February 9, 2015

High Yield Bond Market Outlook
What are High Yield Bonds?

Not just ‘junk’

- High Yield bonds are corporate debt rated below investment grade (BB+ / Ba1 or lower)
- Lower ratings reflect less confidence that companies will pay interest and principal
- Typically they offer higher interest rates to attract investors to buy their bonds

Source: BofA Merrill Lynch as of 12/31/14.
Growth of the High Yield Credit Market

Face Value Outstanding

$ Trillions

- High Yield Bonds
- Leveraged Loans
- Total High Yield Credit

## U.S. High Yield Market – Top Issuers

<table>
<thead>
<tr>
<th>Issuer</th>
<th># of Bonds</th>
<th>Total Face Value ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sprint Nextel</td>
<td>16</td>
<td>$27.6</td>
</tr>
<tr>
<td>HCA Inc.</td>
<td>21</td>
<td>$21.5</td>
</tr>
<tr>
<td>Ally Financial</td>
<td>15</td>
<td>$16.5</td>
</tr>
<tr>
<td>T-Mobile</td>
<td>13</td>
<td>$16.4</td>
</tr>
<tr>
<td>Reynolds Group</td>
<td>13</td>
<td>$15.8</td>
</tr>
<tr>
<td>GM / GM Financial</td>
<td>15</td>
<td>$15.6</td>
</tr>
<tr>
<td>Navient / SLM Corp.</td>
<td>16</td>
<td>$15.4</td>
</tr>
<tr>
<td>Charter Communications</td>
<td>13</td>
<td>$14.4</td>
</tr>
<tr>
<td>Dish Network</td>
<td>9</td>
<td>$14.3</td>
</tr>
<tr>
<td>First Data</td>
<td>9</td>
<td>$14.0</td>
</tr>
</tbody>
</table>

**Face Value of Market:** $1.3T  
**Face Value of Top 10:** $170B  
**Number of Issuers:** 1,110  
**Average Issue Size:** $569M

The securities mentioned are for illustrative purposes only and not necessarily current holdings invested in by Fidelity Investments.  
References to specific company’s should not be construed as recommendations or investment advice.
U.S. High Yield Market Overview

Source: BofA Merrill Lynch as of 12/31/14.

Industry Diversification

Credit Quality Diversification

- Energy: 15.2%
- Basic Industry: 0.5%
- Telecom: 42.1%
- Media: 42.2%
- Healthcare: 15.2%
- Financials: 0.5%
- Capital Goods: 0.5%
- Technology: 0.5%
- Services: 0.5%
- Retail: 0.5%
- Lodging: 0.5%
- Autos: 0.5%
- Utilities: 0.5%
- Consumer Staples: 0.5%
- Banks: 0.5%
- Real Estate: 0.5%
- Restaurants: 0.5%
- Insurance: 0.5%

BB and above: 42.2%
B: 42.1%
CCC & BELOW: 15.2%
Not Rated/Not Available: 0.5%
U.S. High Yield Market Overview

Maturity Schedule

Source: BofA Merrill Lynch as of 12/31/14.
U.S. High Yield Market Calendar Year Returns

Source: Bank of America Merrill Lynch as of 12/31/2014.
*1986 is a partial year return from 08/31/1996-12/31/1996.
Total return represented by The Bank of America Merrill Lynch U.S. High Yield Index through 2006 and The Bank of America Merrill Lynch U.S. High Yield Constrained Index thereafter.
U.S. High Yield Market Update

Source: Bank of America Merrill Lynch (Option Adjusted Spread) and Moody’s (default rate) as of 12/31/2014
High Yield Bond Issuance: Use of Proceeds

Source: Bank of America Merrill Lynch as of 12/31/2014.
High Yield Bond Issuance: Credit Rating Mix

Source: Bank of America Merrill Lynch as of 12/31/2014.
### U.S. High Yield in Context


<table>
<thead>
<tr>
<th>Index</th>
<th>Annualized Total Return (%)</th>
<th>Annualized Standard Deviation (%)</th>
<th>Sharpe Ratio</th>
<th>Correlation to U.S. High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government 10+ Yr Bonds</td>
<td>6.35</td>
<td>7.35</td>
<td>0.48</td>
<td>-0.12</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>5.42</td>
<td>16.66</td>
<td>0.15</td>
<td>0.64</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>9.85</td>
<td>15.15</td>
<td>0.46</td>
<td>0.62</td>
</tr>
<tr>
<td>FTSE NAREIT All REITs</td>
<td>11.13</td>
<td>19.30</td>
<td>0.43</td>
<td>0.62</td>
</tr>
<tr>
<td>S&amp;P Performing Loan Index</td>
<td>5.42</td>
<td>5.92</td>
<td>0.44</td>
<td>0.76</td>
</tr>
<tr>
<td>BofA ML U.S. High Yield Constrained Index</td>
<td>7.98</td>
<td>8.79</td>
<td>0.58</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Fidelity Investments.

It is not possible to invest in an index. All indices are unmanaged.

Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss.

See the Glossary at the end of this presentation for more information on any terms.
### Income Producing Asset Classes

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>BofA ML U.S. High Yield Const. Index</th>
<th>Barclays U.S. Aggregate Bond Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Dollar Price</td>
<td>$100.07</td>
<td>$107.25</td>
</tr>
<tr>
<td>Yield to Worst</td>
<td>6.28%</td>
<td>2.02%</td>
</tr>
<tr>
<td>Optioned Adjusted Spread</td>
<td>499 bps</td>
<td>48 bps</td>
</tr>
<tr>
<td>Duration</td>
<td>4.02</td>
<td>5.44</td>
</tr>
<tr>
<td>Average Maturity</td>
<td>6.54</td>
<td>7.72</td>
</tr>
<tr>
<td>Average Coupon</td>
<td>6.89%</td>
<td>3.27%</td>
</tr>
</tbody>
</table>

Source: Bloomberg and Fidelity Investments as of 2/5/15.
The asymmetric return profile of the leveraged credit market typically rewards intensive, bottom-up, credit research

- **Foundation of our investment process is fundamental research**

- **Target investments in the B-rated core of the market**

- **Team based approach incorporates multiple perspectives for enhanced idea generation**
Potential Benefits of Investing in High Yield

Historically offered higher interest rates than government or investment grade corporate bonds

- Currently, average coupon rates are around 6.9% for high yield bonds compared to 3.3% in investment grade bonds

Potential for capital appreciation

- Event risk (e.g. takeover by a bigger, higher rated company or a ratings upgrade) and improved economic outlook are the main drivers

Historically less sensitive to interest rate risk (duration) than investment grade bonds

- High coupons and shorter tenures leave high yield less vulnerable to rate rises

May deliver higher total returns than investment grade bonds, but with less volatility than stocks

- High coupons make returns more stable but are still heavily correlated to the economic cycle

Historically low correlation to other fixed income assets

- Increases diversification across a broad fixed income portfolio
Question & Answer
Important Additional Information

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, offering circular or, if available, a summary prospectus containing this information. Read it carefully.

**S&P 500 Index** is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

**FTSE NAREIT Composite Index** is a market capitalization–weighted index that is designed to measure the performance of all tax–qualified Real Estate Investment Trusts (REITs) listed on the New York Stock Exchange, the NYSE MKT LLC, or the NASDAQ National Market List.

**MSCI EAFE (Europe, Australasia, Far East) Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. & Canada.

**Barclays U.S. Long Government Bond Index** is a market value–weighted index of U.S. Government fixed–rate debt issues with maturities of 10+ years

**Barclays U.S. Aggregate Bond Index** is a broad-based, market-value-weighted benchmark that measures the performance of the U.S. dollar-denominated, investment-grade, fixed-rate, taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, mortgage-backed securities (MBS) – agency fixed-rate and hybrid ARM pass-throughs -asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

**Standard & Poor's/Loan Syndications and Trading Association Leveraged Performing Loan Index** is a market value-weighted index designed to represent the performance of U.S. dollar-denominated institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads and interest payments.

**The BofA Merrill Lynch US High Yield Constrained Index** is a modified market capitalization–weighted index of US dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.
Important Additional Information

A bond’s credit quality is an important consideration when evaluating investment choices. Credit ratings agencies may assign a credit rating to a bond and/or bond issuer based on analysis of the issuer’s financial condition and management, economic and debt characteristics, and the specific revenue sources securing the bond. The highest ratings are AAA (S&P) and Aaa (Moody’s). Bonds rated in the BBB/Baa category or higher are considered investment-grade; bonds with lower ratings are considered higher risk, speculative or “high yield”. Lower rated bonds will often have higher yields to compensate investors for increased risk. Investors need to consider their risk tolerance when evaluating potential bond investments. Municipal bond issuers may pay a premium to an insurer, who will provide interest and capital repayments as specified in the bond in the event of the failure of the issuer to do so. The credit rating of these insured bonds can be higher than that of the issuer. In the case of insured municipal bonds, evaluating the rating of the insurer as well as the issuer is recommended for a more complete assessment of the bond’s credit risk profile. The rating of the issuer is sometimes referred to as “underlying ratings”. Should something change that causes a rating agency to change its rating for a particular bond or issuer, the market price of the bond and the resultant yield on the bond is likely to change as a result. Investors are encouraged to learn more about the ratings definitions and methodologies used by the various ratings agencies available at: www.standardandpoors.com www.moodys.com

Standard deviation is a statistical measure of how much a return varies over an extended period of time. The more variable the returns, the larger the standard deviation. Investors may examine historical standard deviation in conjunction with historical returns to decide whether an investment's volatility would have been acceptable given the returns it would have produced. A higher standard deviation indicates a wider dispersion of past returns and thus greater historical volatility. Standard deviation does not indicate how an investment actually performed, but it does indicate the volatility of its returns over time. Standard deviation is annualized.

Sharpe Ratio is a measure of historical adjusted performance calculated by dividing the fund's excess returns (fund's average monthly returns minus the average monthly return of the Salomon Smith Barney 3-Month T-Bill Index) by the standard deviation of those returns. The higher the ratio, the better the fund's return per unit of risk.

Correlation is a measures that shows the validity of a comparison to a benchmark index based on the historical relationship between portfolio returns and index returns.
Important Additional Information

Past performance is no guarantee of future results.

Indices are unmanaged and you cannot invest directly in an index.

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

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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 investments do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.

Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds. Leverage can increase market exposure and magnify investment risk.

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