
Bond IR...A Buyside Perspective



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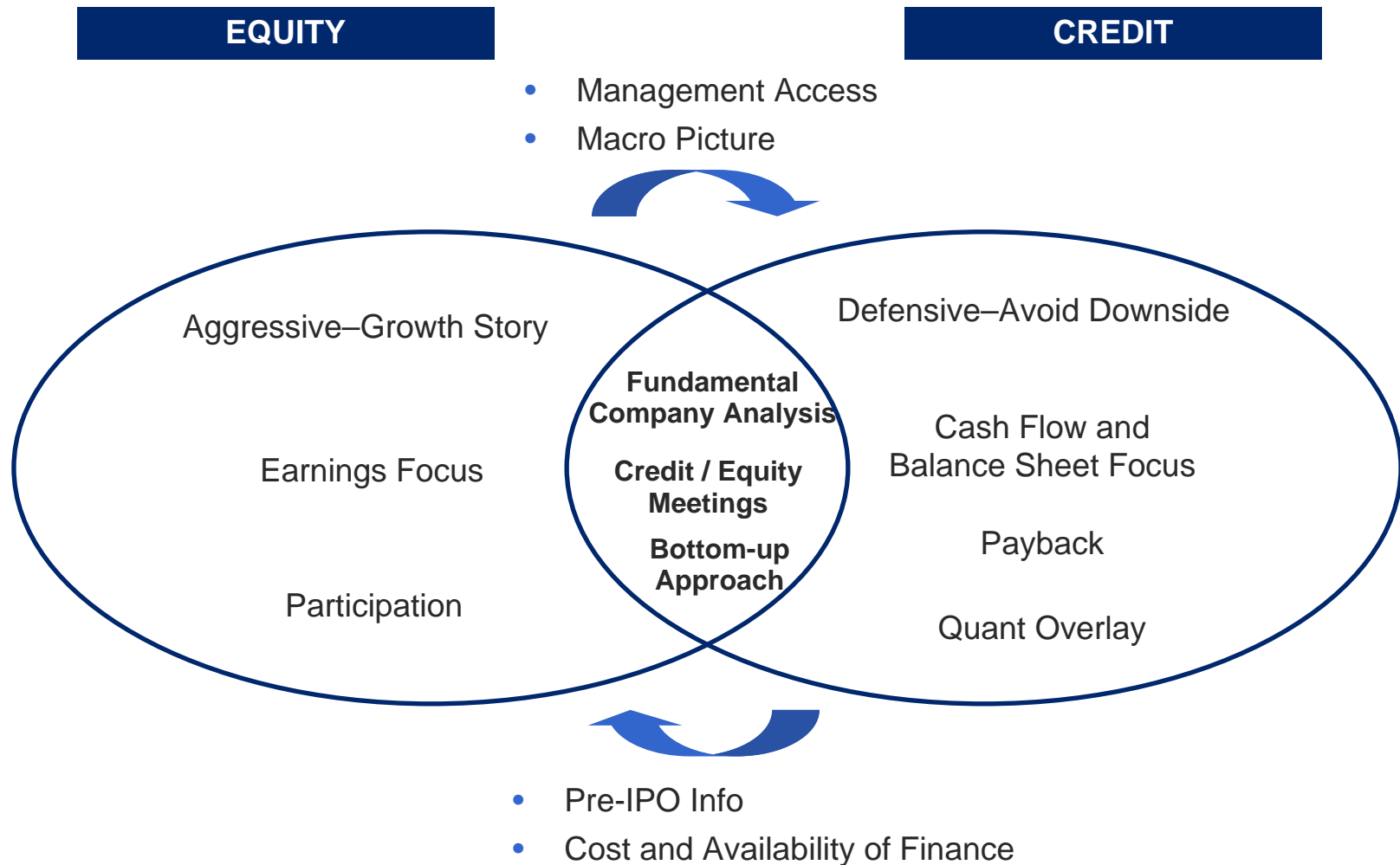
Fidelity's fixed income business

- ◆ Fidelity International Limited (“FIL”) manages over €20 billion in fixed income assets globally
- ◆ FMR Corp, our US affiliate, manages in excess of €330 billion
- ◆ Specialist Fixed Income teams in London, Hong Kong, and Tokyo, with access to US resources provided by our US affiliate. Both teams together consist of over 160 investment professionals.
- ◆ One of the biggest London-based credit teams (10 senior analysts) with an average experience of over 10 years

Large and experienced operation with global reach

Source: Fidelity, 31 March 2005.

Equity versus credit analysis



Source: Fidelity

The same fundamental research philosophy

Fidelity's credit research process

1. Fundamental Analysis

- ◆ Detailed, bottom-up analysis
- ◆ Proprietary models
- ◆ Frequent 1:1 company meetings

2. Compare and Test Our View

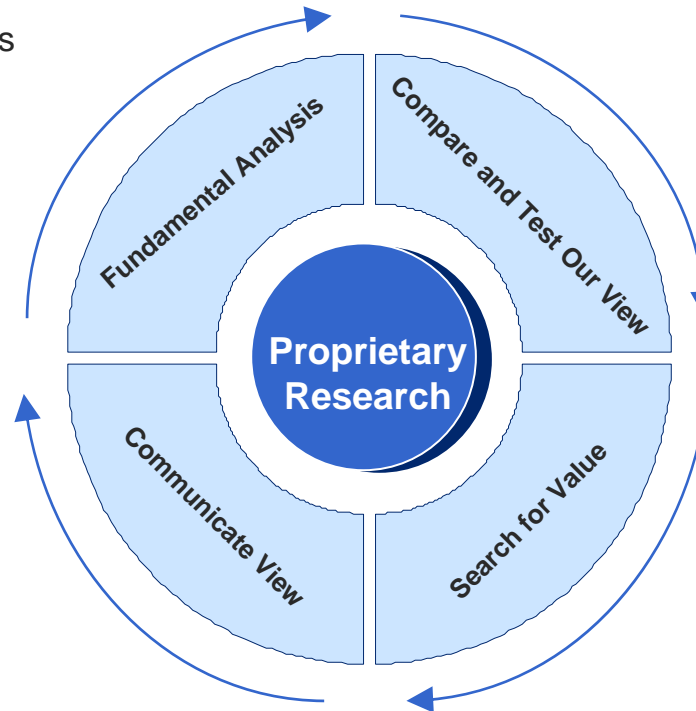
- ◆ Compare with brokers, equity research, rating agencies
- ◆ Interpret quant models

4. Communicate View

- ◆ Rate and Rank Issuers
- ◆ Publish research notes and updates

3. Search for Value

- ◆ Relative value analysis vs. peers and across sectors
- ◆ Recommend a buy / sell



Credit research...The key fundamental building blocks



Specialist credit research questions

Financials – Earnings/Cash Flow

- ◆ Capex plans – maintenance vs. growth
- ◆ Depreciation policy – relative to capex spend
- ◆ Working capital – peak to trough cycle
- ◆ Dividend policy
- ◆ Tax rate – cash taxes
- ◆ Restructuring/except. charges – cash component
- ◆ Uses of FCF – acquisitions/share buy-backs/special dividends

Financial – Liabilities

- ◆ Balance sheet debt
- ◆ Unfunded pension deficit
- ◆ Securitised receivables
- ◆ Operating lease commitments/rental costs
- ◆ Guarantees to third parties
- ◆ Other commitments

Financials – Liquidity

- ◆ Cash – normal level/accessibility/encumbered
- ◆ Debt maturity schedule
- ◆ Bank lines – availability/committed
- ◆ Funding plans

Structure

- ◆ Which borrower – holding/operating company
- ◆ Degree of structural subordination
- ◆ Unsecured/secured
- ◆ Subsidiary/parent guarantees
- ◆ banking covenants – financial and other
- ◆ Rating triggers/coupon steps

Credit Ratings

- ◆ Target – soft/hard
- ◆ Relationship with rating agencies

Fidelity's definition of good bond IR

- ◆ Equitable treatment of bondholders and shareholders
- ◆ Dedicated bondholder updates/conference calls
- ◆ Regular access to management particularly CFO and Treasurer
- ◆ A dedicated bond IR person
- ◆ A debt page on your website

What's in it for you?

- ◆ Less volatile bond pricing
- ◆ Better access to market
- ◆ Better informed investors
- ◆ Not too much more work for you
- ◆ Its good for your share price too!

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