which provide exposure to long-term themes that align with investors

anywhere from clean energy to digital health. We also offer ETFs covering the 11 sectors and a broad equity ETF which provides exposure to the NASDAQ composite index. Lastly, our nine active equity ETFs offer access to Fidelity's active portfolio management in the ETF wrapper.

So now I will highlight our active fixed income ETFs. So we offer seven actively managed fixed income ETF strategies in various categories for investors seeking income. Our funds spread across the credit spectrum and leverage Fidelity's decades of research and investment expertise in the fixed income market.

Fidelity's fixed income suite surpassed $3 billion in assets under management last year and continued to grow adding another three funds launched, which I will discuss in just a moment. So this robust lineup offers strategies from core investment grade products, such as FBND to corporate bond exposure in FCOR. And lastly, I will cover the active sustainable ETFs that we launched earlier this year to build on our successful ETF offering in both fixed income and sustainable investing.

So these funds use Fidelity's proprietary ESG ratings framework in addition to third-party ESG ratings to evaluate an issuers sustainable business practices. Our fundamental research analysts rate issuers relative to their peers in each industry by both current sustainability practices and their forward-looking outlook.

So these three funds allow for exposure to our sustainable investing framework in a core high yield and low duration strategies. And now I will hand it over to Celso to dig a little deeper into the fixed income market.

Celso Muñoz: Great. Thanks, Montana. So like Montana mentioned, I'm Celso Muñoz. I'm a portfolio manager in Fidelity's core and core plus bond group.

And as part of that, I manage many portfolios, including the fidelity total bond ETF and the fidelity sustainable core plus bond ETF.
So today, I'd like to spend a little bit of time talking about the benefits of active management within fixed income and also give you a little perspective on what's going on in the markets-- in the market right now. So if we could go into the next slide.

So one of the important considerations when thinking about active management and fixed income is that passive funds need to limit themselves to the securities that are reflected in the particular index that they're targeting. So in the core bond space, for example, they use-- passive funds tend to use one index that's illustrated here on the right hand side of the page that reflects about $27 trillion of bonds.

Now that sounds really impressive up until you consider the fact that there are so many more securities, so many more bonds outside of that index that if you were to include all of those you would be looking at a list of over $50 trillion of bonds. And that just gives us as active managers a lot of opportunity to dig in, do the work, particularly when we've got a lot of resources in research and in trading to select really great bonds that are outside of the index.

So for example, last year, we had a good sized position in Treasury Inflation Protected Securities otherwise called TIPS. And these are securities that tend-- these are bonds that tend to do well if inflation expectations are increasing. And based on a lot of research work that we had done, that was our expectation. And those are securities-- those are bonds that ended up doing really well and adding value to our portfolios and helped us outperform.

Whereas on the passive side, given that TIPS are not in the index, investors in those passive funds did not get to enjoy the benefit of owning TIPS throughout that time period. Trey, if we could move to the next slide.

So I talked about the size of the market and the opportunity set that's there and how that matters, but size isn't really the only consideration. The composition of the market really matters. And given that passive funds have to reflect the composition of whatever index they're targeting, and the composition of the market can change pretty meaningfully over time. And you can see on this page how the composition of the overall market changed really dramatically between 2011 and 2021, so over the course of the last 10 years.

And what's important to remember here is that given that passive funds need to reflect the composition of the underlying index, therefore, buyers of the area that's growing even if that area of growth happens to not be particularly attractive. And whereas as active managers we have a lot more discretion. In other words, on the passive side there's a lot of indiscriminate buying and selling, which creates opportunity for us.

So for example, we can think about rating agency actions and the ratings that they have on issuers. If a bond gets downgraded And because of that downgraded index, well, it's likely that passive funds may need to sell that-- may need to sell that bond. And if it's a-- and if it's a bond of an issuer that we like from a fundamental perspective, we might get an opportunity to buy it at a really attractive price given the-- given the price pressure that might result from passive buyers selling.

Conversely, if our research analysts are excited about one particular issuer and think that the fundamentals are really strong for that issuer and are expecting that issuer to get an upgrade, we don't have to wait for the upgrade to actually happen. We can buy that bond when it's still a lower rated bond hopefully at an attractive price.
Whereas passive funds generally have to wait for the upgrade to happen at which point that bond would get included in the index and become an eligible purchase for them. And they will have missed the opportunity to have bought that bond earlier at a better price. Now the other consideration here also is

that there tends to be-- there can be a really big range of returns all across fixed income, which we'll see on the next slide.

So on this chart, you can see what the range of returns has been across fixed income in all of these years. And all of fixed-- fixed income is not all alike. Bonds have different characteristics, and we'll have different-- potentially very different return profile. And you can see that the range of returns in any given year can be really wide. That's what the-- that's what the height of the gray bars represents.

Again, like I mentioned earlier, passive funds really need to reflect the composition of the index that they're targeting. But as active managers, we have the discretion to think about what do the fundamentals look like in one particular sector. What does that mean for each individual asset class.

And therefore, we can own more of sectors that we think may perform better than the overall market. And we can own less or none of all of a sector that we think will perform at a lower level or have lower level of return than the overall-- than the overall market. And this is an area where we can add a lot of value to our portfolios.

So for example, in March of 2020 when the pandemic volatility really hit the market in full force, pricing of investing corporate bonds really deteriorated. Spreads in the investment grade corporate market went from being at the most expensive level that we had seen throughout the last decade to basically the cheapest level of the last decade.

And based on all of the work that we had done on the research side, we felt very strongly that even though there would be economic contraction, there would be potentially a slowdown in growth, maybe some margin pressure, we felt that a lot of investor-- that all of the companies were in a good position to

survive a prolonged lockdown. And we also felt that the fed was likely to come out with a very strong response to the pandemic.

And so we took advantage of that situation and bought a lot of rescued corporates. And over the course of the following few months, those performed extraordinarily well. And there were some names that were up 25% to 45% over just the course of three months, which is really staggering considering the fact that these are really high quality, very stable investment grade companies.

Now not only did we buy a lot of corporates and had a very big overweight 10 Russell grade corporates, which perform well, we also bought a lot of corporates in what's called the new issue market, which I think is a really interesting part of fixed income. So unlike on the equity side where IPOs might be a relatively small part of the market, in fixed income there are new bonds getting issued just about every day. And in fact, if you look at the investment grade corporate market over the course of the last two years, new issues-- newly issued bonds have made up about 20% of the market. So that's a really big component.

And the reason why that's so interesting is that often when a new issue comes to market, it comes at a fairly attractive price relative to bonds that are already outstanding. And as active managers, we can make the decision of whether we like a specific issuer and then decide to buy that bond at a very attractive price. Whereas, many passive funds end up waiting until the end of the month to add to those-- to purchase those bonds once they are added into the index.

The key distinction here is that new issues in the fixed income market are not added to the index on the date they're issued. They're added at the end of the month. And by the time the passive funds buy the security later on, it's possible, though, that that attractive price is gone. And so that is one area where we've been able to add quite a bit of value within our portfolios.

If we go to the next slide, you can see what the result has been. So if you take a look at all of the actively managed fixed income funds and compare their performance to the benchmark, what you'll find is that the vast majority have actually outperformed-- have actually outperformed their benchmark after expenses. And so for example, if you look at the intermediate core-plus bond category, which is the second row from the bottom, over the timelines that we've indicated here you can see that roughly 80% to 90% of active managers have actually outperformed the benchmark after expenses, which I think is a really noteworthy batting average.

So that's a little bit there on the benefits of active management. I think there are a lot of levers that we have as active managers and a lot of advantages that we have as active managers to be able to add up performance versus the benchmark. And I think it comes through very clearly on the numbers on this page.

So let's shift gears now and move on to the next slide and talk a little bit about what's been going on in the market. As we get started here, I really want to put what's going on in the market now just into context relative to what's-- to what we've seen historically.

If you look at the history going back all the way to the mid-70s, if you exclude this year, what you'll find is at negative returns were fairly hard to come by. There were only four calendar years where the market experienced a negative return. And each of those negative returns were actually fairly small.

In fact, you could say that the results model, they, kind of, felt like maybe a bad day in the equity market. And odds are that in years where there was a negative return in the bond market if you had a diversified portfolio, the equity portion of your diversified portfolio was hopefully outperforming and more than making up for the decline in the bond market. This year's been dramatically different.

You can see the chart, the bar all the way on the right. On a year-to-date basis, the bond market is down about 8%, which really stands out from a historical perspective. And that's happened really on the back of interest rates rising as much as they have.
Now the silver lining here is that yields have risen over this time period. On this chart in the solid line, we've got the yield on the 10 year treasury. And you can see that relative to a year ago, it's ticked up. It's actually much, much higher than it was.
And if you look at the-- take a step back and just look at the broader bond market, what you'll find is that the yield in the broader bond markets moved up quite a bit from close to 1% to about 3 and 1/2%. And so what that means is that there's a lot more cushion now in the bond market.

It's a much more attractive value proposition given relative to where we had been. And I think bonds are really well-positioned to fulfill their traditional role, which is to offer capital preservation, income generation, and diversification. And I think there they remain a very important part of a diversified portfolio.

Now if we move on to the next slide, you can see a little bit here of what I've would have been referencing and the big move up in interest rates that we've seen over the course of the last year. So on the left hand side, we've got the yield curve, the treasury yield curve.

And at the very bottom, there's a line in light blue. That's the level at which the yield curve was a year ago. And at the very top, we've got a dark blue line. That's where yields are today. And you can see just what a dramatic increase in interest rates all across the yield curve there's been, and a pretty notable one too at the front end as expectations have risen for the fed to increase rates.

On the right hand side of the page, we look at this in a little bit more detail and take a look at the 10-year treasury and adjusted for inflation. By reducing the

level of expected inflation out of that 10-year treasury yield, we get what's called the real yield, which is in green. And at the very beginning of the year, that was in solidly negative territory.

And our thinking in terms of positioning was that it didn't make a lot of sense to have sustained negative yields given the state of the economy and given expected fed action. And so as active managers, we actually positioned the duration of our portfolios to be a little bit shorter than that of the benchmark with the expectation that rates would be-- that rates would be rising.

And you can see that that green area of the chart has actually gone now into slightly positive territory. So there has been a big increase. And as that's happened, we've moved the duration of our portfolios closer to that of the benchmark. In other words, we've become neutral in terms of duration relative to the benchmark.
If you look at the next slide, you can see-- you can see what the expectations are right now from the fed for increases in rates or in fed funds and what the market is expecting. This is what we typically call the fed dots in the market, and the black dot is the median projection from the fed.

And you can see that in 2022 and in 2023, the fed was expected to hike-- is expecting to hike rates. Interestingly enough, the market, which is denoted by the lighter-- the blue line that's dashed is actually starting to expect rate cuts in 2023. And now clearly there's a lot of uncertainty.

Many market participants have been very poor at predicting inflation and predicting the economic outlook. And so there's still a lot of room for variability here and maybe a little bit premature for the market to be expecting-- to be expecting cuts in 2023. On the next slide, you can get a sense for what the market looks like from an overall perspective right now.

So just to orient you on this slide a little bit, on the left hand side, we've got the yield on the 10-year treasury and the yield on the broader fixed income market. The height of the bar represents what the-- represents the range of that yield over the course of the roughly last 10 years. And the green diamond represents where we are now.
So if you look at the second column as an example, you can see that that green diamond is at about roughly 3 and 1/2%. So that's the yield on the bond market. And you can see that it's towards the higher end of that historic range, which is what I mentioned earlier.

And furthermore, you can see a little bit of detail of detail at the bottom of the slide and see that we're at the 96% level, in other words, really, really at the really high end of where we've been historically. And like I said earlier, I think this provides a bit more of a balanced outlook for the fixed income market and a better risk reward profile.
Now, if you look on the center of the page, these bars are a little bit different. These are not yields, but these are spreads or the spread that is offer-- that these risks-- that these asset classes offer over and above that of-- over and above the yield of treasuries. And if you look in the very middle of the chart where it says US corporate IG, this is the spread on investment grade corporate bonds.

And again, the height of the bar represents what the range has been over the course of the last 10 years or so. And you can see that it's a fairly wide range. And we've got a blue marker there on the bar denoting what that spread was right before COVID, which you can see was at an extraordinarily tight level. And at that point, we were fairly conservative with our positioning in our portfolios and owned very few long corporates, which are very, very sensitive to moves and spreads.

And you can see that when the pandemic hit, spreads went from just about the most expensive level of the last decade to the cheapest level of the last

decade. And that's denoted in the black marker at the very top. And that's where I mentioned earlier that we were able to buy a lot of investment grade corporates and really benefit from the subsequent tightening in spreads, in other words, the recovery in spreads.
Today, you can see where the green markers is where we're basically in middle of the road relative to the last 10 years. You can see at the very bottom of the slide that we're in the 66th percentile in terms of historically ranking the spread level. And this is off of the bottom. So we're off of the tights.

After the pandemic, after we hit those really attractive levels, really wide levels of the pandemic, there is an incredible recovery. And we basically went back-- the market went all the way back to pre-COVID levels, which were very rich levels. But with this backing up of spreads, we've actually have been able to start to chip away at that underweight that I mentioned earlier in long corporates and adding to risk at fairly attractive levels, not to the same extent that we did back in March of 2020 but taking a prudent approach here and adding to-- adding to risk.

On the right hand side of the slide here, you can see-- you can see similar data for some of the high yield sectors. But maybe at this point, I'll ask Ben to chime in with his views on the high yield market.

Benjamin Harrison: Thanks Celso. And thanks Montana and Celso for the intro. So my name is Ben Harrison. I'm a portfolio manager on our high yield team here in Boston, and I manage a couple of funds, one of which is the ETF fidelity sustainable ETF, high yield ETF FSYD.

So go to the next slide, please. So this is, sort of, start pretty high levels, sort of, in similar ways that Celso did. So this is the components of the high yield markets calendar returns over time. And if you look at this, this is basically looking at total return and then coupon and price being inputs to that. So a high yield bond is a bond of an investment of a non-investment grade issuer.

So it's the bond of some corporate issuer that is below investment grade, so rate of BB or below.

And one of the things that's interesting, I think, in this chart is that it shows the power of a higher coupon which one receives for taking above average and above investment grade risk in contribution to total returns. So if look at this chart since the inception of the index, you'll see that there have never been two years of negative total return for the index. And that's, sort of, really illustrates the power and the compounding power of price and coupon being contributing factors for total return in the market.

And so if you look at this, this gives, I think, sort of a pretty good line up into events that folks in the call are pretty familiar with. As we go to the next slide, we get into year-to-date and some odd dynamics. So there's a lot going on in this slide.
But I thought this slide would be a good opportunity for us to kind of talk about what's happened, sort of, the last year or so on where we are looking forward in the high yield market and some of the reasons for that. I think that will be a, sort of, a good way to also help folks in the call sort of get a sense of how they can, sort of, analyze some of their high yield investment considerations.

So 2021 saw high yield spreads come down and spreads obviously being above treasuries to the pretty close to the historic low, about 330 over. And that's at the lower bound of the historical range. Now that makes sense. The economy was growing. There was earnings growth in almost all sectors excluding, sort of, a few sensitive travel and leisure names and areas that are still rebounding. There was very accommodative monetary policy, and there was extreme there were extremely strong issuance and technical tailwind.

So one of the things that happened in the last two years was the high yield market set a record for new issuance. That's something that's also talked on a

little bit in the investment grade market too. And the use of that proceeds, the proceeds of those newly issued bonds by the issuers was for the most part was to refinance existing maturities at lower interest rates and add liquidity. And additionally, the majority of those issues were double B's, which were the highest credit quality part of the market.
So despite two years of, sort of, very loose credit dynamics, we saw the market extend its maturity profile. And that's depicted on the bottom right here. And those are the bonds that are maturing in aggregate, which the issuers will need to address and refinance over time and add liquidity, which improves their creditworthiness and reduces their default probability, all things equal.

So what we've seen is we've seen over 2021 and then, sort of, come into 2022, which has been a very different year we've seen strong issuance. We have seen strong fundamental rebound. And we have seen the maturity walls get refinanced out at lower rates. So as we sit today and as we sat entering the year, the market as a whole, the high yield market as a whole was relatively healthy from a maturity wall, from a liquidity standpoint, and from a credit-- sort of, a credit quality mix composition standpoint.

If we go to the next slide, please. So this looks at the market spread over time. And this is interesting looking at if you go way back, sort of, about 540 or so is a long term average. 585 is where we were I think at the end of July. We're a touch tighter now.
You can see, sort of, as these market events have come-- you'll see 2020 COVID is a good example. You can go back to a commodity downturn in 2015. You can go back to the 2008, 2009. You can see spreads increasing significantly in each of those time periods.

Right now we're in a period where we have seen year-to-date, 2022 is a good way to think about the first half dynamics of high yield credit. We saw two things. We've seen two things happen in the market so far this year.

We've seen Treasury rates, interest rates rise significantly, and we've seen spreads widen. The effect that this has has been to push down bond prices. And so from where we stand today, we see it's been a bit of a tale of two cities versus last year. The first half of the year saw very negative returns with a high yield market. It was actually the most negative first calendar half in the market's history due to rising interest rates and widening spreads happening simultaneously, which typically doesn't happen. And then that has, sort of, led you to-- that led us to the market levels that we're at today.

If we can go to the next slide, please. So here's a snapshot of that impact on bond market prices. So is higher bond market prices. So you see we started the year with the average bond price above par. That came down to the mid-80s actually a month or so ago. And now we're back up until about $0.90 on the dollar through this period. So below average dollar price, which is interesting.

And I think as we sort of assess the market and, sort of, relative risk return opportunities, one thing that's interesting-- and I think folks are aware of this in the call-- the last couple of years, we've had historically low interest rates. And so we've had all the new issuance on high yield is a pretty short duration asset class. So issuance happens-- issues have to be refined more frequently in a years basis than other markets.

We've seen much of the market or most of the market issued at relatively low coupons to historic standards. So as rates have come up and as spreads have widened, that's pushed down dollar price more than average. So that, sort of, gets us to a sense of starting point today for both price and yield.

If we go to the next slide, please. So this wraps up and give, sort of, a comparison of some of the dynamics together. And I think Celso has hit on these as well, sort of, comparing the bond market over time. I'm going to talk just here about the two gray shaded bars on the rows on the bottom, the high

yield market and then the leverage loan market, which are the two primary markets that are group investment and the funds we manage invest in.

So these are the low investment grade parts of the market, the credit market. The loan index is the floating rate component. The high yield indexes are fixed rate bonds.
As you can see, the, sort of, power of the higher coupon, the shorter duration, the, sort of, other attributes we've discussed on the market over time have led these markets to be among the highest Sharpe ratio mark sort of investable markets of the major asset classes then sort of again Sharpe ratio is a measure of unit of risk for unit of return. So higher is better for a Sharpe ratio generally. So that's, sort of, a good way to of snapshot, I think, from the high yield portion of the update, sort of, where things stand today. I don't know if we have another slide or if we want to jump in to Q&A, but that's what I had prepared.

Trey Jarrell: All right, thank you so much, Ben. Want to thank Celso and Montana here as well. We've got a ton of questions here from the audience here for you.
I'll give you just a quick break to catch your breath on those. I wanted to take just a moment we actually had a lot of questions here today regarding where investors can find these funds through Fidelity.com and a lot of questions about where can I find things like expense ratios where can I find yield. So I just want to take a quick moment to take everyone through Fidelity.com here as well.

And this is really a great starting place. You can find this page by going to Fidelity.com/ETF or just head to our investment products menu and ETFs, so investment products ETFs. And this is going to take you to our exchange traded funds landing page.

Once we're here, we're going to select the Fidelity ETFs, and this will show us that whole suite of ETFs here. Montana had mentioned earlier in her introduction, right, we spent a lot of time on fixed income, but that's not the only thing available here. You can get more information on all the funds through factors, sectors, stock ETFs, all in this page. But I do want to take a moment, you'll find our bond ETFs over here on the far right hand side. And once we're in here, we'll have a little bit more information around Fidelity bond ETFs, but we are going to see all of those individual funds down here as well, right.

So some of the ones that we've discussed here today all located within this page, and there are specific ticker symbols here as well. Let's take a look at one of these as an example here, right. If you did want to do a little bit more research, learn a little bit more about any of these particular funds, all you have to do from this page is simply click on the symbol.

Let's take a look at the FSBD here to get us going, the sustainable core-plus bond fund. And when this loads up, right, we're going to get a current quote on this ETF here at the top, but this is where we can find some of that additional research here as well. Our main page is going to give us overall summary of the fund, but here we can find a lot of those details, all right, what's the expense ratio of the fund, current net assets. We can get information on the yield if there's any premium discount. All of that can be found here on this page. And you can use the tabs going across the top here to get additional information if you'd like to dig in a little bit deeper into the composition of the fund, what's being held in here. If you'd like to learn more about the distributions that have paid out, those expenses we can get a more detailed breakdown here as well.

So absolutely a great place to go. Remember, Fidelity.com ETFs or just head to that investment product menu, select ETFs, and then the fidelity ETFs will bring it to this page. So with those covered, why don't we jump into a few of

the questions that we had. I do want to appreciate our presenter sticking around to answer some of the questions, a ton of great ones here.

I've got one that I'll start with. Then from here we'll go to, kind of, our top voted from the audience. But one I had here for Celso and Ben given that you're both portfolio managers on newly launched ESG strategies, I was wondering if each of you could comment on how you view ESG considerations within your investment process.

Benjamin Harrison: Do you want start, Celso, or do you want me to start?

Celso Muñoz: I'm happy to start off. Those are all very important factors that can impact valuation, and we give those a lot of thought. And one of the things that we've done over the last few years is that we really have formalized the way that we go about thinking about ESG.

And now we have our research analysts in addition to giving us recommendations that are proprietary recommendations to only to us Fidelity portfolio managers about whether a security is a buy or sell or how high the credit quality is of a particular issuer, they are also working on ESG ratings.

And what's really special about the ESG ratings that we have is that they are forward-looking, and that's very different from what other competitors are doing, from what other market participants are doing. And so we are spending a lot of time with issuers going through what they are doing today from an ESG perspective and thinking about how that is changing on a go-forward basis.

Now when it comes to the sustainable funds, what we're really doing there is really trying to emphasize what we consider to be ESG leaders. So we look across the universe of issuers that are available to us, and we really try to emphasize the ones where from a research perspective we really think they are leading the charge in terms of positive ESG factors. And at the same time,

we're minimizing those that we think are ESG laggards and, in some cases, avoiding entirely certain sectors that are not particularly ESG friendly.

Benjamin Harrison: Those are good points, Celso. We see it very similarly. I think something that, sort of, is also great to illustrate, sort of, the inner workings of how fidelity works. Celso and I are co-managers actually on some of the bigger bond funds together. And we talk every week, as do our co-PM teams on this topic. So this is something that we think about a lot.

When we analyze an issuer, all aspects of its, sort of, forward looking outlook need to be considered, and that includes a lot of ESG factors that will determine its cost of capital, its access to capital, its customer customers use of them. All these things are going to be determinants of bond price and risk in the future.

To give, sort of, a high level example about mentioning, sort of, specific issuers just on a sector level how one might think about it, there are certain oil and gas companies that have plugging and abandonment issues, that are environmental issues that are liabilities that will be cash liabilities likely for the company in the future, but they're not necessarily on the balance sheet. It's not something that you see when you look at the debt that they have.
So that's something that from an E standpoint, we want to make sure on all the funds. And Celso and I each co-manage in additions to the ESG funds some of the diversified core funds that we're being thoughtful about how that is going to impact the issuer in the future. Similarly, there are regulations on how some US investment banks underwrite different industries now based on ESG considerations. And while that's not the only thing that needs to be a part of our mosaic when we look at any bond investment.

Trey Jarrell: Great. Well, thank you so much. I want to take a moment to just thank all of our presenters here today for that great information.

END OF AUDIO FILE

Before investing in any mutual fund or exchange traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, an offering circular, or, if available, a summary prospectus containing this information. Read it carefully.

ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. ETPs that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus. ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case of exchange-traded notes). The degree of liquidity can vary significantly from one ETP to another and losses may be magnified if no liquid market exists for the ETP's shares when attempting to sell them. Each ETP has a unique risk profile, detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

In general, fixed income ETPs carry risks similar to those of bonds, including interest rate risk (as interest rates rise, bond prices usually fall, and vice versa), issuer or counterparty default risk, issuer credit risk, inflation risk, and call risk. Unlike individual bonds, many fixed income ETPs do not have a maturity date, so holding a fixed income security until maturity to try to avoid losses associated with bond price volatility is not possible with these types of ETPs. Certain fixed income ETPs may invest in lower-quality debt securities, which involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Any fixed income security sold or redeemed prior to maturity may be subject to loss. High-yield/non-investment-grade bonds involve greater price volatility and risk of default than investment-grade bonds.

The municipal market can be adversely affected by tax, legislative, or political changes and the financial condition of the issuers of municipal securities. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets or for all account types. Tax laws are subject to change and the preferential tax treatment of municipal bond interest income may be revoked or phased out for investors at certain income levels. You should consult your tax adviser regarding your specific situation.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

Investing based on ESG factors may cause a strategy to forgo certain investment opportunities available to strategies that do not use such criteria. Because of the subjective nature of sustainable investing, there can be no guarantee that ESG criteria used by Fidelity will reflect the beliefs or values of any particular client.

References to individual securities are for illustrative purposes only and should not be construed as investment advice.

Past performance is no guarantee of future results.

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Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

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