FIDELITY
CAPITAL
MARKETS

California Debt and Advisory Committee (CDIAC) Debt Essentials 2 Seminar

February 2, 2011

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Fidelity Capital Markets (FCM) Facts

- Customer-focused institutional trading arm of Fidelity Investments
- FCM is a full service underwriter with $1.7 billion capital base*
- Conduit to 12 million individual accounts and with $1 billion in assets**
- Active in competitive municipal market since 1987
- Began seeking role as co-manager in 2007 to help meet demands of retail investors

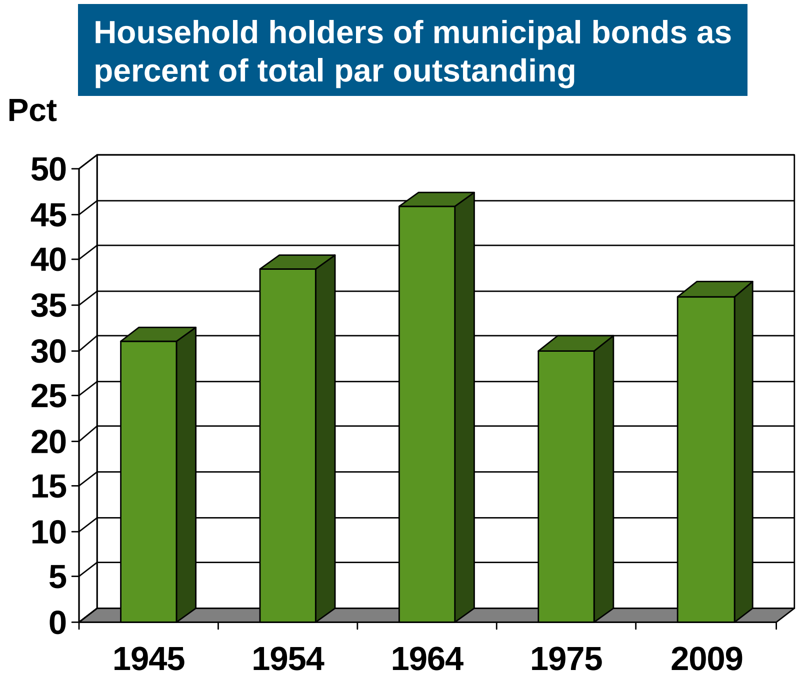
- Debra Saunders
  - Over 20 years as credit analyst at Ambac Assurance
  - Masters in Public Administration
  - Series 7, 63
  - Opened West Region Municipal Underwriting office for Fidelity Capital Markets in 2010

* September, 2010 FOCUS Report

** Fidelity unaudited internal data

The Missing Piece

- According to the Municipal Securities Rulemaking Board (MSRB)*, 2 million trades, 39% of par occurred within 2 months after initial offering date in 2009. Figures drop to 5% or less after that through maturity
- Thus: almost 40% of bonds are sold to buy and hold investors **after issuance**
- More than ½ of secondary market trades in 2009 were $25,000 or less
- Average daily trade size has been dropping since 2007
- Moreover, 3 times as many customers bought from dealers as sold to dealers



*Sources: Federal Reserve Flow of Funds

*Municipal Securities Rulemaking Board, 2009 Fact Book

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Faces of Retail

- Mom and Pop
- High-Net-Worth
- Separately Managed Accounts (SMAs)
  - Professionally managed retail
    - SMAs and individuals have relationships with only a few firms – reduces duplicate orders
  - Relatively committed to particular platform
- Trusts and Family Offices

Where Did All the Retail Go?

Why is such large segment of ultimate owners absent during bond issuance?

Historically, order periods were 3 weeks long, broker dealers were paid 4% to find buyers and had plenty of time to do so

- Model has shifted due to technology and competition
  - Compressed spreads
  - Wholesale-oriented platform

- Inefficiencies in the market seem to benefit institutional buyers
  - Compensation based on relative return
  - Versus income and safety

Why Target Retail?

- The municipal market is fragmented and retail investors make up a critical component of the investor base.
- During credit crisis, institutional bids were scarce, retail orders for fixed income took up the slack.
- A marketing plan that accommodates retail can help effective market penetration.

Example: State of California

March 2008: $1.7 billion general obligation bonds
Record $1 billion sold to retail
Yields cut 15 bps during pricing

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Primary vs. Secondary

Potential benefits to retail investors in the new issue market

- Accommodating retail order periods
- Transparency and equality of pricing
- Potentially lower transactions costs
- Market risk ONLY if bonds are sold prior to maturity
- Up-to-date disclosure
- Ability to buy local

What does retail look for?

- Reasonable certainty of order execution
- Cash flows that are intended to match expected needs
  - College
  - Retirement
  - Income
- Do it yourselfers
  - Choice whether to talk to a broker
  - Tools for research
  - Liquidity
- Coupon and redemption structures
  - Serial bonds
  - Call protection
  - Par bonds

Costly Ways to help drive demand for bonds

- Make them cheaper (offer higher interest rates)
- Offer less of them (increase pay as you go)
- Pay brokers more to sell them

Less Costly Ways to help drive demand for bonds

- Broaden investor base
  - Create new product like a taxable bond that can match or beat tax-exempt cost of borrowing
  - Reach greater number of buyers
    - ➢Build awareness
      - ✓Advertising
    - ➢Drill down -- reach all market sectors
      - ✓Institutional
      - ✓Middle Market
      - ✓**RETAIL**

How to Reach Retail Buyers

- Marketing process that is accommodative and can reach all investors
- Retail order periods
  - Negotiated sales only
  - Prior to institutional sales
  - Extended order periods: multiple days, open over weekend
  - Time of day is important
- Engage retail brokers
  - Need reasonable certainty that bonds will be allocated
  - Use retail order period

Sending Strong Credit Message

- Fears in market over credit
  - Sense that bigger trouble may be ahead
  - Pension funding burdens
  - Large budget gaps
  - Municipal bankruptcy chatter
  - Adjusting to life without bond insurance
- Requires proactive response from issuers
  - Proactive engagement: Clear, consistent credit message, repeat often
  - Marketing efforts that target individual investors
  - Full disclosure (obviously) and compliance with continuing disclosure
  - Address pension funding, impact of federal/state funding cuts, one-shot measures
  - Reforms

Retail has been moving to the web

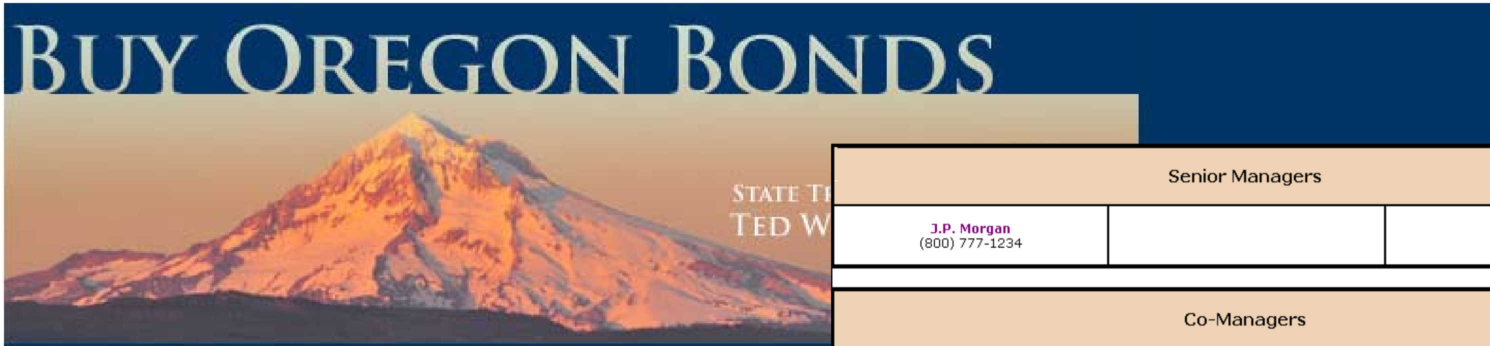
Web-based tools

- Alerts
- Placing orders during bond pricing
- Investor tools
- Education and pricing transparency

Secondary market

- Attracts investors to platform
- Enhances liquidity

www.buyourbonds.com*



Brokerage F

Please contact your financial advisor for more information about b
State. You will need to have a brokerage account to purchase th
you may contact one of the following participating brokerage firm
each firm has its own requirements for opening an account. The S
Additionally, the State does not guarantee that any one of these
have bonds for the investor to purchase.

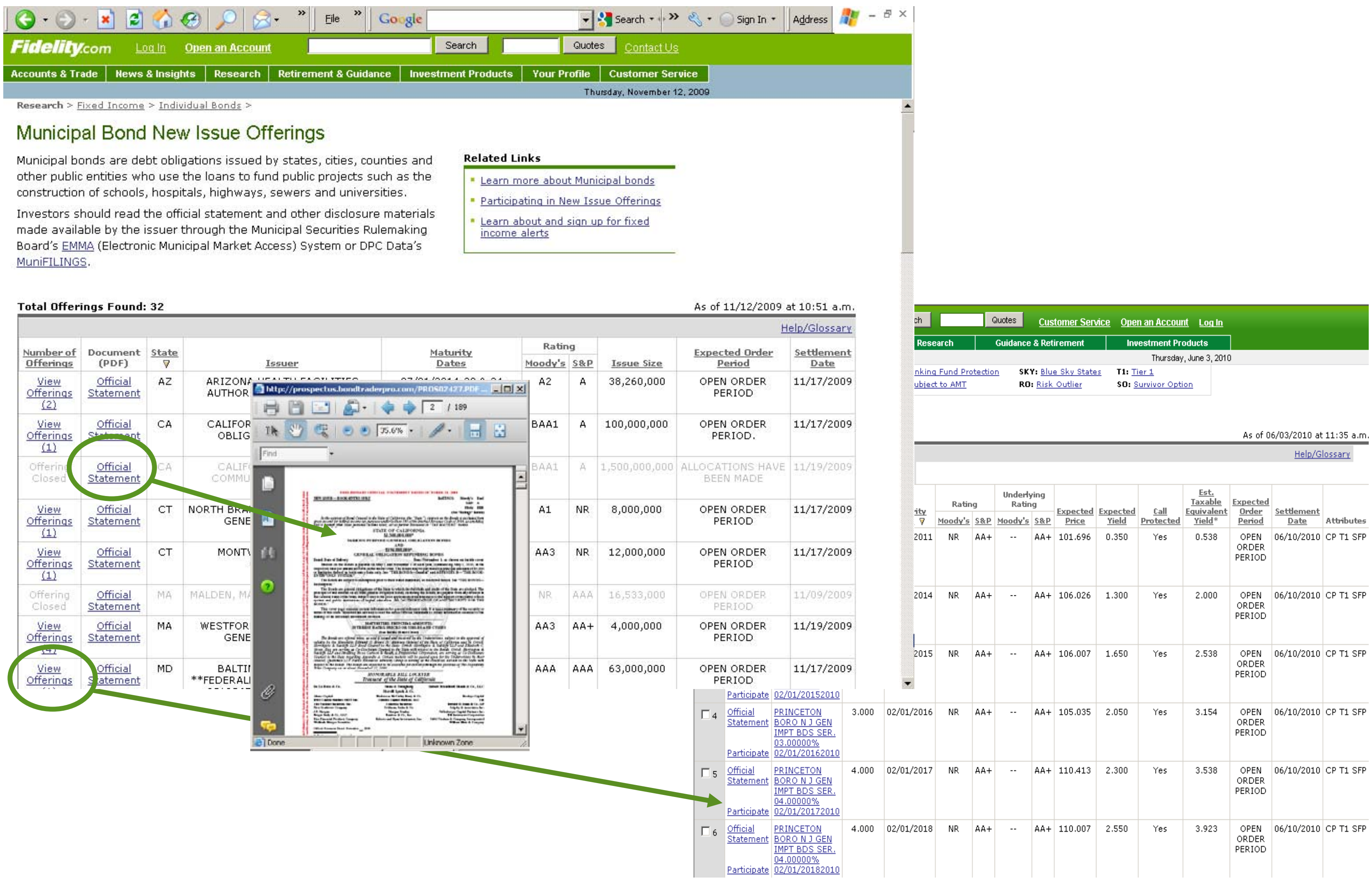
Senior Managers		
J.P. Morgan (800) 777-1234		
Co-Managers		
BofA Merrill Lynch (800) 637-7455	Citi (800) 547-1526	Edward Jones (888) 335-6637
Morgan Stanley Co. Incorporated (877) 937-6739		
Sales Group		
Charles Schwab & Company (866) 855-9102	DA Davidson (503) 525-3600	Fidelity Capital Market Services (800) 544-5372
Keybanc Capital Markets (888) 547-2968	Loop Capital Markets	McAdam Wright & Regan, Inc. (800) 754-2841
McDonald Investments	Piper Jaffray (800) 874-0946	Raymond James & Associates, Inc.

Links go to:
- ➢New issue webpage
- ➢Company's issuer-dedicated website
- ➢Company's municipal bond page
- ➢Company homepage
- ➢Phone number of a rep

*hypothetical name

Screen shots are for illustrative purposes only.

Ordering Online: www.fidelity.com/newissuemunis



Screen shots are for illustrative purposes only.

Promote transparency by increasing simplicity and education

- *Retail investors have option to place orders <u>during pricing</u>*
- *Anyone can view offerings*

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Thursday, June 3, 2010

ME: Material Events **CP:** Call Protection **SFP:** Sinking Fund Protection **SKY:** Blue Sky States **T1:** Tier 1
RI: Reopened Issues **FDIC:** FDIC Insured **AMT:** Subject to AMT **RO:** Risk Outlier **SO:** Survivor Option

PRINCETON, NJ GENERAL OBLIGATION
Total Offerings Found: 10

As of 06/03/2010 at 11:35 a.m.

Help/Glossary

Compare two bonds | Hypothetical Trade

		Issue Description	Expected Coupon	Maturity Date	Rating Moody's	Rating S&P	Underlying Rating Moody's	Underlying Rating S&P	Expected Price	Expected Yield	Call Protected	Est. Taxable Equivalent Yield*	Expected Order Period	Settlement Date	Attributes
1	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 03.00000% 02/01/20112010	3.000	02/01/2011	NR	AA+	--	AA+	101.696	0.350	Yes	0.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
2	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 03.00000% 02/01/20142010	3.000	02/01/2014	NR	AA+	--	AA+	106.026	1.300	Yes	2.000	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
3	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 03.00000% 02/01/20152010	3.000	02/01/2015	NR	AA+	--	AA+	106.007	1.650	Yes	2.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
4	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 03.00000% 02/01/20162010	3.000	02/01/2016	NR	AA+	--	AA+	105.035	2.050	Yes	3.154	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
5	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 04.00000% 02/01/20172010	4.000	02/01/2017	NR	AA+	--	AA+	110.413	2.300	Yes	3.538	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP
6	Official Statement Participate	PRINCETON BORO N J GEN IMPT BDS SER. 04.00000% 02/01/20182010	4.000	02/01/2018	NR	AA+	--	AA+	110.007	2.550	Yes	3.923	OPEN ORDER PERIOD	06/10/2010	CP T1 SFP

Screen shots are for illustrative purposes only

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Disclaimers

Although bonds generally present less short-term risk and volatility than stocks, bonds do entail interest rate risk (as interest rates rise, bond prices usually fall and vice versa) and the risk of default, or the risk that an issuer will be unable to make upcoming or principal payments. Additionally, bonds and short-term investments may entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks.

Any fixed-income security sold or redeemed prior to maturity may be subject to substantial gain or loss.