DISCOVERING ETFS FOR THE CURRENT ECONOMY

Discover the basics of exchange-traded funds, how they may perform in today’s economy, and where to learn more on fidelity.com
AGENDA

Introduction to ETFs

How Do ETFs Compare to Mutual Funds?

Potential for Change in the Marketplace

Factor Investing

Tools/Resources
What Is an Index?
An Index…

- IS designed to measure a particular market or a portion of it
- IS NOT a direct investment vehicle and is unmanaged

A FEW OF THE BIG U.S. INDEXES INCLUDE:

- Dow Jones Industrial Average
- S&P 500®
- Nasdaq Composite
- Barclays U.S. Aggregate Bond

Keep in mind, there are thousands of indexes tracking nearly any market. Most exchange-traded funds track an index.
An Index Fund…

- Allows investors to invest in securities representing market segments
- Is passively managed

### Passive Management

- A fund’s portfolio attempts to replicate the performance of a market index
- Also known as “index investing”

### Active Management

- A strategy where the manager makes specific investments based on research and analysis with the goal of outperforming an index

Where can I learn more?
Research > Learning Center > Index ETFs
What Is an Exchange-traded Fund?
An Exchange-Traded Fund (ETF) Is…

- A basket of securities designed to offer exposure to a certain segment(s) of the market
- Can be either passively, enhanced or actively managed—most are passive
- An exchange-traded product

**HAVE YOU HEARD OF THESE PASSIVE ETFS?**

- **SPY**: tracks S&P 500®
- **IWM**: tracks Russell 2000®
- **QQQ**: tracks Nasdaq-100
- **AGG**: tracks Barclays U.S. Aggregate Bond

**Where can I learn more?**
Research > Learning Center > What is an ETF?
Why Use ETFs?
Product Features that Are Driving the Popularity of ETFs

**ETF**

- **DIVERSIFICATION**: a way to build a portfolio that meets specific asset allocation goals
- **PRICING**: Continuous pricing and trading throughout the day
- **TAX EFFICIENCY**: lower portfolio turnover and the ability to do in-kind redemptions
- **TRANSPARENCY**: Typically disclose holdings daily
- **LOWER COST**: Potentially lower expense ratios
How Do ETFs Compare to Mutual Funds?
Things to Know about COSTS

**ETFs**
- Expense ratios
- Commissions (may be waived)
- Bid-Ask spreads
- Premium/Discounts

**MUTUAL FUNDS**
- Expense ratios
- Load and no-load
- Bought/Sold at NAV (may have redemption fees)
- Bought/Sold at NAV (no load funds)

Where can I learn more?
Research > ETFs > ETF/ETP Screener
Things to Know about TRADING ATTRIBUTES

**ETFs**
- Intra-day trading on secondary market
- Allows Limit, Stop and Conditional Orders
- Allows Shorting and Margin

**MUTUAL FUNDS**
- Most transact once a day at close
- No Limit, Stop or Conditional Orders
- No Shorting (Margin 30 days)

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**Where can I learn more?**
Research > Learning Center > Understanding how mutual funds, ETFs, and stocks trade

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Images are for illustrative purposes only.
Things to Know about ACCESS, TRANSPARENCY and TAXES

ETFs

• Many sub-sector and industry focused ETPs in addition to broader market ETPs
• Generally, daily transparency of all holdings
• Capital gains tend to be lower due to creation and redemption

MUTUAL FUNDS

• Most funds focus on broader markets; few sub-sector funds
• Holdings data usually at least 1 month old
• Less tax efficient structure, all shareholders bear tax burden

Where can I learn more?
Research > Learning Center > What’s in your ETF? Understanding ETF portfolio composition
Potential for Change

• Corporate Tax Reform
• Potential for Financial Services Deregulation?
• Opportunities
Tax Reform Implications

Average Sector Returns
Higher Corporate Taxes vs. Lower Corporate Taxes

Lower Tax Rates  Higher Tax Rates

Defensive Sectors

-2%
5%

Cyclical Sectors

1%
-1%

Equity universe is defined as the top 3,000 U.S. stocks by market capitalization; sectors as defined by the Global Industry Classification Standard (GICS). Haver, as of 12/16, Defense is an average of Staples, Healthcare, Utilities and Telecom sector relative performance. Cyclicals is an average of Energy, Industrials, Materials, Discretionary, Technology, and Financials Relative performance.
Financial Services Deregulation Implications

Average Sector Returns
Banks More Willing to Lend vs. Less

- Average Defensive Sectors
- Average Cyclical Sectors

Less Willing to Lend
More Willing to Lend

Equity universe is defined as the top 3,000 U.S. stocks by market capitalization; sectors as defined by the Global Industry Classification Standard (GICS). Haver, as of 12/16, Defense is an average of Staples, Healthcare, Utilities and Telecom sector relative performance. Cyclicals is an average of Energy, Industrials, Materials, Discretionary, Technology, and Financials Relative performance.
Poised for Opportunity

Sector Performance Before and During Average Investment Recoveries
12M Returns

Poised for Opportunity

Source: Equity universe is defined as the top 3,000 U.S. stocks by market capitalization; sectors as defined by the Global Industry Classification Standard (GICS). Haver, as of 12/15 Alpha: A measure of performance on a risk-adjusted basis. Also referred to as excess return.
Defensive vs. Cyclical

**DEFENSIVE**
- Consumer Staples
- Health Care
- Telecom
- Utilities

**CYCLICAL**
- Consumer Discretionary
- Energy
- Financials
- Industrials
- Materials
- Real Estate
- Technology

Source: Fidelity Investments.
Factor Investing
## What Are Factors?

### Factor Investing Involves

Identifying securities with certain common characteristics, based on the idea that all securities have some level of sensitivity to the movement of the broader market.

<table>
<thead>
<tr>
<th>Low Volatility</th>
<th>Quality</th>
<th>Momentum</th>
<th>Value</th>
<th>Dividends</th>
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<tbody>
<tr>
<td>Securities generating returns comparable to the broader market with less volatility.</td>
<td>Securities with higher profitability, more stable income and cash flows, and a lack of excessive leverage.</td>
<td>Outperforming stocks that have a tendency to continue to outperform over the medium term.</td>
<td>Inexpensive stocks with low prices relative to their fundamental value.</td>
<td>While not historically considered factors, factor-investing principles can also be applied to certain characteristics of income-producing (or dividend) securities, such as dividend income potential or protection when rates are rising.</td>
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Source: Fidelity Investments.
Factors Matter
Research reveals the return potential of these factors over time

Exposure to these key strategic factors has generated market outperformance over time


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Returns are cumulative and assume reinvestment of dividends. Returns do not reflect the performance of any Fidelity index or ETF. Past performance is no guarantee of future results. Value composite is a combined average ranking of stocks in the equal-weighted top quintile (by book/price ratio) and stocks in the equal-weighted top quintile (by earnings yield) of the Russell 1000 Index. Momentum returns are the equal-weighted top quintile (by trailing 12-month returns) of the Russell 1000 Index. Quality returns are the equal-weighted top quintile (by return on equity) of the Russell 1000 index. Low-volatility returns are yearly returns of the equal-weighted bottom quintile (by standard deviation of weekly price returns) of the Russell 1000 Index.

Source: Fidelity Investments as of 12/31/2015.
Key Uses of Factor Strategies in a Portfolio

Investors seek out factor exposures for return/outcome potential and risk management

**Intended Objectives**

<table>
<thead>
<tr>
<th>ENHANCED RETURNS</th>
<th>RISK MANAGEMENT</th>
<th>TARGETED OUTCOME</th>
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<tbody>
<tr>
<td>Improve long-term performance with lower costs</td>
<td>Complement or diversify portfolio to reduce risk</td>
<td>Support investment objectives such as income or low volatility</td>
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</table>

**Investor Uses**

- Certain factors may enhance risk-adjusted returns
- Certain factors may outperform in varying phases of business cycle
- Enhanced diversification
- Leveraging targeted exposures may better align portfolios with intended risk profiles
- Deliver income via higher dividend yield
- Augment existing portfolio to deliver a desired impact (e.g., reduce volatility)
FDRR: Low Rate Environment Driving Fear of Rate Rise

Fidelity Dividend for Rising Rates ETF (FDRR) is designed to look for companies that pay dividends and that have done well in a rising rate environment.

10-year Treasury Rate

Past performance is no guarantee of future results.
WSJ - http://www.wsj.com/articles/yellen-says-there-is-no-fixed-timetable-on-rate-increase-1475085581
FDLO: Concerns over Increased Market Volatility

Fidelity Low Volatility Factor ETF (FDLO) can potentially reduce level of risk in a portfolio while maintaining return potential.

**Annualized Return and Volatility (%)**
**January 1986–March 2016**

- **Large-Cap Growth Fund**: 9.2% return, 17.2% volatility
- **Large-Cap Growth Fund + Low Vol**: 8.9% return, 14.5% volatility
- **Russell 1000 Index**: 7.5% return, 15.5% volatility

Large-cap growth fund represented by the median fund by return volatility within the top quintile of 10-year performance in the Morningstar large-cap growth category. Low-volatility portfolio is the equal-weighted bottom quintile (by standard deviation of weekly price returns) of the Russell 1000 Index. Large-cap growth fund + low vol is an equal-weighted portfolio of this active large cap growth fund and a low-volatility factor portfolio. Annualized returns from July 2006 through June 2016. Volatility represented by standard deviation (a measure of return variance). A portfolio with a lower standard deviation exhibits less volatility. For more detail, see September 2016 Fidelity Leadership Series “Putting Factors to Work”.

*Past performance is no guarantee of future results.*

Source: Fidelity Investments and FactSet, as of 6/30/2016.
Where Can I Research and Learn More on Fidelity.com?
Fidelity Factor ETFs—Buy Online Commission Free
Focus on fundamental investment opportunities, leveraging our unique insights to define our factor-based strategies

FDVV
Fidelity Core Dividend ETF

FDRR
Fidelity Dividend ETF for Rising Rates

FDLO
Fidelity Low Volatility Factor ETF

FDMO
Fidelity Momentum Factor ETF

FQAL
Fidelity Quality Factor ETF

FVAL
Fidelity Value Factor ETF

There is no guarantee that a factor-based investing strategy will enhance performance or reduce risk. Before investing, make sure you understand how the fund’s factor investment strategy may differ from more traditional index funds. Depending on market conditions, funds may underperform compared to funds that seek to track a market-capitalization weighted index.

See page 32 for more information, including Factor ETF investment risks.

Source: Fidelity Investments.
Fidelity Sector ETFs—Buy Online Commission Free
Get Sector exposure with low cost sector ETFs

<table>
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<tr>
<th>Symbol</th>
<th>Description</th>
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<tr>
<td>FDIS</td>
<td>Fidelity MSCI Consumer Discretionary Index ETF</td>
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<td>FSTA</td>
<td>Fidelity MSCI Consumer Staples Index ETF</td>
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<td>FENY</td>
<td>Fidelity MSCI Energy Index ETF</td>
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<td>FNCL</td>
<td>Fidelity MSCI Financials Index ETF</td>
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<td>FHLC</td>
<td>Fidelity MSCI Health Care Index ETF</td>
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<td>FIDU</td>
<td>Fidelity MSCI Industrials Index ETF</td>
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<tr>
<td>FTEC</td>
<td>Fidelity MSCI Information Technology Index ETF</td>
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<tr>
<td>FMAT</td>
<td>Fidelity MSCI Materials Index ETF</td>
</tr>
<tr>
<td>FREL</td>
<td>Fidelity MSCI Real Estate Index ETF</td>
</tr>
<tr>
<td>FCOM</td>
<td>Fidelity MSCI Telecommunication Services Index ETF</td>
</tr>
<tr>
<td>FUTY</td>
<td>Fidelity MSCI Utilities Index ETF</td>
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</tbody>
</table>

Free commission offer applies to online purchases of Fidelity ETFs in a Fidelity brokerage account with a minimum opening balance of $2,500. The sale of ETFs is subject to an activity assessment fee (from $0.01 to $0.03 per $1,000 of principal). Fidelity ETFs are subject to a short-term trading fee by Fidelity if held less than 30 days.
ETF Research

Use the information available to learn more about an individual ETF or to compare an ETF to others.

Commonly used pages include:

- **Snapshot**: one-page summary
- **Detailed Quote**: interesting facts, such as: NAV, Bid/Ask, Short Interest, and Yield
- **Portfolio Composition**: view the Top 10 Holdings
- **Compare**: perform a side-by-side comparison of up to 5 different securities
ETF/ETP Screener: Two Ways to Get Started

Build your own screen by identifying criteria that is important to you or select a theme that best describes the type of ETF you are looking for.

Start your ETF screen by applying filters to the left

What type of ETF are you looking for?

Choose a Sector

Not sure where to begin?

More themes coming soon!

There when you need it - embedded education in the screener to help along the way.

Just a click away from results!
ETF/ETP Screener: Results

Read more about the theme to understand what is included as well as excluded.

Print, Download or Save your results.

Look for the commission-free icon.

Read the Theme Criteria to learn why a symbol is included in the results.
Important Information

Diversification does not ensure a profit or guarantee against loss.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency-exchange rate, economic, and political risks, all of which are magnified in emerging markets. Exchange-traded products (ETPs) that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus. ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case of exchange-traded notes). Each ETP has a unique risk profile, which is detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

The S&P 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies. Nondiversified sector funds may have additional volatility because they can invest a significant portion of assets in securities of a small number of individual issuers.

Margin trading entails greater risk, including, but not limited to, risk of loss and incurrence of margin interest debt, and is not suitable for all investors. Please assess your financial circumstances and risk tolerance before trading on margin. Margin credit is extended by National Financial Services, Member NYSE, SIPC.

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular, or, if available, a summary prospectus containing this information. Read it carefully.
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Views expressed are as of the date indicated, based on the information available at that time, and may change based on market or other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

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This piece may contain assumptions that are “forward-looking statements,” which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Investing involves risk, including risk of loss.

All indices are unmanaged. You cannot invest directly in an index.

Market Indices
The S&P 500® Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS).

The S&P 500 sector indices include the standard GICS sectors that make up the S&P 500 Index. The market capitalization of all S&P 500 sector indices together composes the market capitalization of the parent S&P 500 Index; each member of the S&P 500 Index is assigned to one (and only one) sector.

Barclays U.S. Aggregate Bond Index is an unmanaged index considered representative of the US investment-grade, fixed-rate bond market. Barclays U.S. Corporate High Yield Bond Index is a market value-weighted index that covers the universe of dollar-denominated, fixed-rate, non-investment grade debt.

The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. equity market.

Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

Nasdaq Composite Index is a broad-based capitalization-weighted index of all Nasdaq domestic and international based common type stocks listed on the Nasdaq Stock Market.

Sectors are defined as follows: Consumer Discretionary: companies that provide goods and services that people want but don’t necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. Consumer Staples: companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be less sensitive to economic cycles. Energy: companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials: companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and real estate, including REITs. Health Care: companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products. Industrials: companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. Technology: companies in technology software and services and technology hardware and equipment. Materials: companies that are engaged in a wide range of commodity-related manufacturing. Telecommunication Services: companies that provide communications services primarily through fixed-line, cellular, wireless, high bandwidth, and/or fiber-optic cable networks. Utilities: companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.
Important Information

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Diversification does not ensure a profit or guarantee against loss.

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The S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Global Industry Classification Standard—GICS is a standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's. The GICS hierarchy begins with 10 sectors and is followed by 24 industry groups, 67 industries, and 147 sub-industries. Each stock that is classified will have a coding at all four of these levels.

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