Roger Hobby: Welcome and thank you for joining us today. Our goal for today’s webinar is to share details on a new, and we believe exciting, alternative investment program. From time to time, we’ll inform you of alternative investment opportunities that aren’t available to the general public. These opportunities may help with sophisticated investors with portfolio diversification and the potential for improved returns, but they can also come with increased risk. It’s part of our continuous search at Fidelity to look for ways to help our most valued clients reach their goals. We’re here to talk about a type of investment only for certain Fidelity clients, a private placement, sometimes referred to as an alternative investment.

Private placements generally focus on special situations or sophisticated investment styles appropriate for uniquely qualified clients. Some examples of alternative investments are private equity, venture capital, and hedge funds. Private placements are not for everyone. In addition to the high initial investment minimums, vehicles like these often require the clients they invested for a longer period of time. This allows the investment team to work through these special situations over a longer horizon in an effort to generate more favorable outcomes.

They’re generally more illiquid. They’d be difficult to value. And investors may have less real-time information regarding how the fund is invested. Fidelity’s first private placement offering is around distressed investing. Distressed investing has the flexibility to capitalize on investment opportunities throughout a company’s capital structure, focusing primarily on debt securities issued by companies experiencing financial or operational difficulties. Because of these difficulties, the investment management team believes that these securities may trade at substantial discounts. This is also a good time to note that while this particular topic is new for Fidelity high-net-worth clients, Fidelity’s presence in this space is hardly new. We’ve been investing in
stressed and distressed assets as part of our mutual fund business since 1977, and in 1990, established a team dedicated to this space. This team is led by Harley Lank, who has over 19 years of portfolio management experience.

Thanks for joining me today, Harley.

**Harley Lank:** Thank you for having me, Roger. Happy to be here.

**Roger:** During his 19 years as a Fidelity portfolio manager, Harley has one more than a dozen awards from Morningstar and Lipper, but of course it takes more than one person to navigate the kind of situations we’re talking about. Harley, talk to us a little bit about some of the specialists and about your team, and what you’ve got focused on this opportunity.

**Harley:** Yeah, this type of opportunity definitely takes a tribe, and one of the benefits of being an investment professional in Fidelity investments is the incredible amount of resources that we have to help do our jobs every day. Starting at a high level, Fidelity has almost 400 analysts around the globe who are experts in industries, companies, regions, and asset classes. And being part of that broad global network is a huge competitive advantage for us. This investing gets done at the high income and alternatives division, where we have a significant amount of dedicated resources to help us look for great distressed investment opportunities...

...starting with the research platform, which was really the foundation of everything that we do at Fidelity. We have 29 dedicated research analysts who are industry experts and know their companies inside and out. That’s the most important aspect of investing in companies like this. They’re supported by seven specialized traders on our trading desk who give us all sorts of market caller and information, and as importantly, get price execution when we’re looking to buy or sell securities. And last but not least, we have a dedicated
special situations group headed by Nathan Duzer, who’s worked actively on over 200 distressed investment opportunities over the last five to 10 years. So, we have a significant amount of experience and resources to help us in this type of endeavor.

Roger: Sounds like we’ve been doing this, you know, since 1977, 1990. We’ve got a lot of experience in this area and a lot of people focused on it over a period of time. Talk specifically about what does it look like to invest in distressed investments, and how does your team go about approaching that and taking advantage of it?

Harley: A distressed opportunity presents itself when a company has troubles handing the debt that it’s put on its balance sheet. And this can happen for a variety of reasons. It could happen on a broad basis if we go into an economic slowdown. So, in a recessionary scenario, this would impact the greatest number of industries and the greatest number of companies. It can also be an industry-specific catalyst. So, for instance, going back to 2015, 2016, the collapse in oil prices had a profound impact on the energy industry, and of course there are always idiosyncratic distressed opportunities to invest in.

An example of this would be a leveraged buyout transaction that has gone bad for whatever reason, or perhaps a company has made a (inaudible) acquisition that hasn’t gone well. So, these opportunities always present themselves in different ways and in different fashions. The important part is that given our research platform that we have, we’re constantly looking at the entire universe of investment opportunities, so whether it’s company-specific, industry-specific, or much broader based, we’re finding the most selective, best investment opportunities for investors, and we can be very selective and we can dig deep to make sure that we’re doing all the homework necessary to ensure that we can maximize returns for our investors in these types of investments.
Roger: Seems like it’s a big opportunity. Seems like we’ve got a lot of resources focused on it. Dig a little bit deeper, as you’re talking about it, on how does Fidelity inherently take advantage of these opportunities. What is our sort of competitive angle around being in the space?

Harley: So, I think we have two key competitive advantages investing into stressed securities. And we touched on both of them. The first is the resources that we bring to the effort, and then the second is the history. It’s almost a part of our heritage, the experience that we have investing in distressed securities. And so, to give a more nuanced answer to that, when you look at the resources that we have, it’s really critical to understand what you’re investing in, and given the 29 dedicated research analysts that we have as part of our high income and alternatives division, we can really make sure that we understand what the downside risks are to the types of investments that we’re looking at, and conversely, we can better understand what the upside opportunities are.

Not only are these fundamental situations very complex, to try and distill what’s going on, but the capital structures for these companies are also very complicated. They’ve issued a bunch of different types of securities, and not all of these securities will have the same risk-return profile as some of the other ones. So, not only are we finding the best companies for us to invest in from a distressed perspective, but we’re finding the right securities within a company’s capital structure. If you don’t have the resources that we have, you can’t be as selective as we are, and you can’t be ready to invest when the opportunities present themselves.

Roger: So, the massive experience and expertise that we have and how we’re doing the work is one of our biggest advantages. Now let’s talk about the market cycle. Markets kind of go through different things. Where we are in the market right now, how is investing in this type of a security aligned with where we are in the market as we speak?
**Harley:** It’s actually not. But that’s the key to investing in distressed securities. It’s a countercyclical type of a mentality that you need to have. Because if you wait for the default rate in the marketplace to spike up, you will have missed some of the greatest return opportunities in the marketplace. So, when we look at the high yield or the noninvestment-grade universe at a historical perspective, the average annual default rate is about five percent per year. Today, we’re well below that. We’re probably somewhere around three percent default rate in the marketplace.

And so, it would seem like now is not the time to invest, but the reality is you have to be armed and ready to go, because when these opportunities present themselves, they happen fast, and they happen furiously. And so if you haven’t already done your homework, if you’re not already prepared to put the money into the investments, then you will have missed a lot of the great opportunities, and so part of our broader work that we do as part of our normal, ongoing, mutual fund, high-yield investing business is, again, canvassing the entire universe of opportunities so that when they present themselves, we’re ready to go.

**Roger:** Excellent. How is Fidelity approaching this type of an investment and this type of investing differently, say, than the competition of the market.

**Harley:** If we were looking to do a dedicated product, which we haven’t introduced to the market yet, I think we would look to do something a little bit differently. So, I think the first thing that a lot of our investors are aware of is Fidelity’s attitude towards pricing in the industry. Fidelity is all about making sure that the clients come first, and as many of our investors may be aware, when you look at these types of alternative investments, the fee structures, historically, have been pretty onerous, and so I think one thing that Fidelity will look very closely at is pricing in this type of alternative investment so that investors can achieve more of the absolute return that we’re able to generate as opposed to a disproportionate amount of those profits going back to the manager. So, I think that’s one thing that Fidelity will look to do a little bit differently with a
dedicated distress debt product offering. Another thing that I think we do differently, again, is because, as you said in your introductory comments, we’ve been in the noninvestment-grade universe since 1977, we just have a much broader perspective of the overall opportunity set across the marketplace, and so we don’t necessarily just have to invest in companies that have filed for bankruptcy. We can look at a broad swath of companies that are maybe teetering on the edge of bankruptcy but may be able to avoid it, whereas a lot of the other dedicated distressed investors don’t necessarily look at those investment opportunities, and so they also present some really compelling risk return profiles for our investors that we’ll look to take advantage of as well as part of the way we do business on a daily basis.

Roger: That’s awesome. Well, listen, we’re very, very lucky to have you at the helm helping us think through these opportunities and taking advantage of the alternative investments and distressed investing, so thank you very much, Harley, for your time.

Harley: Thank you, Roger.

Roger: Well, it does come with its own unique set of risks. For the right investors, distressed investing does offer the opportunity to capitalize on unique special situations caused by dislocations across different sectors. As I mentioned at the beginning of this educational webinar, our new alternative investments private placement program is for qualified clients, and from time to time, we may introduce alternative investments that may or may not be appealing. Each client much carefully consider the offer and the risks. Your Fidelity advisor can help you do that.

To learn more about the distressed opportunities that are part of the private placement program, please contact your Fidelity advisor. Thank you for your trust and your continued business.