

# Fidelity American High Yield Fund

## Quarterly Investment Review

September 30, 2023

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## Overview

**INCEPTION DATE:** October 01, 2003  
**BENCHMARK:** ICE BofA U.S. High Yield Constrained Index  
**FUND MANAGER:** Harley J Lank, Alexandre Karam

### OBJECTIVE

The Fund aims to achieve a combination of a high level of income and the potential for capital gains by investing primarily in higher yielding securities issued by U.S. companies.

### APPROACH

- Offers the potential for higher yield and capital growth than an investment-grade fixed-income fund.
- Can enhance diversification in a fixed-income portfolio.
- Leverages Fidelity's global resources and expertise in high-income investing.

### PERFORMANCE RETURNS (%)

	Cumulative					Annualized				
	Q4 2022	Q1 2023	Q2 2023	Q3 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Fidelity American High Yield Fund - Series O	2.66	3.43	(0.50)	3.40	6.41	9.24	4.92	4.90	7.98	7.02
ICE BofA U.S. High Yield Constrained Index	2.53	3.59	(0.62)	2.72	5.75	8.43	2.23	3.71	7.05	6.45
Relative Return	0.13	(0.16)	0.12	0.68	0.66	0.81	2.69	1.19	0.93	0.57

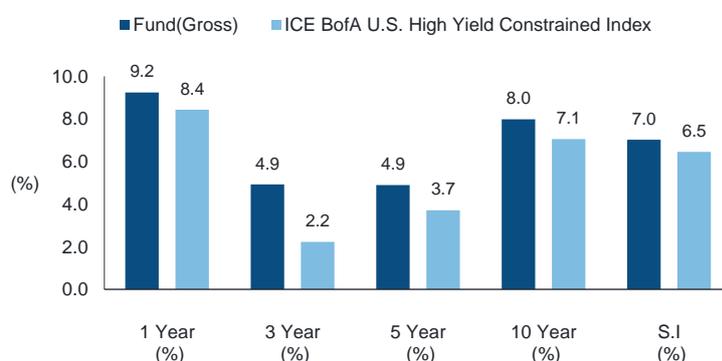
Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

### Cumulative Quarterly Performance



### Annualized as of September 30, 2023



## Overview

### PERFORMANCE RETURNS (%): CALENDAR YEAR RETURNS

	Calendar Year Returns									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fidelity American High Yield Fund - Series O	(1.16)	8.26	1.90	9.73	6.29	1.76	10.65	16.35	13.70	13.81
ICE BofA U.S. High Yield Constrained Index	(4.76)	4.45	4.21	8.63	6.54	0.42	13.42	14.40	11.75	14.62
Relative Return	3.60	3.81	(2.31)	1.10	(0.25)	1.34	(2.77)	1.95	1.95	(0.81)

Performance returns are unaudited and time-weighted.

Note: Differences may be due to rounding.

## Quarterly Fund Commentary

- The Fund's security selection in the media industry and the technology and electronics industry contributed to relative returns over the quarter.
- In media, investments in DISH Network and Cox Media were among the top contributors to relative returns. In technology and electronics, an investment in Ultimate Software Group contributed. In other industries, investments in California Resources and Citigroup also contributed.
- The Fund's security selection in the healthcare industry and the leisure industry detracted from relative returns.
- In healthcare, an investment in Community Health Systems was the primary detractor. In leisure, an investment in New Cotai detracted. In other industries, investments in Mesquite Energy and Pacific Gas and Electric detracted.

## 12 Month Fund Commentary

- The Fund's security selection in the leisure industry and the retail industry contributed to relative returns over the year.
- In leisure, investments in New Cotai and Melco Crown Entertainment were the top contributors to relative returns. In retail, investments in Northeast Grocery and Southeastern Grocers contributed. In other industries, investments in California Resources and Brand Energy also contributed.
- The Fund's security selection in the financial services industry and the transportation industry was the primary detractor from relative returns.
- In financial services, an investment in Ally Financial was the main detractor. In transportation, an investment in Western Global Airlines detracted. In other industries, investments in Mesquite Energy and DISH Network detracted.

## Positioning and Outlook

- Portfolio managers Harley Lank and Alexandre Karam note that high-yield securities had a strong third quarter in 2023, with returns driven mainly by income.
- The U.S. Federal Reserve (the Fed) restarted the hiking cycle in July while pencilling in another hike by the end of the year. At its September meeting, the Fed took 50basis points of cuts off the table for 2024 and 2025, while signalling that the neutral rate may be higher than previously thought.
- Spreads were effectively unchanged in the quarter but remained relatively cheap compared to long-term averages.
- The high-yield market has had approximately twice as much refinancing in the first nine months of 2023 as it had in 2022. Harley and Alexandre note, however, that most issuers still have some time before interest expense increases – the debt maturity wall is still in 2025 and beyond. The managers believe this backdrop could provide a tailwind for the sector in the short and intermediate term.
- The Fund's largest exposure is to the energy sector, which benefitted from rising prices in the quarter. Furthermore, the managers believe this sector provides value because many companies came out of the pandemic with healthier balance sheets following various restructurings.
- The managers are making few new investments, instead adopting a wait-and-see approach to credit risk-taking.
- Harley and Alexandre have positioned the portfolio neutrally to slightly underweight relative to its benchmark from a risk perspective and remain prepared to take advantage of any volatility that may arise.

## Investment Process

- Fidelity's American High Yield Fund employs an active management approach characterized by high-quality non-investment-grade debt securities, highly diversified portfolio exposures across industries and issuers, and a strict focus on controlling overall absolute and relative portfolio volatility. Company fundamentals are emphasized over yield, with particular focus on cash-flow-generating capability and strong capital structures.
- Portfolio construction is the culmination of the integrated contributions of the analysts and portfolio manager. The portfolio managers, Harley Lank and Alexandre Karam, are responsible for assimilating the recommendations of the research analysts into a portfolio that is diversified and risk-controlled. Individual positions are weighted in accordance with the manager's level of confidence with respect to the issuer's prospects. Consistent with our active investment style, portfolios are constantly monitored to determine whether new or secondary issues that may offer better value should replace existing holdings. Our large research team enables us to cover approximately 80% of the high yield universe on a market capitalization basis, including virtually all new issues brought to the market.
- The foundation of Fidelity's high yield bond investment process is fundamental, bottom-up credit research, combining quantitative and qualitative analysis. Quantitative analysis includes extensive financial modeling to properly assess a company's historical performance and formulating pro forma estimates for future operations. These models help analyze trends such as revenue growth, gross and net profit margins, and cash flow growth. Most importantly, this modeling enables us to determine whether current and future cash flows are sufficient to adequately service the company's liabilities. Qualitatively, our analysts perform extensive bottom-up research and rely on interaction with company management to discuss industry trends, business plans, and earnings and cashflow estimates. This is supplemented through the use of external consultants and industry surveys.
- The security selection process, done on both an absolute and relative basis, has the greatest influence on returns in the investment process. Once our fundamental analysis determines that a company is appealing, we determine whether the company's securities are attractively priced. We analyze the entire capital structure of each issuer ranging from senior bank debt to preferred stock/equity, and will invest where we believe the best risk/reward profile exists. The output of our analysts' research includes internal company ratings as well as comprehensive research that are published on a daily basis. Given our bottom-up focus, specific industries generally are not targeted for investment; however, industry overweighting or underweighting relative to the benchmark may occur when many companies within the same industry offer solid or deteriorating values. Mr. Lank and Mr. Karam reviews the portfolio continuously to ensure that imprudent exposure to individual industries is avoided.