

**FACTOR INVESTING: Targeting
your investment needs**

Seek to enhance returns

Manage risk

Focused outcomes



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- **Introduction**
- **What is factor investing?**
- **How to use factors in a portfolio**
- **Fidelity Factor ETFs**
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The 1980's

17%



Source: Morningstar, Average Annualized Return S&P 500 Index January 1st 1980 to December 31, 1989



The 1990's

18%



Source: Morningstar, Average Annualized Return S&P 500 Index January 1st 1990 to December 31, 1999



The 2000's

-1%



Source: Morningstar, Average Annualized Return S&P 500 Index January 1st 2000 to December 31, 2009



The first half of the 2010's

13%



Source: Morningstar, Average Annualized Return S&P 500 Index January 1st 2010 to December 31, 2015

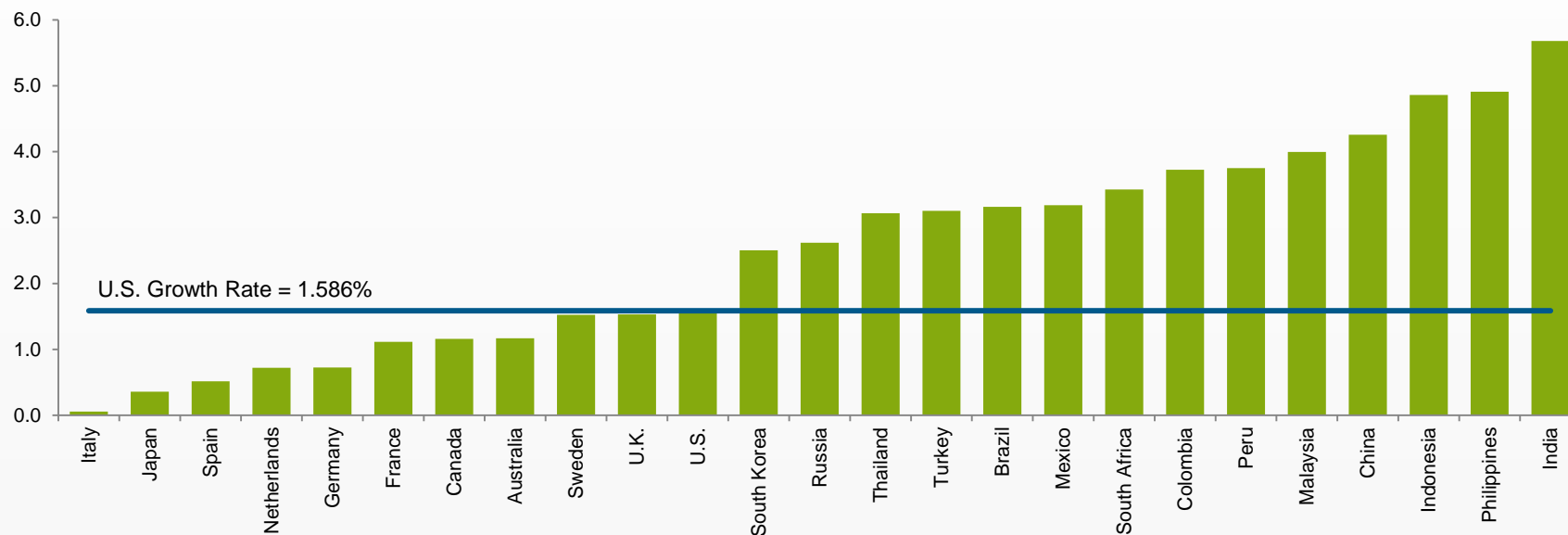


Low Growth Environment

OVER THE NEXT 20 YEARS:

- Global growth is expected to be somewhat slower due primarily to deteriorating demographics in most countries, with developing economies likely to register the highest growth rates.
- We forecast U.S. GDP growth of 1.586% over the next 20 years, compared with a forecast of 2.1% for global GDP growth for the same time frame.

REAL GDP GROWTH, 2016-2035



Source: Fidelity Investments (AART) as of Dec. 31, 2015.

Dilemma for investors

- **Historical returns tell us that nothing is certain in the equity markets**
- **Traditional investing styles may not be as effective**
- **Moving to a conservative bond focused portfolio in retirement may not deliver enough income in a low interest rate environment**



What Is a Cap-Weighted Portfolio?

CAP-WEIGHTED PORTFOLIO:

- A cap-weighted portfolio is a portfolio of stocks in which each constituent is weighted by its size, as defined by its market capitalization
- The most common market cap-weighted indices are the names that you already know: S&P 500, Russell 1000 and Russell 2000

S&P 500® CONSTITUENTS

Name	Weight (%)
Apple Inc	3.11
Microsoft Corp	2.39
Exxon Mobil Corp	1.91
Johnson & Johnson	1.73
Amazon.com Inc	1.58
Facebook Inc A	1.54
General Electric Co	1.52
Berkshire Hathaway Inc B	1.49
AT&T Inc	1.33
JPMorgan Chase & Co	1.30

Overview of Factor Investing

Evolution of Factor Analysis

Progression of research into the drivers of asset returns

SINGLE SOURCE OF SYSTEMATIC RISK



Capital Asset Pricing Model (CAPM) proposes return on investment driven by exposure to a single factor, market risk, or "beta."

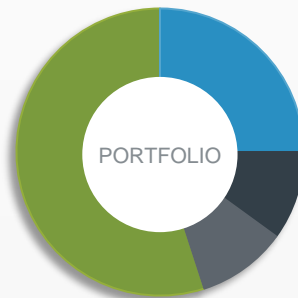


- Market
- Asset Specific

MULTIPLE SYSTEMATIC RETURN ANOMALIES



Fama and French develop model accounting for additional factors, stock characteristics of size and style, which also drive performance.

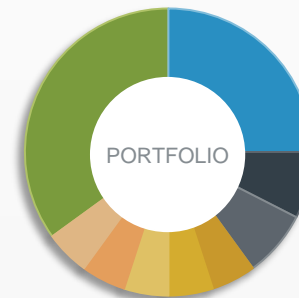


- Market
- Asset Specific
- Size
- Style

ASSORTED STRATEGIC RISK AND RETURN FACTORS



Substantial research and analysis into many other strategic factors, which can be used to explain components of a stock's return.



- Market
- Asset Specific
- Size
- Style
- Momentum
- Quality
- Value
- Volatility
- Yield

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.

Low Volatility	Quality	Momentum	Value	Dividends	Size
Securities generating returns comparable to the broader market with less volatility.	Securities with higher profitability, more stable income and cash flows, and a lack of excessive leverage.	Outperforming stocks that have a tendency to continue to outperform over the medium term.	Inexpensive stocks with low prices relative to their fundamental value.	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.	Publicly traded companies are typically grouped into three different market cap categories: large cap, mid cap, and small cap.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller, less well known companies can be more volatile than those of larger companies. 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 investing strategy may differ from that of a more traditional index product. Depending on market conditions, funds may underperform compared with products that seek to track a more traditional index. The return of an index exchange-traded fund (ETF) is usually different from that of the index it tracks, because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its net asset value (NAV).
Source: Fidelity Investments.

Factor Analysis within Fidelity's Investment Approach

Factor analysis is a key part of our investment management processes and philosophies



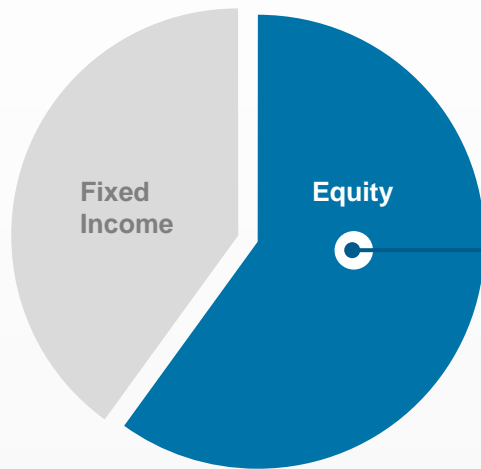
Peter Lynch, 1968



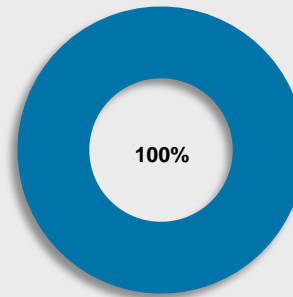
Source: Fidelity Investments.

Rethinking the Equity Asset Allocation Approach

Looking Beyond Market Capitalization



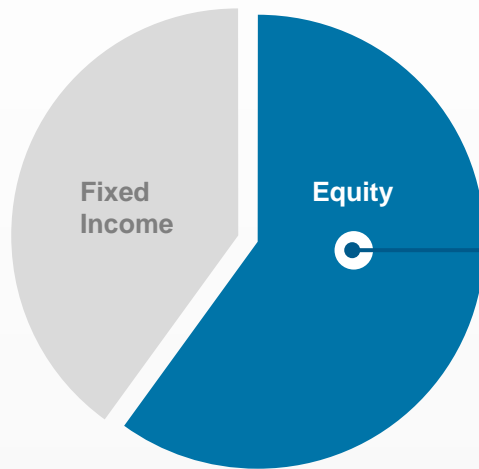
TRADITIONAL LARGER MARKET
S&P Index Fund



Source: Fidelity Investments.

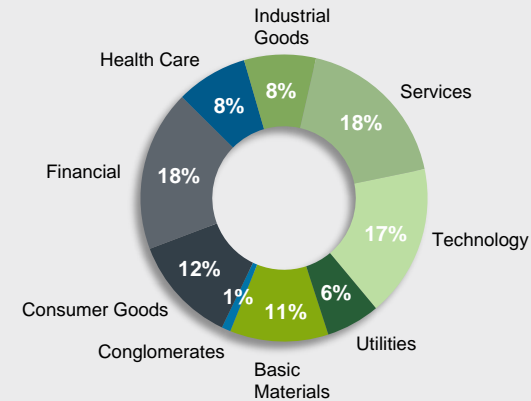
Rethinking the Equity Asset Allocation Approach

Looking Beyond Market Capitalization



SECTOR APPROACH

Mix of Sector funds



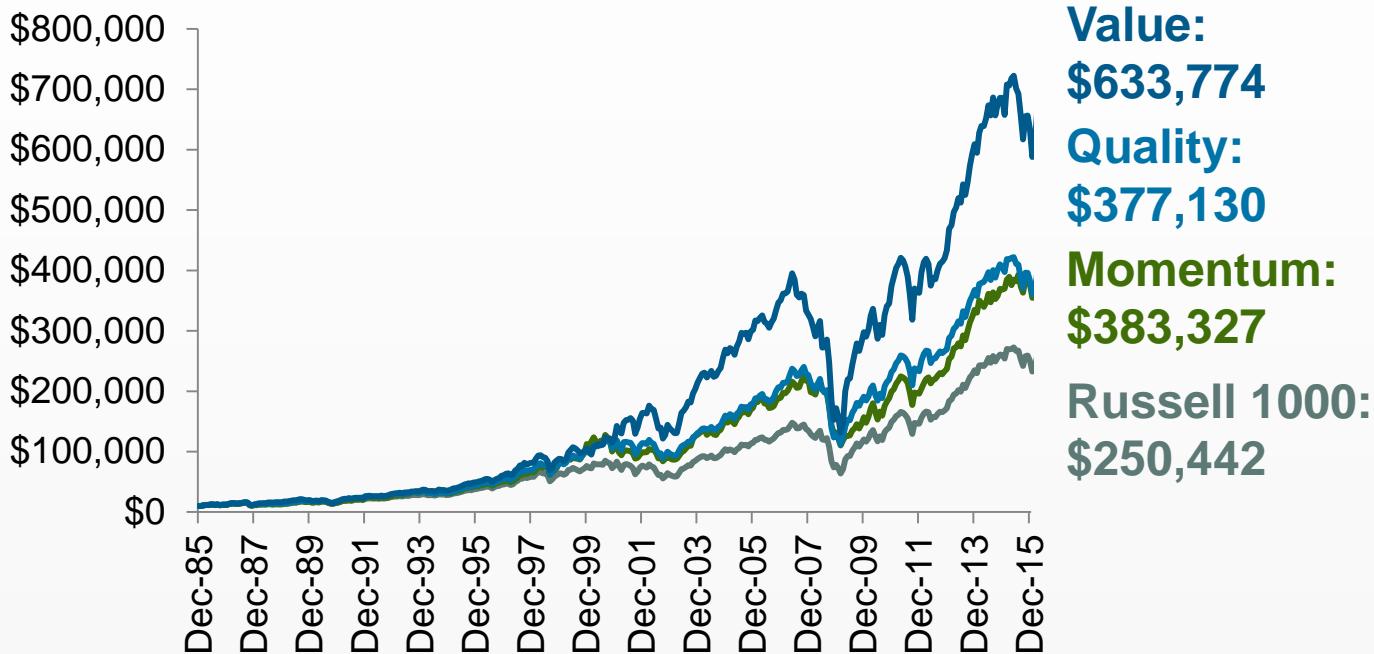
Factor Investing Strategies

Factors Matter

Research reveals the return potential of these factors over time

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

GROWTH OF \$10,000: FACTOR PORTFOLIOS VS. BROADER MARKET, 1985–2015



Past performance is no guarantee of future results. 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

Enhanced Returns	Risk Management	Targeted Outcome
Improve long-term performance with lower costs	Complement or diversify portfolio to reduce risk	Support investment objectives such as income or low volatility

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)

Looking for Capital Appreciation?

In academic research, certain factors have shown durable characteristics that have led to superior risk-adjusted returns over the long-term.

Objective

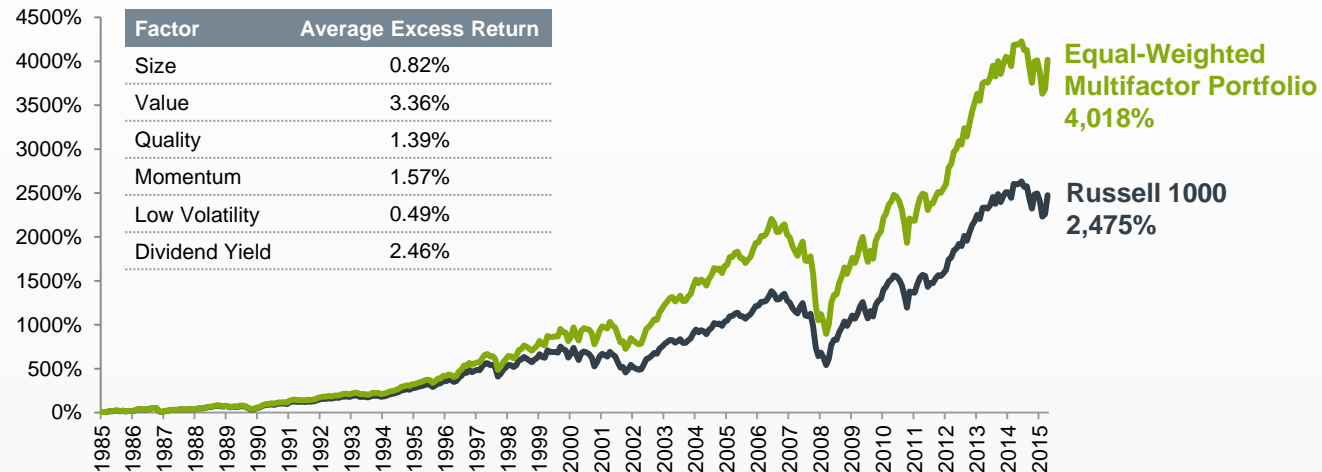
- Outperform the market over the long term

Factor Strategy

- Diversifying across multiple factors can help investors achieve more consistent relative outperformance over time

HISTORICAL RETURNS

Cumulative Return (%)
January 1986–March 2016



Notes: Equal-weighted multifactor portfolio includes six factor portfolios: size, value, momentum, quality, low volatility, and dividend yield factors. Factor portfolios are equal-weighted and sector-neutral. Excess returns shown are relative to those of the overall equal-weighted Russell 1000 Index. Average Excess Return: compound average of yearly excess returns from January 1986 through March 2016.

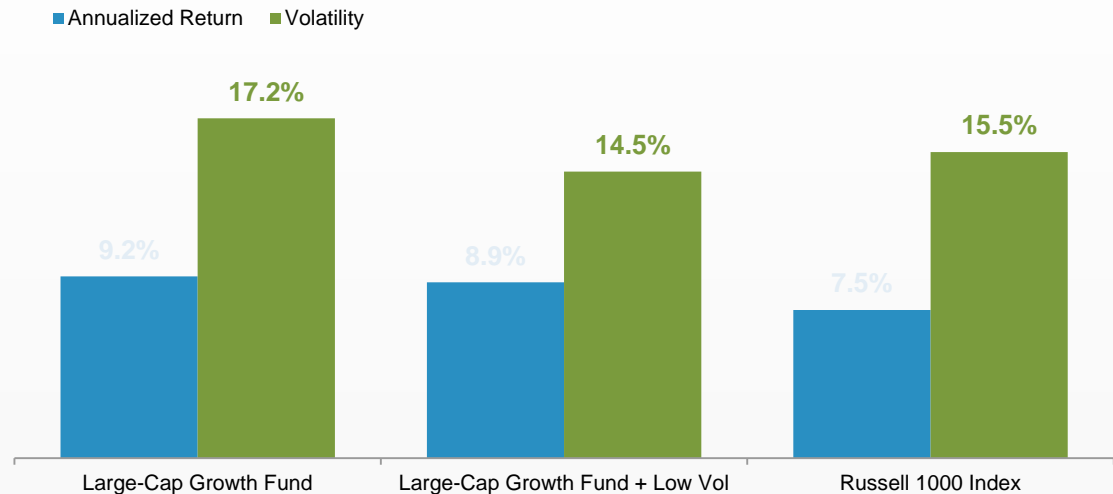
Source: FactSet, as of 3/31/2016.

Concerned about risk and volatility?

Allocation to a low-volatility strategy can improve a portfolio's risk-adjusted return through decreased volatility

ADDITION OF LOW VOLATILITY: PERFORMANCE AND RISK COMPARISONS

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



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.



Targeted Outcome

Factors can be combined to build portfolios designed to achieve specific investment objectives



Source: Fidelity Investments, as of 3/31/2016.

Fidelity Factor ETFs

Overview

Fidelity Factor ETF Product Overview

Thoughtful portfolio construction to provide investors with a high focus on the desired factor, while limiting exposure to other unintended risks

**Fundamental
Factors**

**Targeted
Exposures**

**Outcome
Oriented**

- Provide **targeted factor exposure** intended to provide income, long-term excess return, or risk management
- Ensure **lower unintended risk and relative sector exposure** while maximizing shareholders' factor exposure
- Deliver **competitive performance** with investment returns in line with factor expectations

Choice, Value, Expertise

Fidelity Factor ETFs unite our **legacy of fundamental research with factor-based insights** to give customers an outcome-oriented diversifier based on our proprietary investment management methodology

Note: 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.

Source: Fidelity Investments.

Fidelity Factor ETFs

Focus on fundamental investment opportunities, leveraging our unique insights to define our factor-based strategies



FDVV Fidelity Core Dividend ETF

Seeks to provide investors with higher relative dividend yield with sector tilts, subject to constraints, which have historically delivered higher yield

FDRR Fidelity Dividend ETF for Rising Rates

Targeting higher yielding companies with positive correlation to rising Treasury yields can provide protection in a rising rate environment

FDLO Fidelity Low Volatility Factor ETF

Securities generating similar returns as the broader market over time with less volatility

FDMO Fidelity Momentum Factor ETF

Outperforming stocks have had a tendency to continue to outperform over the medium term

FQAL Fidelity Quality Factor ETF

Companies with higher profitability, stable cash flows, and good balance sheets tend to outperform their peers over time

FVAL Fidelity Value Factor ETF

Cheap stocks, with low prices relative to fundamentals, have historically outperformed the market over time

Purchase Information

Net Expense Ratio:	0.29%
Stock Exchange:	NYSE
Fidelity Trading Fees:	Commission Free/30-day short-term trading fee ¹

Rules-Based Passively Managed Investment Approach

Proprietary Methodology	Fidelity Investments
Independent Calculation Agent	S&P Dow Jones
Sub-Advisor	Geode Capital Management

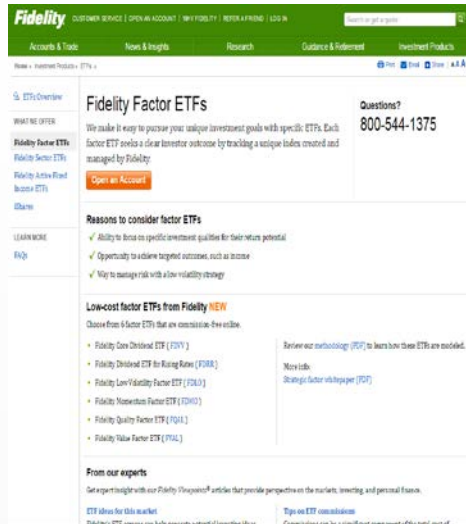
Note: ¹ Free commission offer applies to online purchases of Fidelity ETFs in a Fidelity brokerage account with a minimum opening balance of \$2,500. The sale of ETFs are subject to an activity assessment fee (of between \$0.01 to \$0.03 per \$1000 of principal) by Fidelity. Fidelity ETFs are subject to a short-term trading fee by Fidelity, if held less than 30 days.

Source: Fidelity Investments.



Fidelity's Factor Resources

Learn about factor & ETF investing

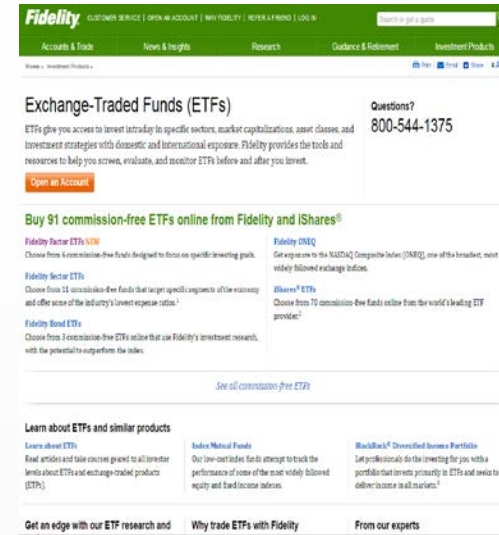


The screenshot shows the Fidelity Factor ETFs landing page. At the top, there's a navigation bar with 'Fidelity' logo and links for 'CUSTOMER SERVICE', 'OPEN AN ACCOUNT', 'NEW FIDELITY', 'REFER A FRIEND', and 'LOG IN'. Below the navigation bar, there are tabs for 'Accounts & Tools', 'News & Insights', 'Research', 'Guidance & Retirement', and 'Investment Products'. The main content area is titled 'Fidelity Factor ETFs' and includes a 'Questions?' section with the number '800-544-1375'. There are several sections: 'WHAT WE OFFER' with a list of ETFs, 'REASONS TO CONSIDER FACTOR ETFs' with three bullet points, 'Low-cost factor ETFs from Fidelity' with a list of ETFs and a 'More info' link, and 'From our experts' with a link to 'ETF ideas for this market'.

www.fidelity.com/factor-etfs

Fidelity Factor ETF Landing Page

- Get expert insight with Fidelity Viewpoints articles
- Learn about factor ETF investing



The screenshot shows the Fidelity Exchange-Traded Funds (ETFs) product hub. At the top, there's a navigation bar with 'Fidelity' logo and links for 'CUSTOMER SERVICE', 'OPEN AN ACCOUNT', 'NEW FIDELITY', 'REFER A FRIEND', and 'LOG IN'. Below the navigation bar, there are tabs for 'Accounts & Tools', 'News & Insights', 'Research', 'Guidance & Retirement', and 'Investment Products'. The main content area is titled 'Exchange-Traded Funds (ETFs)' and includes a 'Questions?' section with the number '800-544-1375'. There are several sections: 'Open an Account', 'Buy 91 commission-free ETFs online from Fidelity and iShares', 'Learn about ETFs and similar products' with three sub-sections: 'Learn about ETFs', 'Index Mutual Funds', and 'BlackRock's Diversified Income Portfolio', and 'Get an edge with our ETF research and analysis'.

www.fidelity.com/etfs

ETF Product Hub

- Learn about ETFs and similar products
- Hear from Fidelity sector portfolio managers
- Research ETFs and ETPs

For illustrative purposes only.

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.

ETF/ETP* Screener

[My Screens](#)

Criteria [Hide](#)

No criteria applied

Start a new screen by selecting criteria below.

ADD CRITERIA:

OR

[View All](#)

[+](#) Basic ETF / ETP Facts (14 Criteria)

[+](#) Objectives (12 Criteria)

[+](#) Trading Characteristics (22 Criteria)

Start your ETF screen by applying filters to the left

OR

What type of ETF are you looking for?



Fidelity

[+](#) Commission-Free

iShares
by BLACKROCK*

iShares

[+](#) Commission-Free



Sector



Fixed Income

Choose a Sector

[Help Me Choose](#)



Fidelity Sector ETFs

12 ETFs

[+](#) Commission-Free



Consumer Discretionary

21 ETFs



Consumer Staples

15 ETFs



Energy

48 ETFs



Financials

36 ETFs



Healthcare

31 ETFs



Industrials

27 ETFs



Information Technology

42 ETFs



Materials

30 ETFs



Real Estate

138 ETFs



Telecom

7 ETFs



Utilities

13 ETFs



Multi-Sector

58 ETFs

More themes coming soon!

Not sure where to begin?

[What is an ETF?](#)

[Top 5 mistakes people make when investing in ETFs](#)

[Learn more about ETFs >](#)

Images are for illustrative purposes only.



Key Points

Historical returns show us that nothing is certain in the equity markets

Factor investing may help achieve desired outcomes

Fidelity has the tools and resources to help you deliver a factor-based strategy



Thank You

CLICK

Fidelity.com/factors to view products, tools, and resources on factor investing

CALL

800-343-3548 to speak to one of our knowledgeable representatives

VISIT

A Fidelity Investor Center for a consultation with one of our investment professionals

Glossary

Term	Definition
Information Ratio	Measures a fund's active return (fund's average monthly return minus the benchmark's average monthly return) in relation to the volatility of its active returns
Market Capitalization	The total dollar market value of all of a company's outstanding shares.
Payout Ratio	A measure of trailing dividends per share over the past twelve months divided by earnings per share.
Price-to-Book (P/B) Ratio	The ratio of a company's current share price to reported accumulated profits and capital.
Price-to-Cash Flow (P/CF) Ratio	The ratio of a company's current share price to its trailing 12-months cash flow per share.
Price-to-Earnings (P/E) Ratio (IBES 1-Year Forecast)	The ratio of a company's current share price to Wall Street analysts' estimates of earnings.
Price-to-Earnings (P/E) Ratio Trailing	The ratio of a company's current share price to its trailing 12-months earnings per share.
Price-to-Tangible Book Value (TBV)	The ratio of a company's current share price to its total book value, less the value of any intangible assets.
Return on Invested Capital (ROIC)	A measure of how effectively a company uses the money (borrowed or owned) invested in its operations, typically expressed as net income minus dividends divided by total capital (debt plus equity).
Russell 1000 Index	A market capitalization-weighted index designed to measure the performance of the large-cap segment of the U.S. equity market.
Russell 2000 Index	A market capitalization-weighted index designed to measure the performance of the small-cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.
Standard Deviation	A measure of dispersion of a set of data from its mean.
S&P 500 Index	A market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.
Volatility-Adjusted 12-month Return Minus 1-month Return	Cumulative twelve month stock return divided by monthly volatility, as measured by standard deviation, less the prior month's stock return

Important Information

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. 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). The degree of liquidity can vary significantly from one ETP to another and losses may be magnified if no liquid market exists for the ETP's shares when attempting to sell them. Each ETP has a unique risk profile, detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

General - Fidelity Factor ETF Risk Disclosure - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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 products. Depending on market conditions, fund performance may underperform compared to products that seek to track a more traditional index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses and tracking error. An ETF may trade at a premium or discount to its net asset value (NAV).

Fidelity Core Dividend Factor ETF – Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index . The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

Fidelity Dividend ETF for Rising Rates - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

Important Information

Fidelity Low Volatility Factor ETF - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

Fidelity Momentum Factor ETF - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

Fidelity Quality Factor ETF - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The securities of smaller, less well-known companies can be more volatile than those of larger companies. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

Fidelity Value Factor ETF - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The securities of smaller, less well-known companies can be more volatile than those of larger companies. Value stocks can perform differently than other types of stocks and can continue to be undervalued by the market for long periods of time. 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, fund performance may underperform compared to funds that seek to track a market-capitalization weighted index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV).

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