TRANSCRIPT

Myth-busting: Investing in Megatrends

Chris Peixotto: Thanks, everyone. So, this is Chris Peixotto in the Investment Product Group here at Fidelity. Really excited to have two portfolio managers on the call today. So, Steve Calhoun, who manages our agricultural productivity fund and Janet Glazer, who manages our new water sustainability fund. And they're going to take us through opportunities in megatrends. But first, just wanted to give you some high-level background on thematic investing overall, and how megatrends fit into thematic. So, if we go to the first slide, which I think is Slide Three here. So, the question, "What is thematic?" We really think about thematic as being an investment approach that really allows you to invest in long-term trends, long-term themes, that really align with something that you believe in. And thematic differs from traditional investment frameworks in a few ways. So, you can think about more traditional frameworks being something like regional investing, where you're focusing on stocks, say in the U.S., or in emerging markets. Style box investing, where maybe you're focused on large cap stocks or small cap stocks. Sector investing, where maybe you're focused on stocks in just the energy sector or just the healthcare sector. Thematic is really different from these kinds of traditional frameworks and it really cuts across these categories.

So thematic strategies tend to cut across sectors, cut across countries, cut across market cap, to really align with a particular idea or opportunity. And, you know, it's a newer category that we're seeing increasing interest and focus around so we've been trying to, you know, work on publishing research to help investors think about thematic investing, understand it as a category, and, as part of this, we've kind of introduced five different sub-categories within thematic investing. So, we show those on the slide here. But just to go through the examples, we've got disruption, you know, these are companies with new and kind of innovative business models that are really poised to disrupt and displace established companies in established industries. We've got megatrends, which is really the focus of this webinar here today. And to think about these as really long-term, structural trends and opportunities, driven by dynamics like changes in demographics and resource scarcity. Then we've got outcome oriented. These are thematic strategies that focus on a particular outcome. So maybe protecting portfolio from the effects of rising inflation. ESG is the next bucket. These would be thematic strategies focused around environmental, social, or corporate governance considerations. And then the final bucket is differentiated insights. So, these would be thematic opportunities that maybe don't fit into one of the other categories but are really thematic in nature. So, an example would be the theme or idea that founder-led companies make great investments over the longterm. And as

more investors have been interested in these areas, we've been really working on bringing new funds and opportunities to market to help investors get exposure to the themes that matter the most to them. And a key part of this has been really leveraging our best thinking across our research analysts and portfolio managers to help us come up with and think about, what are the most important themes and trends in the market? And what's the best way to build a portfolio and pick well-positioned stocks within each of those themes. And then a key part has been really sharing our thematic research insights with clients. So, we've introduced a new experience on Fidelity dot com. You can go to Fidelity dot com slash thematic, learn all about thematic investing, and then drill down into each of these different subcategories, like megatrends, for example. And then, if we can just go to the next slide here. I mentioned that we are working on bringing new offerings to market to help clients get exposure to these different themes. We have eight new funds that we launched just a few weeks ago in April. This includes the two megatrends funds that we're going to focus on here today, with agricultural productivity and water sustainability. We also launched a suite of six disruption funds, focused around this disruption category. And then we've got a number of options around outcome-oriented ESG and differentiated insights as well. But that's the high-level, what is thematic and some of the resources that we have available for you here at Fidelity. But the focus here is really going to be to

drill into megatrends, and to help us with that, I'm going to turn things, first, to Janet to talk about water sustainability.

Janet Glazer: Great. Thank you, Chris. And so, before I get started, I just want to say that hope everyone is safe and healthy at home. These really are unprecedented times that we're facing today, but I definitely know that we'll come out of this stronger. To kick it off, I just want to say thank you to everyone for joining us. I'm very excited to be talking about the Fidelity Sustainability Water Fund. Before I do, I wanted to provide a quick intro of myself. I'm currently the global sector leader for the cyclicals team and portfolio manager for several industrial funds here at Fidelity. In addition to this newly launched Water Sustainability fund. I've actually spent the last ten-plus years covering and researching companies related to water. I've actually written a white paper published last year in a CIO review magazine about smart technologies disrupting the global water sector. And I've actually been a speaker at water industry events, such as the American Water Summit. To say that I have an interest in water and sustainability is probably an understatement. And on a personal level, I actually grew up as a competitive swimmer, so I joke that I feel more comfortable in the water than on land. I think that global water supply is under severe pressure and there are so many attractive opportunities ripe for growth and disruption to tackle these issues. I

also think with COVID-19, the pandemic, I think it highlights the dire need for new technologies and treatments from CEOs that I talk with, even just this week, we're hearing management teams are already hearing from their customers that the conventional modes of working have shown cracks, especially as customers struggle to keep operators in the field, and therefore their customers are inquiring about remote sensing and automated operations. This is a trend that I expect to only accelerate moving forward. So maybe moving to the next slide. So, what is the water investment opportunity and why is it so attractive? I think we're at a tipping point when it comes to global water scarcity. And why now? Because according to the United Nations, the world's population is expected to increase by two billion over the next thirty years, from seven-point-seven billion to almost ten billion by 2050. This is going to put an enormous strain in an already fragile supply-demand imbalance, as the water we have on earth is finite, and there's no such thing as new water. Additionally, severe climate issues are just exacerbating the risk. And I think because of this, we're seeing increasing demand from governments around the world asking for help. In particular, they're asking for health from private companies as we see not only public budgets in spending come under pressure, but an immediate need to address the health and safety of global populations. And due to the massive imbalance of water demand and water supply, I think will only get worse if we don't take action today. The

need only accelerates the destruction that I think will occur within the water sector. So said another way, the water sector is ripe for change as the world's water can be more effectively and economically managed or outsourced. And so, what does this mean by growth in numbers? It's actually estimated that in the industry will forty-six percent per year for a long time and I think companies that are able to innovate and provide new science, technology, and intelligent, enabled solutions will actually grow multiples of this growth rate. The long-term secular megatrends of water quality, water scarcity, and water security lends itself to strong, active portfolio management, given the global and diverse set of businesses. And I think stock selection, and quality companies with strong management teams who leverage the high end of the water technology curve are set to dominate with stronger growth margins and valuations over time. So maybe moving to next slide, Slide Eight, just to provide a little more color here around the severity of the water challenges we face today, I just wanted to highlight a few scary and staggering facts. More than one billion people in the world do not have access to clean water. Two-thirds of the world's global population faces severe water scarcity and currently live without sufficient access to fresh water for at least one month per year. According to the World Economic Forum, one-point-eight million children die either from lack of water or diseases they get from tainted drinking water every single year. Now to put this in perspective, the number of

children who die every year due to the lack of clean water is equal to the number of elementary school children in Florida. And that's every single year. And why is that? It's because of three key factors. The first is insufficient infrastructure, the second is booming populations, and the third is climate change -- which is already adding stress to an already fragile system. And, like I said before, there is no new water. What we have on earth today is what we've got. So, it's no wonder that clean water is one of the seventeen U.N. sustainability goals and called out as the fifth biggest global risk over the next ten years in the World Economic Forum. And maybe moving to page nine, to bring this down to our daily lives, this is just a picture of how much water it takes to produce everything from fruits to automobiles, and it's pretty staggering. That orange you had as a snack last week, that took twenty-one gallons of water to produce. And did you know that it takes a little over one gallon of water to grow a single almond. Yes, that is correct. Almonds and walnuts are actually the top three most intensive foods. So, I always think about that when I get almond milk. Moving to page 10, so I see a wealth of attractive global investment opportunities to combat the global water crisis, and within the fund, I aim to capture opportunities across a broad spectrum of infrastructure, science, treatment, testing and technologies to address access to safe and affordable clean water, as well as combatting water loss. And I just wanted to provide three quick examples of companies to make this tangible.

One being in treatment, one in smart software, and one in smart infrastructure. Starting off with water treatment. So, water treatment actually involves the treatment of water and wastewater through its life cycle to remove harmful contaminates and the buildup of harmful deposits, whether that's chlorine, mercury, copper, cadmium, zinc, or even in the news, I think we're hearing more about PFAS chemicals. Water treatment actually involves removing all the bad chemicals and the bad materials from our drinking water and runs the gamut to high-end where even pharmaceutical companies just need pristine water for drug production. The water treatment market is growing at a high single-digit, year-to-year clip. And Evoqua is an example of a company that will benefit from providing solutions for PFAS and other chemical removals from drinking water, industrial applications, municipal water, food and beverage operations. Evoqua actually has a full suite of technologies such as reverse osmosis, ion exchange, granular active carbon oxidation processes, et cetera. And not only does Evoqua service and install the capital management, they have a growing pipeline of opportunity ahead of them, and I think heightened awareness from the government only helps. The second example I wanted to provide is from the smart software and digital applications, it's a company called Danaher. Danaher actually has a Claros water software platform that provides water intelligence for customers to help with regulatory compliance, cost savings, remote operations, data management, process

optimization, and equipment maintenance. Their system actually enables customers to collect, access, and share data as well as manage treatment processes in real-time and efficiently 24/7 in a remote manner. The software also provides greater confident in measurements with predictive diagnostics and maintenance. And the final example is one with smart infrastructure. Now before I go into this example, I want to tell you another startling fact. Due to the insufficient and old infrastructure, about 30 to 40 percent of water worldwide becomes non-revenue water according to the International Energy Agency. Non-revenue water is what that's lost due to leaks in pipes, unauthorized use, corruption, and inefficiencies. This is where SmartBall technology from a company called Xylem comes in. In 2015, Rand Water, the largest water utility in Africa embarked on its largest pipeline condition assessment investigation within its 3,300 kilometer of large diameter pipelines and it utilized diamond Smartball which is a multi-sensor tool used to detect and locate the acoustic signatures related to leaks. The ball rolled through pipe and inspected every inch to detect the leaks and gas pockets. And it wasn't just a simple pipe, it was an extremely high-pressure, high-flow pipe which made it extremely difficult to inspect. Xylem helped to find a solution to a costly problem that was impacting Africa's largest utility, and quite frankly, one of the largest utilities in the world. So those are just three examples of companies that are doing great things to help combat the water crisis that we

face today. And maybe if we go to page eleven. I know that I gave you three examples there, but I just want to zoom out now and talk about one of the largest thematic opportunities in water that I see today. I know that earlier, Chris had talked about disruption, but I think one of the biggest areas of disruption and that this next big disruption is going to be in smart water. Especially as utilities, industries, and governments face pressing and massive challenges as it relates to access and supplied water. And when I talk about smart water and networks, I'm actually talking about devices that are digitized and networked in a way that enable systems to monitor, collect, exchange, and analyze data like never before. With advanced capabilities using artificial intelligence and predictive analytics. Or said another way, The Internet of Things. And the intelligence embedded in equipment to help solve the global water crisis. It's forecasted that the global Internet of Things will grow to more than 1.5 trillion by 2025 we're at a 40 percent (inaudible) annual growth rate. So just tying that to the Fidelity Sustainability Water Fund or FLOWX, from a portfolio perspective and an investment framework, I'm aiming to be at the forefront of these trends and investing in companies that I not only think will win-out by capturing unique technology solutions, but I also want to be investing in durable, fortress-like defensive stocks that I think can compound free cash flow through long periods of time. The goal of the fund is to be extremely concentrated and identify best-positioned companies that I believe

will become much larger and stronger over time. And again, I think quality companies with strong management teams levered to the high end of the water technology curve are set to dominate with higher growth, margins, and valuations over time. I'm actually very optimistic that we will solve these water challenges and that the Fidelity Water Sustainability Fund will be at the forefront in investing in some of the most disruptive technologies that will drive a big step change in water management. So hopefully that was a good overview for everyone dialed in on the Fidelity Water Sustainability Fund. And with that I'll floor it over to my colleague Steve Calhoun.

Steve Calhoun: Great. Hi, everyone, thanks, Janet. And I'll echo the same thoughts that Janet had. Hopefully everyone is safe and hunkered down out there. We live in fascinating times. But I'm actually really thrilled to be talking about the FARMX fund today, the ag productivity fund that we just rolled out similar to Janet's water fund. I'm actually really similar to Janet, I'm very passionate about this space, the agricultural space. Maybe it's because I've been looking at the space going on 26 years. It was my first assignment when I came to Fidelity. I also grew up in the Midwest so I'm a Minnesota boy from the get-go. So, this is a space that's near and dear to my heart.

I want to go to slide 14. And it's the first slide because I think it's the most important slide as we're thinking about not only the ag productivity fund but also Janet's water fund. And it all comes down to demographics. If there's one thing as we're sitting here talking about mega trends, the one massive mega trend that we can all agree on is population growth. And so today we have a population of call it 7.5 billion people that's going to be growing to 10 billion people on this planet by 2050. And so that is where the theme or the thought process behind this fund came about because especially as it relates to agriculture you need to feed these populations. And what's amazing with agriculture is you basically have a finite amount of arable land. And so, you end up getting into this problem where you have a growing population, yet you need to be more productive with the arable land that we currently have to feed a growing population.

The other thing that you need to appreciate is diets are changing. We've all been reading about this, whether it's in Asia, you have a rising middle class, you have the largest amount of people that are entering the middle class that are demanding better diets, better nutrition. And these are all areas that this fund FARMX will take advantage of.

There's also advancements in technology that are really cool. Some people would think that agriculture is one of the oldest industries. But it is absolutely embracing new technology and disruptive technology is very much alive and well in the agricultural space. And this fund will be taking advantage of that.

The other thing that I think is interesting is this is a global opportunity set for FARMX. When we're thinking of the companies that this fund will invest in, it'll be material companies which will be providing seeds or fertilizer to grow different types of crops. They could be industrial companies that create ag equipment to help cultivate, to farm these different row crops around the world, as well as consumer companies, companies that are actually producing the different proteins that are then selling to the final end consumer.

So, it's broadly diversified across multiple sectors. It's riding a mega theme that is undeniable. And the first step in stepping into an investment, especially when you're looking over the horizon, is you want a great demand picture. And we absolutely have that in the ag productivity fund.

If we go to slide 15, next slide, and this is where I'm just trying to highlight and reinforce this point as it relates to the amount of food that we need to create to feed this growing population. And it's not going to be any small feat. And

at the highest level you think about North America. We plant fence post to fence post. We have our breadbasket in the Midwest that is producing corn and soybeans and wheat. And when we think about Asia -- actually I'll go to Europe as well -- Europe is well on its way. And they're planting fence post to fence post as well as far as the amount of rapeseed and wheat that they're producing in Europe. And while if we move to Asia, Asia is effectively shrinking their arable land as they're industrializing, and people are moving to the cities. And so, the offset to a shrinking Asia is you have an expanding Latin America.

So, when you put all the pieces together you basically have this fixed amount of arable land that has to be able to generate more food, more protein in the coming years and decades to help feed this growing population. So, it's a very powerful trend and the question is how do we do that. And so, we're actually going to be investing in companies in this fund that their sole mission is to help solve that productivity loop.

Let's go to the next slide, slide 16. The other thing that I want to talk to folks about as it relates to agriculture is it is the shortest cycle commodity that's out there. When you think about it, this isn't oil. This isn't copper. This isn't iron ore. This is agriculture. This is short cycle. You can have heat waves that

decimate crops. You can have flooding situations like we had last year that can negatively impact yields.

And so, what I think is incredibly delicate is this food supply that's out there that truly is short cycle. You can't hold the food for a rainy day three years, five years down the road. You have to be on this flywheel that you're creating this food, the grains, the proteins on a year-to-year basis, and that is no small feat.

Let's go to the next slide, slide 17. And just again, so we can conceptualize, this fund could be investing anywhere from salmon fisheries in Norway, it could be investing in seed companies in the United States or Europe, it could be investing in fertilizer companies in the Middle East, and/or crop equipment companies in Asia. So, as you as a potential investor should know, you're going to be broadly diversified across these different geographies, across these different technologies that are going to help drive the performance of this fund over the coming years.

Let's go to slide 18. Now a couple themes that I want to talk about, because it's really cool. Some people think about agriculture like oh my gosh, it's an old industry. But I have to say it is absolutely on the forefront of everything that we're reading in the papers today as it relates to AI and enabling

technology to help improve this productivity loop. And I want to give one example would be John Deere. So, John Deere, they make combines and tractors, but they ended up coming up with an amazing acquisition a couple years ago called Blue River. And Blue River basically was applying a technology where you could literally go, it was a spraying technology, and so it had these cameras that were taking multiple every millisecond pictures to figure out if a particular plant was a weed or it was a soybean or it was a corn sapling. And so, all of the sudden you would have these cameras attached to these devices going through the fields. And immediately the AI, the technology, would figure out okay, that's a weed. And then it would spray that weed with the herbicide. And it was amazing. They ended up using 90 percent less crop chemicals on the test plots for Blue River. And so, this is a way where you're taking technology. You're going to use cameras taking multiple shots per second, like thousands per second, to figure out okay, and then the technology is going to actually learn. So, then it's actually going to learn okay, that is a weed and that is a plant. And so, by harnessing that information, that technology, the farmer is getting better, it's improving their yields, it's improving their profitability, and it's improving the environment. So that means that it's going to be less harmful runoff based on more intelligent application of technology. So, I just want to throw that out there as an

example because it's just incredibly powerful what we're able to do with technology as we're planting these row crops across the country.

Let's go to the next page, slide 19, because I want to stick with disruption. And there's a lot of disruption right now, especially in the science. This is more the biotechy slash biotech ag. And it's related to CRISPR and gene editing. And it's a really exciting field where you're actually able to go out and actually create better nutrition. You can create a high oleic soybean by altering the genes at the molecular level. And you're able to actually improve resistance to disease. You're able to create drought tolerance and you're able to create higher yield. And it's all about higher yields. So, when you go back to feeding that growing population on a fixed amount of arable land, we have to figure out how we can improve that productivity loop. And technology and gene editing is going to help be one of those tools in the tool chest to get that done. And one thing is sometimes people would say, "Well, what is that? Is that magic? Is that something I should be scared about?" It's like no. It's like technology is something that we should truly embrace. It's funny. Even the other day I was in our kitchen. I was taking apart a nectarine. And who today doesn't like taking apart those new nectarines that don't have any seeds in them, and they're easy to peel? Those are gene-edited. So that's where

technology in a real sense, you're actually making it more palatable for the consumer to take part in the food chain.

So, with that I'm going to slide it back to Janet. And she's going to make a couple comments on the broad performance aspects.

Janet Glazer: Great, thanks, Steve. So maybe if we can go to slide 21 here. So, this is just a very simple, but I think a very powerful chart that speaks for itself. When you look at both water and agriculture indices, they've actually outperformed the broader equity markets over the last 20 years. And so, if you look at the orange line and then also the sky-blue line up at the top, the orange one is ag, the blue one is water. The lines down below are the S&P 500 and the MSCI ACWI. So clearly very strong performance for both these indices. And these are the indices that we're working with through our fund. I'll throw it back over to you, Steve, for slide 22.

Steve Calhoun: Great, in slide 22 we're looking at a dispersion here of the standard deviation. Or it's the volatility of the different groups as well as the total return profile. And again, as you can see water has a great return profile, especially when you mix that with the standard deviation or volatility associated with that as well as ag. So, both these are going to be a nice addition to a portfolio to

help differentiate to create different sources of alpha streams. And noncorrelation with the broader market.

So, if we go to the next slide, slide 23, and for here I'm going to start just on my outlook. If you can't tell, I'm very excited about FARMX and the Fidelity Ag Productivity Fund. I think we're at a fascinating point, as everything that we're reading in the newspapers as it relates to COVID and supply chain issues that are out there related to protein production, as it relates to grain production in the coming year, and these are all going to be mega trends that FARMX will be participating in. So, I couldn't be more thrilled about the launch of this fund, the opportunity set that's in front of it for FARMX, and I'll pass it back over to Janet. She can give some of her final comments on the water chart. But looking forward to taking any questions that people have that are out there. Janet.

Janet Glazer: Yeah, thanks, Steve, and just to reiterate what Steve was saying, very similarly I talked about long-term secular mega trends with water quality, water scarcity, water security. And I think we are at an inflection point with water and the crisis that we're facing today. There's so many highly attractive opportunities around the globe to invest in. And I think if you invest in FLOWX

you're only going to be helping be part of the solution as these companies are going to combat the global crisis that we have today with water.

END OF AUDIO FILE

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