The Investor's Perspective:

How individual and institutional investors view money market mutual funds and current regulatory proposals designed to change money funds

February 3, 2012

In 2010, regulations governing money market mutual funds (Rule 2a-7) were strengthened by requiring funds to hold more liquid and shorter duration investments in their portfolios. Since then, Fidelity Investments, along with other money market mutual fund managers, has been working with regulators to evaluate whether additional money market reform proposals are needed. To inform our viewpoint on these proposals, Fidelity, the largest money market mutual fund manager with $433 billion in assets under management and 10.9 million money market mutual fund accounts as of December 31, 2011, has conducted extensive research with both individual investors, often called "retail" investors, and "institutional" investors, including corporate treasurers, bank and broker/dealer intermediaries. Among other things, we hope this research will provide further insights into which money market mutual fund features are most important to investors and feedback about how investors might react to certain reform proposals now being considered by regulators.

While Fidelity has serious questions about the need for more regulation, especially since there is compelling evidence to suggest that the 2010 reforms have significantly improved the overall soundness of money market mutual funds and made them more resilient to market stress, we continue to keep an open mind to new ideas that might further improve money market mutual funds. We believe that the costs and benefits of any new rule proposal should be carefully weighed to understand the potential impact on the millions of retail and institutional investors who have come to rely upon money market mutual funds to manage their cash balances. The following research results suggest that adopting rules requiring money market mutual funds to float their net asset values (NAV) or impose liquidity restrictions on shareholders – two ideas that are currently under consideration – could spark retail and institutional investors to pull significant amounts of assets out of money market mutual funds, leading to unintended consequences for the financial markets and the U.S. economy.

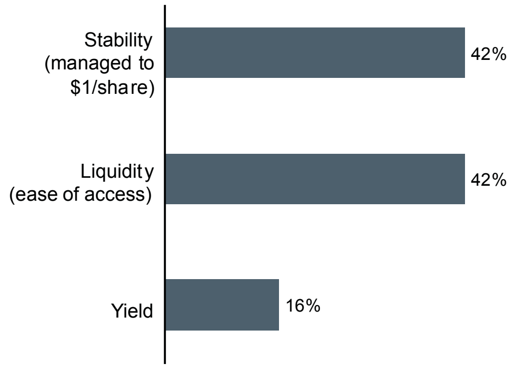
KEY TAKEAWAYS FROM FIDELITY RESEARCH

- Retail and institutional investors overwhelmingly indicate that they first and foremost invest in money market mutual funds for safety of principal and liquidity, while yield is a secondary consideration.
- Retail investors use money market mutual funds as a complement to bank products, such as checking and savings accounts, not as a replacement for these FDIC-insured vehicles.
- A vast majority of retail money market mutual fund investors understand that these funds are not FDIC-insured and the prices of securities held by these funds fluctuate up and down daily.
- Money market mutual fund reform measures that would reduce liquidity or require the NAV to float could cause a significant number of retail and institutional investors to shift assets out of money market funds into banks and other short-term investment vehicles.

Fidelity INVESTMENTS | Asset Management℠

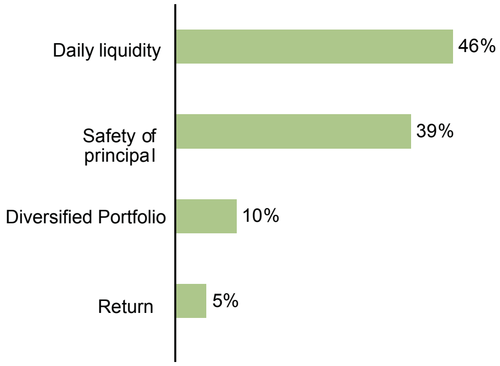
EXHIBIT 1: WHAT INVESTORS VALUE MOST IN MONEY MARKET MUTUAL FUNDS (MMFs)

Most Important MMF Feature Among Retail Customers



Source: Fidelity Retail Customer Survey - March 2011

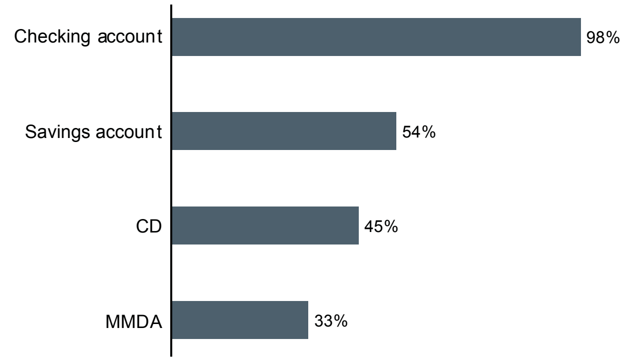
Institutional Clients-Primary Reason For Using/Recommending MMFs



Source: Fidelity Institutional Client Survey - July/August 2011

EXHIBIT 2: RETAIL MMF INVESTORS ALSO OWN BANK CASH-BASED PRODUCTS

Ownership of Bank Cash-Based Products among Fidelity Retail Customers With MMFs



Source: Fidelity Retail Customer Survey - July 2011

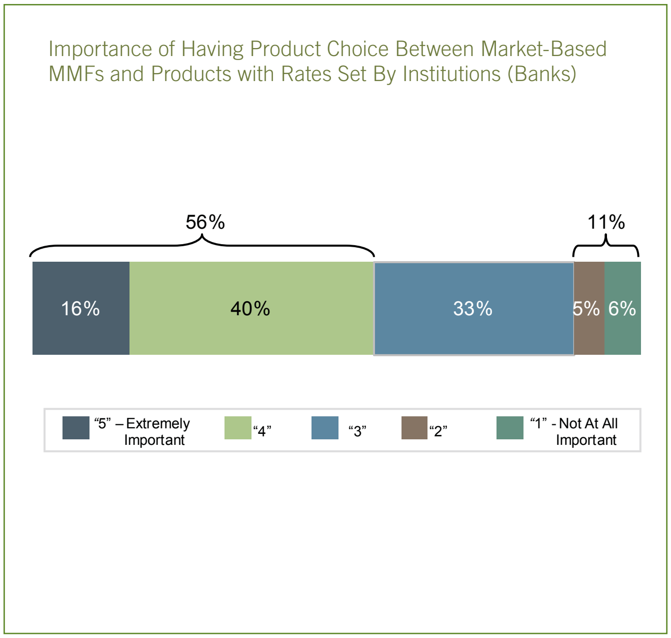
Safety of Principal and Liquidity are What Investors Value Most in Money Market Mutual Funds.

- Fidelity retail and institutional investors overwhelmingly viewed protecting the principal of, and maintaining ready access to, their investments as the most important characteristics of money market mutual funds.
- In fact, as Exhibit 1 demonstrates, retail investors weighted stability of principal and liquidity as 2.5 times more important than yield when they were asked to choose the key feature of money market mutual funds that is most important to them.
- Institutional investors similarly valued liquidity and safety of principal over return.

Retail Investors Use Money Market Mutual Funds as a Complement to Bank Deposit Products.

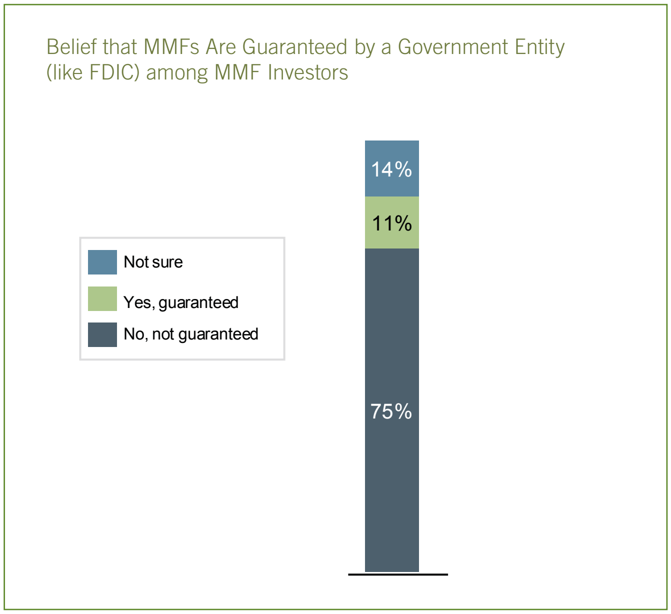
- 98% of Fidelity retail money market fund investors had a bank checking account and a large percentage utilize other bank products for their savings needs (Exhibit 2).
- The data suggests that most investors use money market mutual funds as a complement to and not as a replacement for bank deposit products.
- This was further reinforced when we looked at how frequently Fidelity customers use money market mutual funds to pay bills or make purchases. We found that only 3% of our customers with money market mutual funds make 12 or more of these types of transactions over the course of the year.

EXHIBIT 3: HAVING A CHOICE OF CASH PRODUCTS IS IMPORTANT TO FIDELITY RETAIL CUSTOMERS



Source: Fidelity Retail Customer Survey - July 2011

EXHIBIT 4: FIDELITY RETAIL CUSTOMERS UNDERSTAND MMFs ARE NOT GUARANTEED BY A GOVERNMENT ENTITY (LIKE FDIC)



Source: Fidelity Retail Customer Survey - July 2011

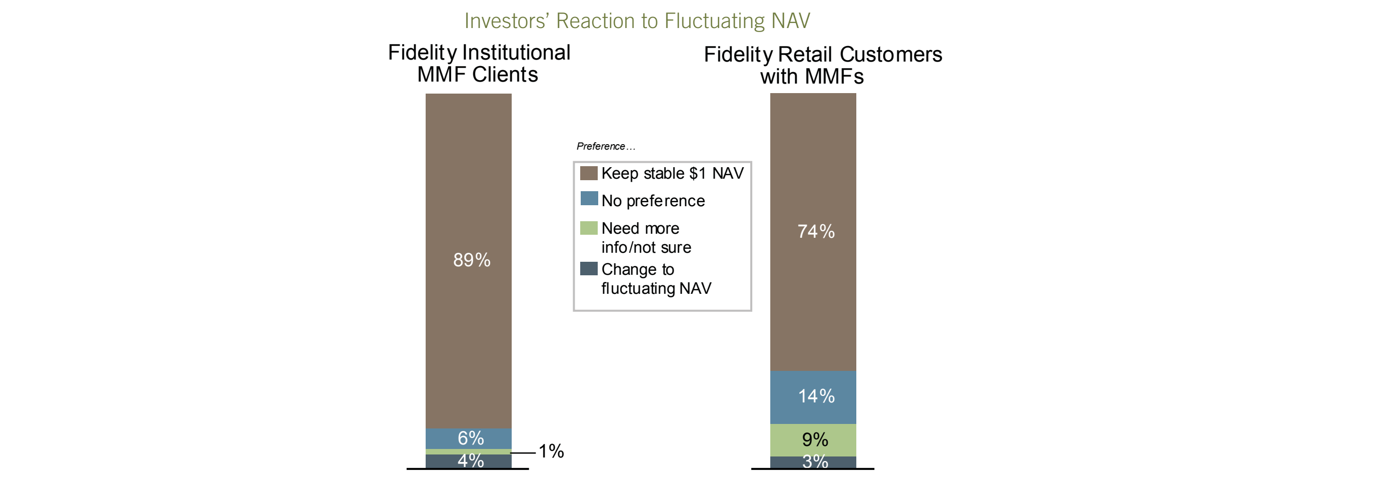
Having a Product Choice is Important to Investors

- Fidelity customers valued having an alternative to bank deposit products where they can invest cash balances (Exhibit 3).
- More than half of Fidelity retail money market mutual fund investors (56%) responded that it is important to have a choice between cash products with market-based rates of return, such as money market mutual funds, and those with rates set by a bank.

A Large Percentage of Fidelity Customers Have a Good Understanding of Money Market Mutual Fund Risks.

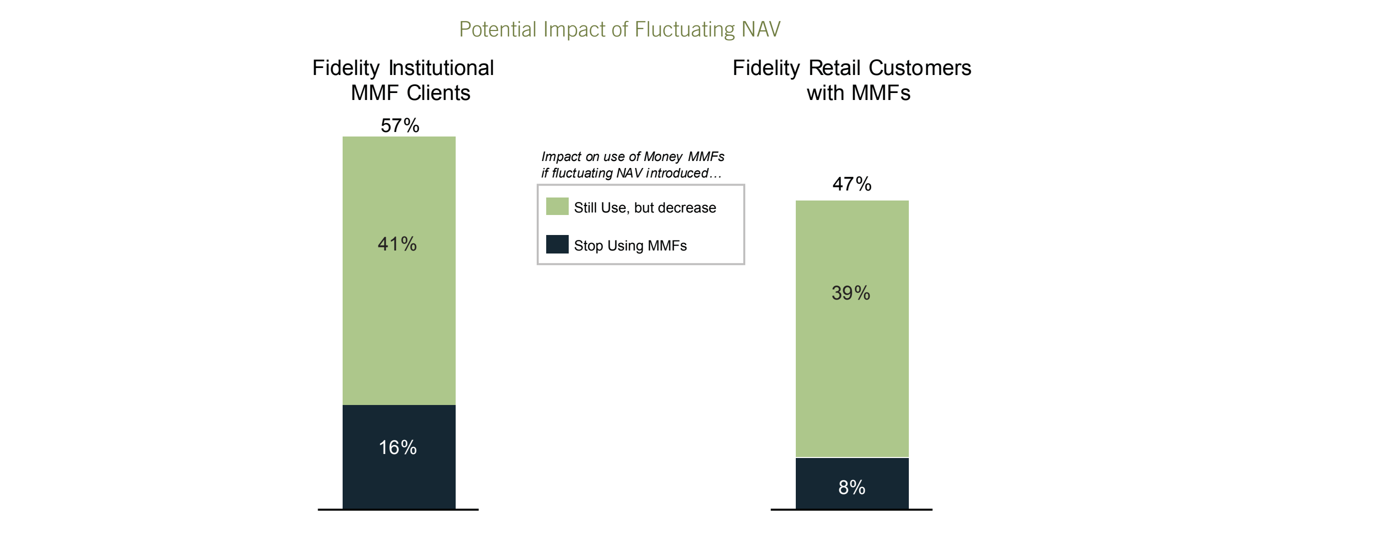
- As Exhibit 4 demonstrates, three out of four (75%) Fidelity retail money market mutual fund investors understand that there is not any sort of government guarantee standing behind money market mutual funds.
- When we probed further on the topic of risks associated with money market mutual funds, 81% of those surveyed understood that the securities held by money market mutual funds had some small daily price fluctuations (11% thought money market mutual fund securities didn't fluctuate while 8% were unsure).
- Further, only 10% of Fidelity retail money market mutual fund investors believe the government will step in if a money market mutual fund is in danger of breaking $1.

EXHIBIT 5: INVESTORS STRONGLY PREFER KEEPING A STABLE $1 NAV



Sources: Fidelity Institutional Client Survey - July/August 2011 and Fidelity Retail Customer Survey - March 2011

EXHIBIT 6: INVESTORS WOULD REDEEM MMF SHARES IN THE WAKE OF A FLUCTUATING NAV



Sources: Fidelity Institutional Client Survey - July/August 2011 and Fidelity Retail Customer Survey - March 2011

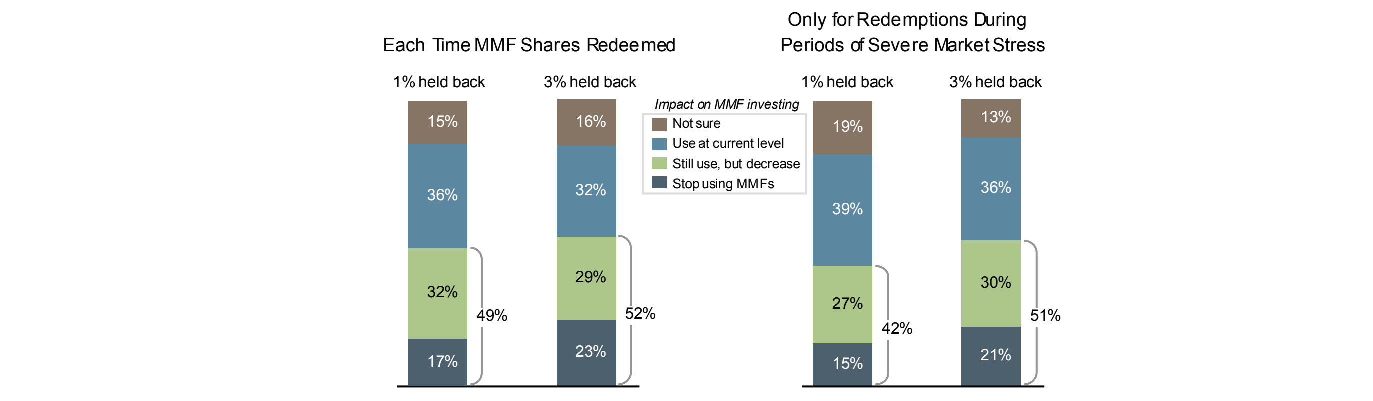
Vast Majority of Institutional and Retail Investors Favor Keeping a Stable $1 NAV.

- 89% of institutional investors indicated a preference for keeping the stable $1 NAV and only 4% of those surveyed indicated a preference to change to a fluctuating NAV (Exhibit 5).
- A large percentage of retail money market mutual fund investors (74%) also favor keeping the stable $1 NAV and just 3% indicated a preference to change to a fluctuating NAV.

Changing to a Fluctuating NAV Could Prompt Institutional and Retail Investors to Flee from Money Market Mutual Funds.

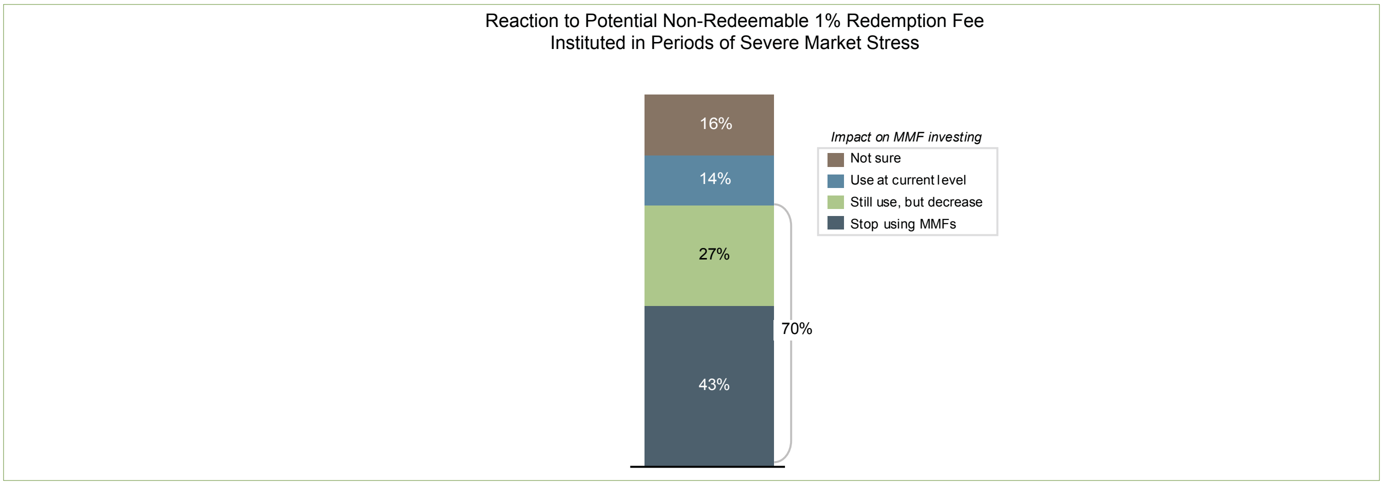
- 57% of institutional investors we surveyed said they would move all or some of their assets out of money market mutual funds if the NAV of these funds were allowed to fluctuate.
- Likewise, 47% of retail investors said they would move all, or some of their assets, out of money market mutual funds (Exhibit 6).
- It also appears that banks would capture the lion's share of the assets moving out of money market mutual funds. For instance, when we asked institutional investors to indicate the primary investment vehicle into which they would move, 42% said they would move to money market deposit accounts at banks and 14% said they would move to CDs/Time Deposits. 19% said they would transfer assets primarily into Treasury securities and 13% said into commercial paper. Separately managed cash accounts, offshore funds, non-2a-7 funds with maturities under 1 year, and cash were mentioned by only 1%. (Note: 8% did not indicate a primary vehicle.)
- Finally, a majority of Fidelity retail investors who said they would move out of a money market mutual fund if it had a floating NAV, also indicated they would move assets to bank deposit accounts.

EXHIBIT 7: RETAIL MMF INVESTORS REACTED NEGATIVELY TO INSTITUTING A HOLDBACK FEATURE ON MMFS



Source: Fidelity Retail Customer Survey - December 2011

EXHIBIT 8: RETAIL MMF INVESTORS REACTED EVEN MORE NEGATIVELY TO A NON-REFUNDABLE REDEMPTION FEE



Source: Fidelity Retail Customer Survey - December 2011

Instituting Liquidity Restrictions on Money Market Mutual Funds Could Be Received as Negatively as a Floating NAV.

- Regulators are also considering whether to institute liquidity restrictions on money market mutual funds as a way to make them less susceptible to runs during periods of market stress. One approach that has been talked about is holding back a portion of redemption proceeds for a period of time to provide a safety cushion should a money market fund run into trouble.
- Fidelity has tested two versions of a holdback feature. In the first version, a portion of proceeds (either 1% or 3%) was held back for 30 days on <u>all</u> redemptions. In the second version, a portion of proceeds (either 1% or 3%) was held back for 30 days <u>only</u> during periods of severe market stress that resulted in the NAV of a money market mutual fund to falling below a certain "trigger level" ($.9975 was used as the example) and was in danger of breaking the $1 stable share price. In this instance, retail investors were told the holdback feature would remain in place until the fund rose back above the trigger level.
- As Exhibit 7 demonstrates, we learned that this potential reform could be as destabilizing as a floating NAV. 52% of retail investors said they would invest less, or stop investing altogether, in money market mutual funds if a 3% holdback feature was instituted on all redemptions. Note, too, that the results did not significantly change when we dropped the holdback to 1%.
- Limiting the holdback to periods of market stress also did little to change the results. At a 3% holdback level, 51% of retail investors said they would invest less, or stop investing altogether, in money market mutual funds and 42% said they would pull money if the holdback was set at 1%.
- An alternative approach to a holdback on redemptions that has been discussed among regulators is creating a non-refundable redemption fee that would be charged if a fund's NAV fell below a certain trigger point. We tested (with Fidelity retail money market mutual fund investors) the idea of a 1% <u>non-refundable redemption fee</u> that is triggered if a fund's share price dipped below $.9975. Of the investors we surveyed, 70% said they would invest less, or stop investing altogether, in money market mutual funds if there was a possibility of being subjected to this type of redemption fee.
- Given the importance retail investors place on the liquidity feature of money market mutual funds, it is not surprising that investors reacted so negatively to a potential rule that would restrict access to principal.

Research Details

March 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded March 9 - 22, 2011
- Total participants: 612 “random” and 1,116 affluent* customers

July 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded June 23 - July 6, 2011
- Total participants: 466 “random” and 967 affluent* customers

July/August 2011

Survey of Fidelity Institutional Money Market Mutual Fund Clients conducted by E.R. Market Research

- Phone surveys conducted June 13 - August 18, 2011
- 139 Total Participants: Fidelity Institutional money market mutual fund clients contacted in past 12 months
  - Corporate: Primarily Corporate Treasurers – purchase MMFs directly (n=69)
  - Intermediaries: In banks, have selling agreement with Fidelity – recommend/select money market mutual funds for institutional clients (n=70)
- Fidelity identified as the research sponsor

October 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded October 13 - 27, 2011
- Total participants: 510 “random” and 1,044 affluent* customers

December 2011

Survey of Fidelity Retail Customers fielded by TNS Custom Research

- Online survey fielded December 2 - 16, 2011
- Total participants: 734 “random” and 1,472 affluent* customers

*Affluent customers are investors with Fidelity Retail assets of $100,000 or more.

Research Details (cont.)

Descriptions Used in December 2011 Survey

As background, the extremely volatile market environment in Sept 2008 caused stresses in money markets, and a MMF "broke the buck" when the value of the assets the fund held caused the share price to fall below $1. There were substantial redemptions out of MMFs that held commercial paper (short-term IOUs issued by corporations) over a short time period. Fund managers were forced to sell money market securities to meet redemption requests, which caused additional stress on the financial markets that already were reeling on news of the collapse of Lehman Brothers.

Regulators have taken some steps to make Money Market Funds safer and continue to investigate other changes. A current area of their focus is making MMFs less susceptible to shareholder runs in times of stress in the financial markets, with a goal of giving MMFs a cushion of time to sell securities to meet redemptions.

There are several ideas and we would like your opinion of three:

In the first idea, each time you redeem money market fund shares, 1% would be held back and delivered after a waiting period of 30 days.
For example, if you redeem $1,000 from your money market fund:

- You receive $990
- The remaining $10 would be delivered after a waiting period of 30 days

Another idea is to hold back 1% of the money market fund assets only in periods of severe market stress, (i.e., if Net Asset Value (NAV) of your fund drops below an established "trigger" level). This 1% would be redeemable only after a waiting period of 30 days. This hold-back structure would remain in place until the fund's NAV rises back above the trigger level.

For example: Financial stress caused your money fund's NAV to drop below a certain level (e.g., $0.9975), although your shares continue to be redeemed at $1 per share. If you want to redeem $1,000 in this fund:

- $990 is available at any time
- The last $10 (1%) is only available after the waiting period of 30 days

Note: ideas above were tested at both 1% and at 3%

Finally, they are also considering a non-redeemable fee for accessing your MMF holdings only in the event of serious stress in the financial markets (resulting in the Net Asset Value of your fund dropping below an established level). The redemption fee would benefit those shareholders who remained in the fund by increasing the value of the fund's NAV.

For example: Financial stress has caused your money market fund's NAV to drop below a certain level (e.g., $0.9975), although your shares continue to be redeemed at a price of $1 per share. If you want to redeem $1000:

- You are charged a 1% fee to access your holdings. If you remove $1,000, you will receive $990 in cash and the fee of $10 is retained in the fund (not returned to shareholders)

This fee on redemptions would be applied until the MMF's NAV rises back above the trigger level.