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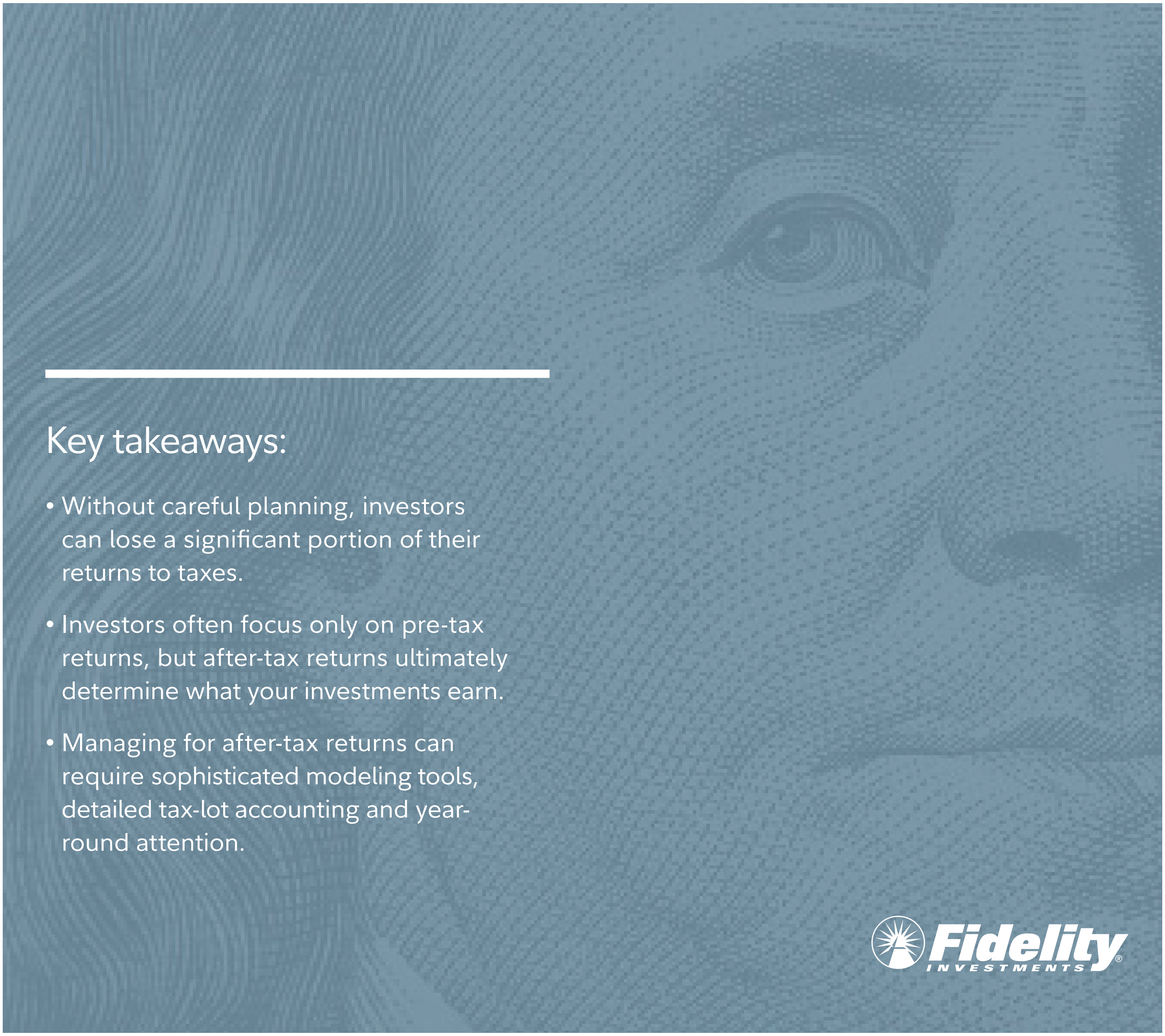
Tax-Smart Investing: Could Ben Franklin have been wrong?



Key takeaways:

- Without careful planning, investors can lose a significant portion of their returns to taxes.
- Investors often focus only on pre-tax returns, but after-tax returns ultimately determine what your investments earn.
- Managing for after-tax returns can require sophisticated modeling tools, detailed tax-lot accounting and year-round attention.

Fidelity INVESTMENTS

"In this world, nothing can be said to be certain except death and taxes."

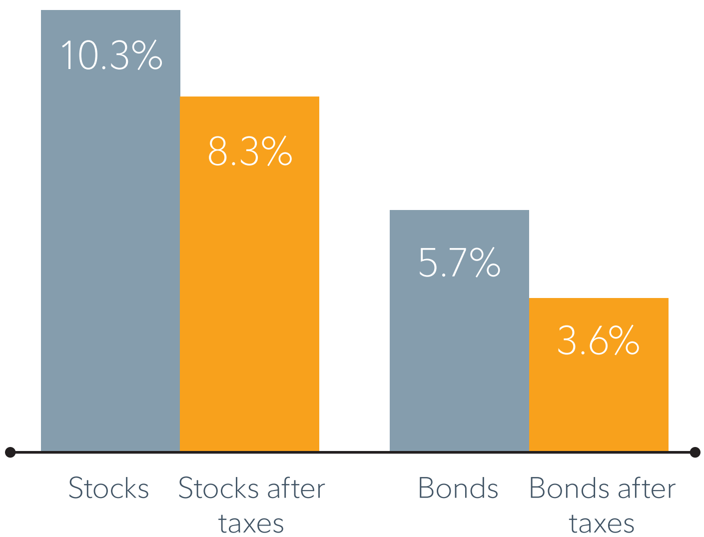
Benjamin Franklin, 1789.

Ben Franklin wrote his famous comment on the inevitability of taxes more than 230 years ago.

Taxes may be a certainty, but investors today can use a variety of tools to potentially reduce their impact. In particular, investors may be able to reduce or defer taxes through the use of specific tax-smart investing techniques[1, 2] (see page 4).

The goal: Keep more of what you earn. We recommend you focus on after-tax returns, which measure how much money you ultimately receive from your investments. It is far more important to your financial success than pre-tax returns, which only tell you the return you would have received in a theoretical, zero-tax world—a world Ben Franklin would tell you doesn't exist. Surprisingly, most investors focus on pre-tax returns, likely to their own detriment. A study by Morningstar found that investors who didn't take taxes into account in their investment decisions over the long term would have lost about two percentage points of their annual returns to taxes, on average, sometimes referred to as tax drag.[3] As illustrated in **Exhibit 1**, taxes clearly can have a large impact on returns over time, and so taxes shouldn't be ignored.

Exhibit 1
Taxes significantly reduce returns, 1926–2020



Taxes Can Significantly Reduce Returns data, Past performance is no guarantee of future results. This chart is for illustrative purposes only and does not represent actual or future performance of any investment option.

At Strategic Advisers LLC, we build portfolios that seek to enhance returns for a client's appropriate level of risk. Our primary tool in this effort is asset allocation—the percentage of a portfolio to invest in stocks, bonds, short-term investments, and other asset classes. In addition, we seek to enhance after-tax returns through the use of a variety of tax-smart investing techniques.

We're able to measure the value of these techniques by looking at cumulative returns over the years for which Fidelity has tax data, dating back to 2002. Based on our calculations and assumptions, we estimate that our tax-smart techniques have added up to 128% in cumulative returns over that time. (See Appendix A and the accompanying disclosures for important information about our methodology.)

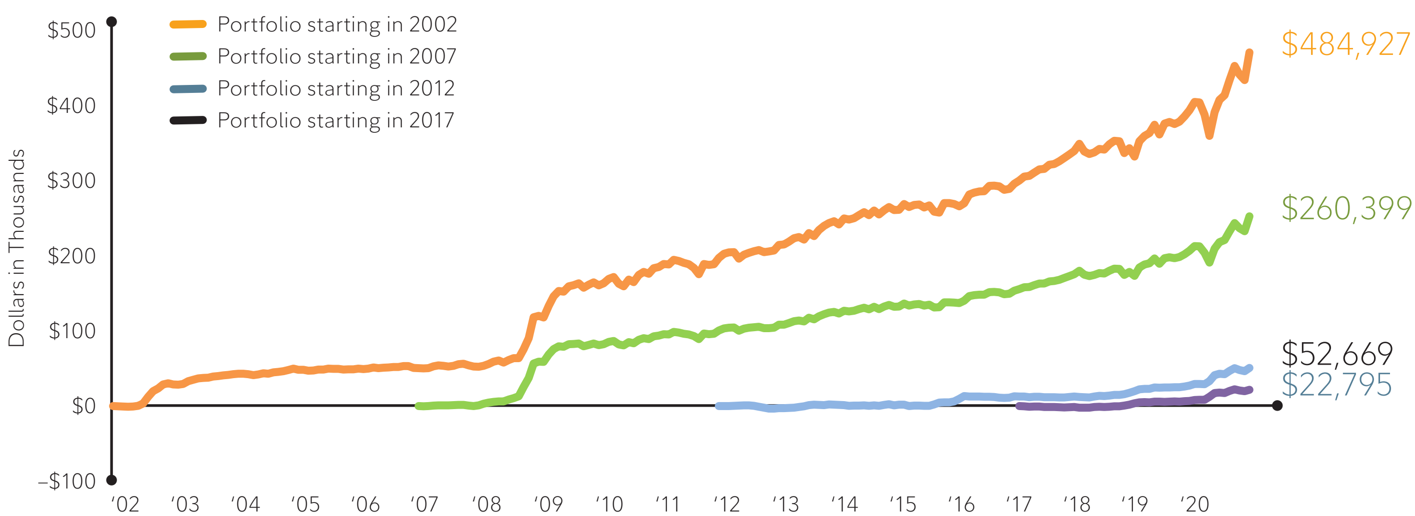
These additional returns can have a significant impact over time **(see Exhibit 2).** When you avoid or defer taxes because of tax-smart investing techniques, that money can stay invested and grow. And when those tax savings are compounded year after year, they can have a significant impact on the total value of your portfolio. We created a hypothetical example that assumed a $1 million initial investment in our Growth with Income Composite (60% stocks/40% bonds and short-term investments) between January 1, 2002, and December 31, 2020, with no contributions or withdrawals. In this hypothetical example, tax-smart investing techniques added $484,927 to the final balance.

Multi-account management

Many clients use both taxable and tax-advantaged accounts to meet financial goals, such as retirement. Our investment team has the ability to take a coordinated, holistic approach when managing multiple accounts assigned to a single goal.

This coordination enhances the number of tax-smart investment techniques we can apply in our effort to reduce the impact of taxes on investment returns.

Exhibit 2
Hypothetical value from tax-smart investing techniques[4]

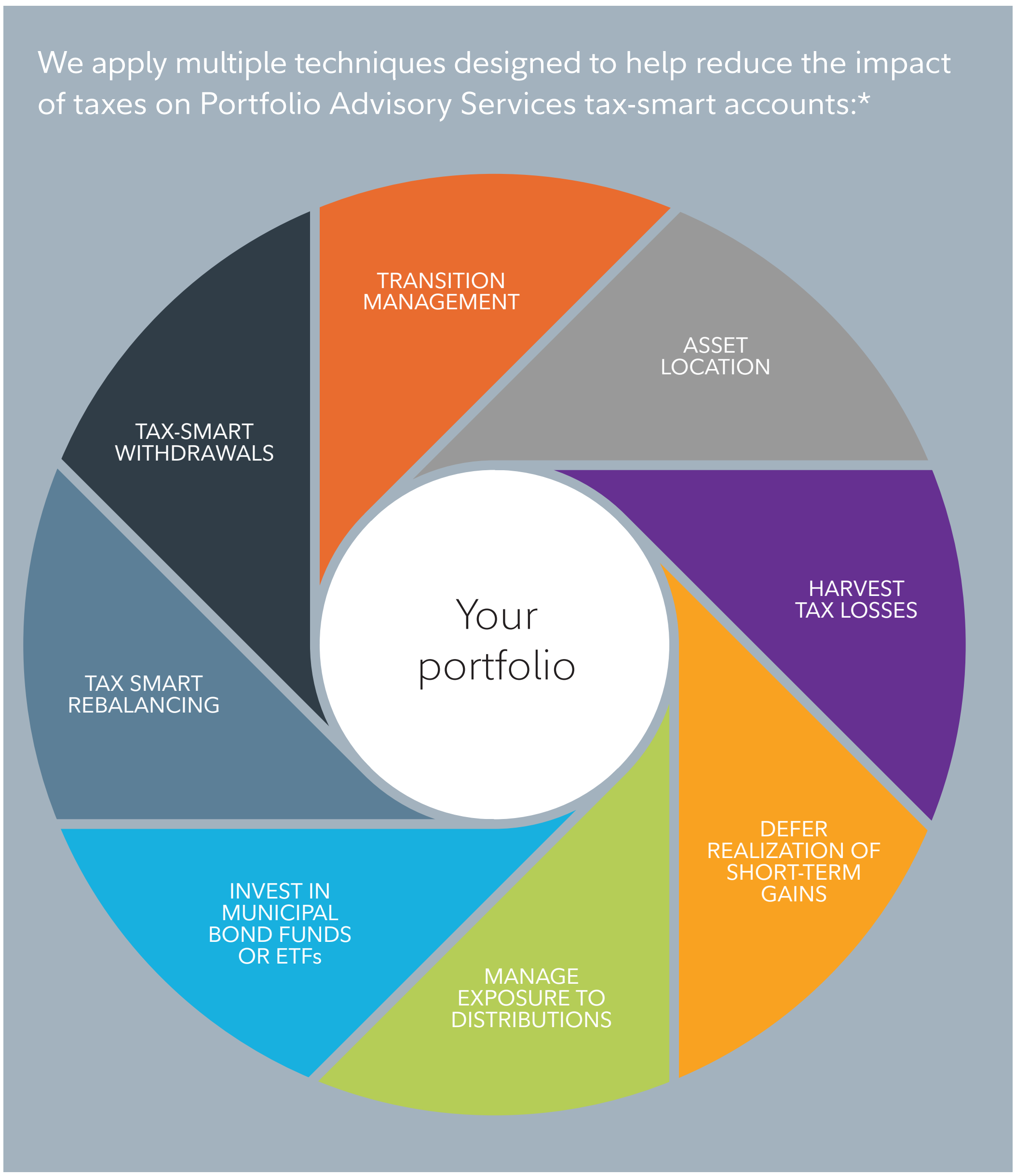


Each line represents the hypothetical value from tax-smart investing techniques at various starting dates, based on a starting portfolio value of $1 million.

For illustrative purposes only. Based on the Growth with Income Composite for the period from 1/1/2002 to 12/31/2020. (See Appendix B for information on the composites.) These results are hypothetical and do not represent actual value added to client accounts. Returns for individual clients will vary. Performance shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, and you may lose money.

Tax-smart investing techniques

Tax-smart investment management is not easy. It is an intensely time-consuming process that demands research, analysis, and attention to detail throughout the life of your portfolio—from transitioning into an account to managing it on a daily basis.



*Portfolio Advisory Services accounts are discretionary investment management accounts offered through Fidelity® Wealth Services for a fee. Note that not every taxable account assigned to a goal will qualify for all the tax-smart investing techniques shown here. Please see the Fidelity Wealth Services Program Fundamentals for additional information about the service levels offered and the tax-smart investing techniques available to be used.

Tax-smart transition management[5]

Tax-smart investment management often begins when we build your portfolio.

Investors rarely come to us with an existing portfolio that is aligned with their needs and goals. Simply selling every existing security and investing the proceeds in our target portfolio may trigger a large tax bill. While we'll always prioritize risk management and diversification when investing a client's account, where possible we'll use existing assets to help us invest more tax efficiently.

1. First, we compare the client's portfolio with Fidelity's list of more than 20,000 investments eligible for inclusion in a portfolio and sell ineligible securities.
2. Next, we review each remaining security, considering the potential tax impact of selling it and judging how well it aligns with the target portfolio.
3. We may build a personalized portfolio using some of your existing securities as a starting point.
4. Over time, we continually reevaluate your portfolio for tax-smart opportunities to improve your after-tax returns.

This process takes time, but it has the potential to reduce a client's taxes considerably during the funding process and possibly in future years.

Some of the factors Strategic Advisers considers when deciding whether to sell securities during portfolio transition

- The eligibility of each security to fund a managed account
- The client's tax rate
- Gains or losses embedded in the security
- The asset mix of the funding portfolio relative to the target allocation
- The investment team's assessment of securities currently held by the client
- Whether the client holds concentrated securities
- If the client can use outside losses to offset gains realized in asset sales

Asset location

In multi-account management portfolios, we strategically position assets among your Portfolio Advisory Services accounts to help enhance after-tax returns.

When seeking to reduce tax liabilities, we've found that the tax treatment of an account is an important factor to consider. In multi-account management portfolios, we think strategically about which types of investments are held in different accounts to help enhance after-tax returns.

While we don't prioritize asset location or any of our other tax-smart investing techniques over our approach to asset allocation and risk management, we have found it to be an important tool in our effort to reduce client tax liabilities.

	TAXABLE ACCOUNT	TAX-DEFERRED	TAX-EXEMPT
Sample account type	Individual brokerage account	Rollover IRA	Roth IRA
When earnings are taxed	Annually	Upon distribution	N/A*
Investments we may emphasize	Investments offering long-term growth potential that generally distribute income less frequently	Investments that offer total return potential that generally distribute income more frequently	Investments that offer high growth potential
Why we may emphasize them	To help reduce capital gains or interest distributions in an effort to manage clients' tax obligations	To reduce any immediate potential tax impacts	To provide tax-exempt, long-term growth opportunities
Examples	Index-focused mutual funds or ETFs, municipal bond funds, stocks in separately managed account sleeves	Investment-grade bond funds, developed market stock funds	Emerging market stock funds, high-yield bond funds

*Unless a non-qualified distribution takes place, where additional tax penalties may apply.

Harvesting tax losses

We are mindful about when to realize losses as well as gains.

When an investment is sold for less than its purchase price, the investor can use the loss to offset realized capital gains and, potentially, a small portion of taxable income. This loss, which we sometimes refer to as a tax asset because of its ability to offset tax liabilities, can be used in generating tax benefits during the current year or in future years.

Nevertheless, many investors fail to capitalize on the tax benefits of a loss. Like deferring capital gains, harvesting capital losses is easier in theory than in practice.

To harvest losses effectively on an ongoing basis, an investor must:

- Continuously analyze all of a portfolio's tax lots, ideally daily.
- Decide when the benefit of harvesting a loss warrants selling the security, taking transaction costs into account.
- Sell the precise lots that maximize the benefit.

All while maintaining the portfolio's target level of risk and diversification.

Most investors' portfolios hold dozens, or even hundreds, of positions, so this exercise requires detailed tax-lot accounting, as well as a substantial investment of time and computing power. Few individual investors have the time, desire, resources, or the expertise necessary to manage this process effectively.

We look for opportunities to harvest losses, based on academic research and practical experience that suggests **year-round loss harvesting is more effective than the common practice of harvesting losses only at year-end (see Exhibit 3).** A 2001 study found that year-round tax-loss harvesting resulted in almost 14% in additional cumulative after-tax returns over a 25-year period, compared with harvesting losses just at year-end.[6]

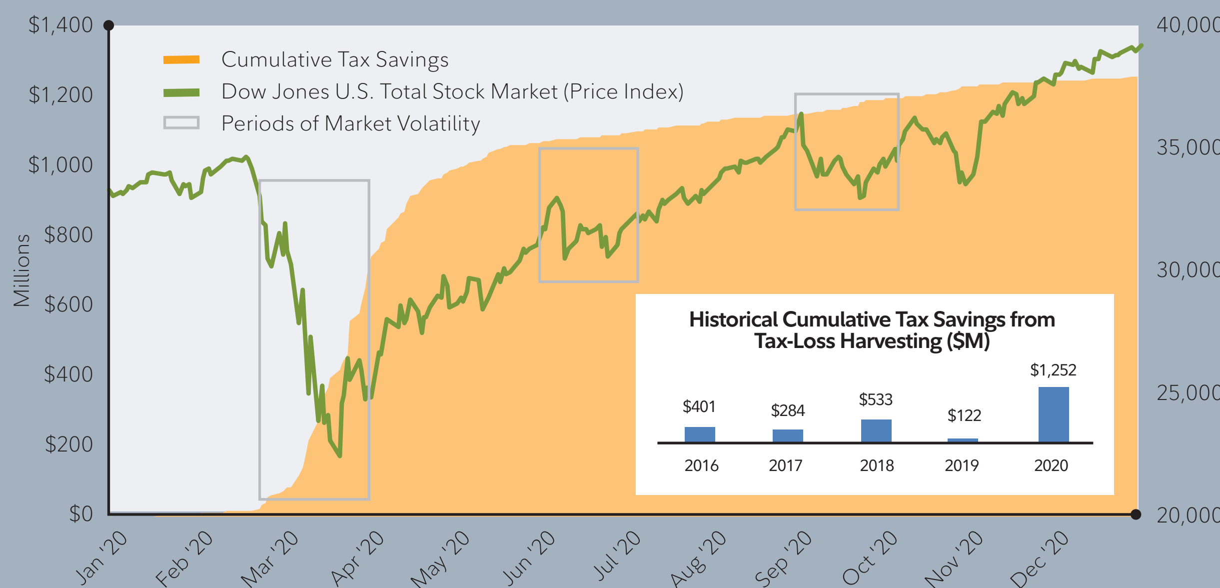
Performing daily reviews also enables us to take advantage of market volatility. For example, we might identify a security trading at a loss, line up another security we're comfortable using as a substitute, then sell the former and purchase the latter. Increased market volatility in 2020 created additional tax-loss harvesting opportunities.

One important thing investors often fail to remember is that tax assets don't have to be used to offset tax liabilities in the year they're created. They can also be set aside and used in future years. To learn more about how this works, see Appendix D.

Harvesting tax losses may seem straightforward, but the key is making sure that any sales don't change the portfolio's level of risk and diversification.

Exhibit 3

Tax-loss harvesting may offer significant benefits during volatile markets*



*Results will vary: The year 2020 was not typical. In our analysis over the past five years, cumulative tax savings from tax-loss harvesting differed from year to year and was as small as a tenth of the amount shown in the chart for 2020.

The right axis and green line represent the movements of the U.S. stock market as measured by the Dow Jones U.S. Total Stock Market (Price Index). For methodology, please see endnote 7.

Managing for taxes year-round may offer savings opportunities

Practicing tax-loss harvesting throughout the year, not just at year-end, may reduce an investor's taxes even during years in which the stock market posts strong gains. Consider 2020, when the stock market experienced elevated market volatility early in the year and then continued to experience periodic volatility as the year progressed. Strategic Advisers was able to harvest losses during periods of volatility, increasing clients' tax savings as the stock market posted positive returns for the year.

Exhibit 3 highlights the potential tax savings accrued from harvesting losses for the year ending December 31, 2020, for clients in Portfolio Advisory Services tax-smart accounts.

Realized investment losses can be carried over to offset gains in future years (see Appendix D).[8] Carrying over losses can be particularly effective during periods of extreme market volatility. Take the 2008 market crash, in which most asset classes experienced major declines. Our investment managers persistently looked for opportunities to harvest losses and, in many cases, were able to store up capital losses that could be used to offset gains following the 2009 market rebound and in some cases beyond.

Managing capital gains

The U.S. tax code effectively penalizes investors for taking short-term investment profits.

People in the top federal tax bracket generally pay a 40.8% tax on realized capital gains when they sell taxable investments held for one year or less. If they wait to sell until they've owned the investment for more than a year, the tax rate drops to 23.8%. Considering the differences between short- and long-term capital gains rates when making portfolio management decisions is a straightforward way to reduce a portfolio's tax burden (see Exhibit 4).[9]

Holding securities for at least one year and a day is simple in theory but can be complex in practice. Many investors' portfolios hold hundreds of individual positions. Some of those investments may have been purchased repeatedly over time, often resulting in dozens of tax lots—groups of an individual security bought at the same time and purchase price—for each security.

The result can be a mix of short- and long-term holdings with different degrees of embedded gains or losses. Even if the length of the holding period were the only consideration when selling an investment, deciding when to sell which specific securities would require a great deal of time and attention to detail.

Investors also must take risk into account. In some situations, it may be wise to sell an investment that represents a large risk, even if doing so would trigger a hefty tax bill. We monitor tax lots and look to defer capital gains, but also **carefully consider the risk and return expectations for each security before trading.**

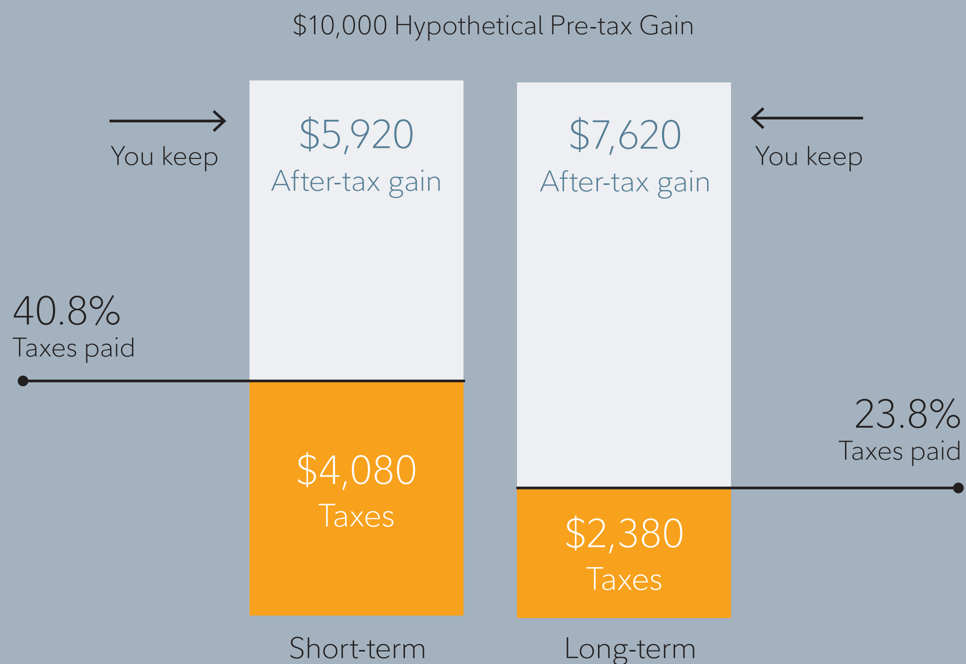
40.8%

The amount people in the top federal tax bracket generally pay on realized capital gains when they **sell taxable investments held one year or less.**

"tax lots":
groups of an individual security bought at the same time and purchase price

Exhibit 4

Long-term gains cost less in taxes



Reducing capital gains taxes

Take a hypothetical investment with a pre-tax gain of $10,000. In this case, the potential tax savings* available as a result of waiting for a year are $1,700, assuming the investor is in the top marginal tax bracket.

$10,000 (40.8% – 23.8%) = $1,700

The amount of time until long-term status is reached is important. Consider $100,000 investment made 300 days ago that is now worth $110,000 (a gain of 10%). If the security were sold today, the tax bill would be $10,000 x 40.8% = $4,080 with an after-tax return of 5.92%.

However, assuming the value has held steady, by waiting an additional 66 days, the tax liability drops to $2,380, and the return increases to 7.62%.

*The taxes saved by waiting until short-term investment gain (<1 year) becomes a long-term gain (greater than 1 year) can be calculated as follows: (gain$) x (short-term rate – long-term rate)

For this example, we assume the investor is subject to the top capital gains rate and is paying 40.8% on short-term gains and 23.8% on long-term gains. Tax savings will depend on an individual's actual capital gains and tax rate and may be more or less than this example. This is a hypothetical example for illustrative purposes only and is not intended to represent actual performance of any specific investment.

Managing exposure to mutual fund distributions

Mutual funds must distribute most of their net income to shareholders each year.

While investors can sell a fund to avoid receiving the distribution and the tax liability that comes with it, this may not be the best course of action. It may be wiser to continue holding the fund, especially if selling it would trigger an even larger capital gains tax, if the outlook for the fund is especially positive, or if it would be replaced by another fund that also would pay a distribution.

It takes considerable research and analysis to determine whether to continue holding a fund. The potential tax consequences of selling or staying invested differ from investor to investor, depending on the individual's tax rate and the cost basis of their fund shares.

At Strategic Advisers, our research team monitors the funds we hold and catalogs upcoming distributions and their impact on client accounts. For example, in 2019 we were able to manage distributions from about 3,200 funds across roughly 40 million individual tax lots.

We also perform fund distribution management at the tax-lot level. This allows us to carefully choose which part of your position to sell, creating even more opportunities for us to customize decisions for each client and situation.

Investing in municipal bond funds or ETFs

Asset allocation is arguably the most important service an investment manager provides.

Our asset allocation strategies take a client's federal and state tax rates into account. In particular, our managers consider when a client may benefit by holding a portion of their bond and/or short-term allocations in municipal bond securities.[10]

Municipal bond securities typically generate income free from federal taxes and, in some cases, from state taxes as well, potentially making them beneficial for clients in high tax brackets. Where appropriate, our tax-aware investment managers incorporate municipal bond mutual funds or exchange-traded funds (ETFs) into client portfolios, drawing on extensive analysis provided by our in-house research team.

Other tax-saving strategies

Separately managed account sleeves[11]
We may recommend that certain high-net-worth investors invest in individual securities through the use of separately managed account (SMA) sleeves in place of, or in addition to, mutual funds or ETFs. Owning individual securities through SMA sleeves offers greater flexibility, and also may give managers more latitude to employ tax-smart investing techniques.

Charitable contributions of securities
Donating appreciated securities to charitable organizations may also help lower your taxes. Rather than selling the security and realizing a taxable gain, you can donate the security directly. The IRS currently allows securities donations to offset up to 30% of adjusted gross income for individuals.[12]

Tax-smart rebalancing

How we rebalance accounts is almost as important as when.

For clients engaged in a multi-account management relationship with us, we may be able to reduce the tax impact of rebalancing accounts as part of our effort to maintain the asset allocation for their goal.

Now imagine that at some point in the future, stocks outperform other asset classes in a multi-account portfolio, which can increase risk. Rather than rebalancing all accounts equally, we may only look to reduce exposure to stocks in the tax-advantaged account. By doing this, we can defer taxes to a later date or, in the case of a tax-exempt account, avoid paying taxes altogether. We also avoid having to trade in the taxable account, which could create capital gains. This tax-smart rebalancing helps maintain the integrity of the portfolio's asset allocation in a more tax-efficient manner.

We can also apply this same technique in cases where we decide to adjust the asset allocation for a client's goal, due to a change in a client's risk tolerance, time horizon, or other factors. Again, it's the coordination across taxable and tax-advantaged accounts that provides this flexibility.

Tax-smart withdrawals

Withdrawing money from an account generally creates a taxable event.

Usually, withdrawals mean selling securities, which can result in taxes. However, with a little planning, we can manage the tax impact of these sales.

If you plan to make regular withdrawals, we try to keep a portion of your account uninvested. When investments in your account pay dividends or distributions, instead of reinvesting that money, we hold it in the core Fidelity money market fund. This way when a withdrawal need arises, we may be able to reduce the need to sell any securities. Also, cash that's held for this purpose is not subject to the gross advisory fee, so you realize additional savings.

If we do have to sell securities, we'll look at how long you've held an investment and may sell securities you've held for more than a year, because long-term gains are taxed at a lower rate than short-term gains. We may also sell funds that are about to pay large distributions, which can help reduce your tax obligations. While the primary goal is always to help maintain an asset allocation that aligns with your time horizon, comfort level with risk, and other preferences, we're continually on the lookout for ways to reduce the impact of withdrawing money from your account.

For multi-account management portfolios, we may be able to use a combination of funds from retirement accounts, which are subject to required minimum distribution (RMD) requirements, and unrealized gains in taxable accounts. Our objective is to generate income in a tax-efficient manner.

Our people and technology

Effectively practicing the techniques described requires a great deal of expertise and skill.

It also takes technology. Fidelity's platform has been developed over more than two decades. It gives us an edge in identifying when and how to apply specific tax-smart investing techniques and in coordinating them, as needed, in pursuit of increased tax efficiency.

Reviewing accounts daily for risk and harvestable losses would be impractical without a powerful technology platform. Our platform also allows us to track each and every tax lot, which helps determine which lots contain short- or long-term gains, and which short-term lots are close to graduating to long-term status. And our technology helps us make decisions about when to sidestep a mutual fund distribution, based on the fund, the portfolio, and the client's individual situation.

Here are some other ways we use the platform to invest tax-efficiently:

- **Personalizing each account, taking into consideration the client's specific tax rates and gains or losses outside the account.** Our technology also empowers us to build a portfolio with a full picture of the client's assets.
- **Determining how quickly to sell a concentrated position (for qualifying accounts).** Concentrated holdings magnify an investor's risk. Yet liquidating a large position all at once can trigger a large tax bill. Our technology helps us gauge the tax and risk impacts of trimming, and eventually eliminating, a concentrated position at different speeds.
- **Guarding against wash sales (when prudent).** Our platform helps us navigate IRS wash-sale rules. These rules prohibit an investor from receiving the tax benefit of selling at a loss if they purchase a "substantially identical" investment 30 days before or after the sale date. A survey by the CFA Institute* found that half of surveyed advisors were not considering wash sales at all and fewer than one in four had automated systems to help avoid them.

Conclusion

Ben Franklin (and possibly others before him) noted that taxes are a certainty in life. Another saying, likely not as old but equally accurate, notes that if you don't get to keep what you earned, you never really earned it in the first place.

Investors who want to maximize their ability to meet their investment objectives must consider the impact of taxes when making investment decisions, yet relatively few do. Tax-smart investing is a complex, difficult exercise that requires considerable skill, resources, and computing power to manage effectively.

At Strategic Advisers, we draw on deep, powerful expertise and resources, including a proprietary technology platform, to help clients meet their investment goals.

We build portfolios that offer a balance of risk and reward tailored to an individual investor's needs and goals—and are designed to reduce the negative impact of taxes.

*"Tax-Aware Investment Management Practice," by Stephen M. Horan and David Adler, a 2009 study funded by the Research Foundation of CFA Institute.

Appendix A: Performance Details

Hypothetical Value from Tax-Smart Investment Management for a Range of Strategies, 12/31/2001–12/31/2020

Investment Strategy	After-tax Excess Return	Pre-tax Excess Return	Average Annual Net Excess Return	Cumulative Return (%) Added from Tax-Smart Investment Management
All Stock Composite	0.99%	–0.76%	1.75%	128.42%
Aggressive Composite	0.19%	–1.11%	1.31%	86.55%
Growth Composite	0.05%	–0.93%	0.98%	58.62%
Growth with Income Composite	–0.05%	–0.84%	0.79%	45.54%
Balanced Composite	–0.23%	–0.87%	0.64%	33.67%
Moderate Composite*	–0.53%	–0.69%	0.16%	2.39%
Moderate with Income Composite*	–0.65%	–0.73%	0.08%	1.17%
Conservative Composite	–0.45%	–0.73%	0.28%	11.02%

*Moderate Composite and Moderate with Income Composite returns since June 2012.

See Appendix B for detailed performance information, and see endnote 4 for more details on average annual net excess return.

Performance shown is for the period 12/31/2001 through 12/31/2020, which represents a period starting when Strategic Advisers began calculating after-tax returns. Performance reflects client accounts managed by Fidelity Wealth Services (transitioned from Fidelity® Personalized Portfolios as of July 16, 2018). Fidelity Personalized Portfolios launched in July 2010; performance prior to such date reflects only Fidelity Private Portfolio Service accounts. **Past performance is no guarantee of future results.** Investment return and principal value of investments will fluctuate over time. Returns for individual clients may differ significantly from the composite returns and/or may be negative. All returns are asset weighted and include reinvestment of any interest, dividends, and capital gains distributions, if applicable. The strategies we have included in the exhibit above are either "All Stock" or are invested in national and state-specific municipal bond funds if the strategy has a fixed income component. Availability of state-specific funds depends on the client's state of residence. Certain investment strategies, such as All Stock, may not be appropriate or available for some investors. Please contact your Fidelity associate to discuss your situation and investment strategy.

Appendix B: Performance Details

Absolute Composite Returns as of 12/31/2020	**1 Year**			**5 Year**			**10 Year**			**Life of Reporting** since 12/31/2001*		
	Composite Return	Benchmark† Return	Excess Return	Composite Return	Benchmark† Return	Excess Return	Composite Return	Benchmark† Return	Excess Return	Composite Return	Benchmark† Return	Excess Return
All Stock Composite Pre-tax	18.00%	17.77%	0.22%	12.87%	13.50%	–0.63%	10.32%	11.42%	–1.10%	7.32%	8.16%	–0.85%
All Stock Composite After-tax	20.54%	17.01%	3.53%	13.42%	12.65%	0.77%	10.55%	10.34%	0.20%	8.32%	7.33%	0.99%
Aggressive Composite Pre-tax	16.42%	16.28%	0.14%	11.54%	12.21%	–0.67%	9.25%	10.56%	–1.31%	6.60%	7.79%	–1.19%
Aggressive Composite After-tax	18.07%	14.67%	3.40%	11.76%	10.96%	0.80%	9.15%	9.84%	–0.69%	7.37%	7.18%	0.19%
Growth Composite Pre-tax	13.82%	14.31%	–0.49%	10.16%	10.64%	–0.47%	8.31%	9.35%	–1.03%	6.11%	7.10%	–0.99%
Growth Composite After-tax	14.58%	12.87%	1.71%	10.18%	9.50%	0.68%	8.14%	8.71%	–0.57%	6.61%	6.57%	–0.05%
Growth with Income Composite Pre-tax	12.62%	13.13%	–0.51%	9.26%	9.70%	–0.44%	7.73%	8.69%	–0.97%	5.94%	6.84%	–0.90%
Growth with Income Composite After-tax	12.92%	11.82%	1.10%	9.16%	8.66%	0.51%	7.51%	8.14%	–0.62%	6.30%	6.36%	–0.05%
Balanced Composite Pre-tax	11.23%	11.65%	–0.42%	8.17%	8.58%	–0.41%	6.90%	7.80%	–0.90%	5.33%	6.24%	–0.91%
Balanced Composite After-tax	11.17%	10.42%	0.75%	7.99%	7.61%	0.38%	6.67%	7.31%	–0.64%	5.60%	5.83%	–0.23%
Moderate Composite Pre-tax*	9.81%	10.13%	–0.32%	7.07%	7.44%	–0.37%	NA	NA	NA	6.55%	7.24%	–0.69%
Moderate Composite After-tax*	9.56%	9.01%	0.56%	6.87%	6.57%	0.30%	NA	NA	NA	6.31%	6.84%	–0.53%
Moderate with Income Composite Pre-tax*	8.17%	8.55%	–0.38%	5.68%	6.29%	–0.61%	NA	NA	NA	5.36%	6.08%	–0.72%
Moderate with Income Composite After-tax*	7.85%	7.62%	0.23%	5.45%	5.56%	–0.10%	NA	NA	NA	5.11%	5.76%	–0.65%
Conservative Composite Pre-tax	6.07%	6.70%	–0.62%	4.29%	4.96%	–0.67%	4.21%	4.80%	–0.60%	3.60%	4.31%	–0.71%
Conservative Composite After-tax	5.85%	5.98%	–0.13%	4.05%	4.34%	–0.29%	3.98%	4.56%	–0.58%	3.68%	4.12%	–0.45%

*Life of Reporting for Moderate Composite and Moderate with Income Composite strategies is since 3/1/2012.

†Tax-smart accounts do not have pre-tax benchmarks, but, for the purposes of this analysis, we compare pre-tax composite returns to the pre-tax return of the referenced basket of mutual funds and ETFs used to construct after-tax benchmarks (see Appendix C). Please see endnote 13 for information regarding the calculation of composite results and after-tax benchmarks.

Performance shown represents past performance, which is no guarantee of future results. Investment return and principal value of investments will fluctuate over time. A client's underlying investments may differ from those of the composite portfolio. Returns for individual clients may differ significantly from the composite returns and may be negative. Current performance may be higher or lower than returns shown. Composite and after-tax benchmark returns are asset weighted because both are based on individual client accounts. Returns include changes in share price and reinvestment of dividends and capital gains. The underlying funds in each composite portfolio may not hold all the component securities included in, or in the same proportion as represented in, its corresponding customized benchmark. The strategies we have included in the exhibit above are either "All Stock" or are invested in national and state-specific municipal bond funds if the strategy has a fixed income component. Availability of state-specific funds depends on a client's state of residence. Performance reflects client accounts managed by Fidelity® Wealth Services (transitioned from Fidelity Personalized Portfolios as of July 16, 2018). Fidelity Personalized Portfolios launched in July 2010; performance prior to such date reflects only Fidelity Private Portfolio Service accounts. See endnote 13 for more information on how these returns and benchmarks are calculated. The results in Appendix B represent average annual composite returns (net of fees) for client accounts managed by Strategic Advisers that use an all-stock strategy or a strategy with municipal bond funds. Non-fee-paying accounts may be included in composites. This may increase the overall composite performance with respect to the net-of-fees performance. The benchmarks consist of mutual funds, because an investable asset with known tax characteristics is needed to calculate after-tax benchmark returns for comparison. Composite portfolio excess returns are the difference between composite portfolio returns and their applicable composite portfolio benchmark The after-tax and pre-tax composite portfolio benchmark returns are composed of representative mutual funds, in weightings based on the long-term asset allocation of each strategy. The benchmark returns are calculated monthly based on the long-term asset allocation of the strategies at that time so they reflect historical changes to the asset allocation of each strategy. The benchmark long-term allocation weightings may vary slightly from individual client accounts due to individual account investments and activity. The tables on the next page detail the current composition of the benchmarks for each of the investment strategies that are mentioned in this paper.

Appendix C: Benchmark Composition

Benchmark Composition (as of 12/31/2020)

Investment Strategies	Fidelity Total Market Index Fund—Institutional Premium Class (FSKAX)	Fidelity Global ex U.S. Index Fund—Institutional Premium Class (FSGGX)	iShares National Muni Bond ETF (MUB)	Fidelity Government Cash Reserves (FDRXX)
All Stock Composite	70%	30%	—	—
Aggressive Composite	60%	25%	15%	—
Growth Composite	49%	21%	25%	5%
Growth with Income Composite	42%	18%	35%	5%
Balanced Composite	35%	15%	40%	10%
Moderate	28%	12%	45%	15%
Moderate with Income	21%	9%	50%	20%
Conservative Composite	14%	6%	50%	30%

The components of the benchmarks are mutual funds. The benchmark uses mutual funds as investable alternatives to market indexes in order to provide a benchmark that takes into account the associated tax consequences of these investable alternatives. Detailed information on these mutual funds is available on Fidelity.com.

The after-tax money market component of the benchmark changed to the Fidelity Government Cash Reserves Fund effective March 31, 2016. For accounts in a muni strategy, the previous fund was the Fidelity Tax-Exempt Treasury Money Market Fund. For accounts not in a muni strategy, the previous fund was the Fidelity Treasury Only Money Market Fund.

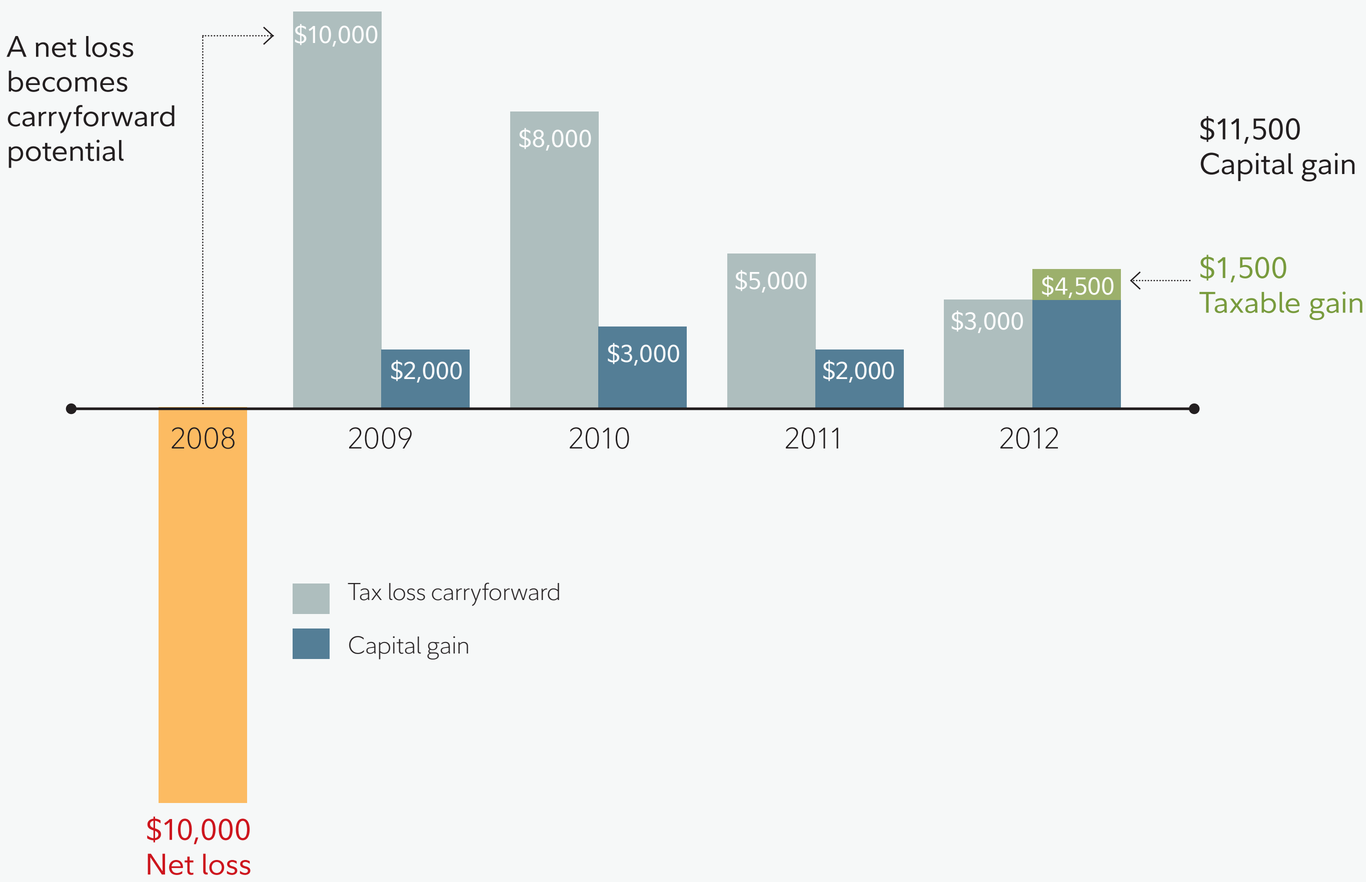
The international equity component of the benchmark changed to the Fidelity Global ex US Index Fund-Fidelity Advantage Class (FSGDX) effective April 1, 2015. The previous fund was the Fidelity International Index Fund (FSIVX). FSGDX merged into the Fidelity Global ex US Index Fund-Institutional Premium Class (FSGGX).

The municipal bond component of the benchmark changed to the iShares National AMT-Free Muni Bond (MUB), a passively managed ETF effective April 1, 2015. The previous fund was the Fidelity Municipal Income Fund (FHIGX), an actively managed mutual fund.

Appendix D

Hypothetical example of how carryforward tax losses offset future gains

Losses harvested today may help reduce capital gains taxes in the future.



For illustrative purposes only. In this example, the investor used a $10,000 net loss in 2008 by using the carryforward tax-loss strategy and avoided paying capital gains for the next four years. It wasn't until 2012 that gains resulted in a tax liability. This is important because compounding helps to accelerate wealth building, so it's typically a good strategy to defer paying taxes for as long as possible.

Tax savings will depend on an individual's actual capital gains, loss carryforwards, and tax rate and may be more or less than this example. This is a hypothetical example for illustrative purposes only, and is not intended to represent the performance of any investment.

Endnotes

[1]Tax-smart (i.e., tax-sensitive) investing techniques (including tax-loss harvesting) are applied in managing certain taxable accounts on a limited basis, at the discretion of the portfolio manager, primarily with respect to determining when assets in a client's account should be bought or sold. As the discretionary portfolio manager, Strategic Advisers LLC ("Strategic Advisers") may elect to sell assets in an account at any time. A client may have a gain or loss when assets are sold. There are no guarantees as to the effectiveness of the tax-smart investing techniques applied in serving to reduce or minimize a client's overall tax liabilities or as to the tax results that may be generated by a given transaction. Strategic Advisers does not currently invest in tax-deferred products, such as variable insurance products, or in tax-managed funds, but may do so in the future if it deems such to be appropriate for a client. Strategic Advisers does not actively manage for alternative minimum taxes; state or local taxes; foreign taxes on non-U.S. investments; federal tax rules applicable to entities; or estate, gift, or generation-skipping transfer taxes. Strategic Advisers relies on information provided by clients in an effort to provide tax-sensitive investment management, and does not offer tax advice. Except where Fidelity Personal Trust Company (FPTC) is serving as trustee, clients are responsible for all tax liabilities arising from transactions in their accounts, for the adequacy and accuracy of any positions taken on tax returns, for the actual filing of tax returns, and for the remittance of tax payments to taxing authorities.

[2]The tax-smart investing techniques described in this paper apply to Fidelity Wealth Services' tax-smart managed account offering. An assumption of this paper is that investors want to accumulate tax-loss carryforwards using ongoing tax-smart investing techniques. Unused tax-loss carryforwards can generally be carried forward indefinitely to offset future realized capital gains and some ordinary income, but at death they do not carry over or "pass down" to a surviving heir.

[3]Taxes Can Significantly Reduce Returns data, Morningstar, Inc., 2021. This example reflects a 95-year period from 1926 to 2020 and is based on the following data: stocks at 10.3%, stocks after taxes at 8.3%; bonds at 5.7%, and bonds after taxes at 3.6%.

Past performance is no guarantee of future results. This data is for illustrative purposes only and does not represent actual or future performance of any investment option. Returns include the reinvestment of dividends and other earnings. Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. The data assumes reinvestment of income and does not account for transaction costs. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $120,000 in 2015 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included.

[4]We use a proprietary calculation to help measure the value of the tax-smart investing techniques that we apply in an effort to improve after-tax returns of tax-smart accounts. Our calculation uses asset-weighted composite pre-tax and after-tax performance information for Fidelity Wealth Services accounts managed using the same long-term asset allocation and invested in national and state-specific municipal bond funds if the strategy has a fixed income component (please see endnote 13 for more information on the calculation of composite and benchmark returns). We compare this composite performance information to a reference basket of mutual funds and ETFs that we use to construct a tax-smart account's after-tax benchmark. Each fund represents a primary asset class, and is weighted in the same proportion as the primary asset class in the account's long-term asset allocation.

Average annual net excess return is calculated by subtracting Pre-tax Excess Return from After-tax Excess Return. After-tax Excess Return is the amount by which the annualized after-tax investment return for the composite portfolio is either above or below the annualized after-tax benchmark return. Pre-tax Excess Return is the amount by which the annualized pre-tax investment return for the composite portfolio is either above or below the annualized pre-tax return of the reference basket of mutual funds and ETFs.

[5]We do not consider the potential tax consequences of the sale of non-eligible securities used to fund a tax-smart account. While we do consider the potential tax consequences of the sale of eligible securities used to fund a tax-smart account, we believe that asset allocation and diversification are of primary importance and apply tax-smart investing techniques as a secondary consideration. Accordingly, clients who fund a tax-smart account with appreciated securities should understand that we could sell such securities notwithstanding that the sale could trigger significant tax consequences.

[6]Arnott, Robert D., Andrew L. Berkin, Ph.D., and Jia Ye, Ph.D., 2001, "Loss Harvesting: What's It Worth to the Taxable Investor?" First Quadrant, L.P. According to the study: "That tax alpha from harvesting of losses is material. Over a 25-year span, assuming modest 8% returns on stocks, we earn an average of almost 1400 basis points of cumulative alpha just from harvesting the losses. And that's net of all the taxes that you would face at the end of the period for liquidating the portfolio. It's a very important source of after-tax alpha, and it's a reliable, predictable source of after-tax alpha." The study consisted of 300 Monte Carlo simulations of portfolios approximating the S&P 500 Index over a variety of 25-year periods, covering the time from the Great Depression through 2001, compared with a buy-and-hold portfolio of similar assets. Simulation assumptions included monthly tax-loss harvesting/reinvestment of tax savings, a 35% marginal tax rate, and exclusion of all transaction costs.

[7]The table and chart represent the cumulative total tax lot harvested losses or potential tax savings for all tax-smart managed accounts in the Fidelity Wealth Services offering that are in good order and have account values of $20,000 and above with at least 10 holdings. Each tax lot loss within the population of accounts was evaluated. The specific tax rate applicable to the respective client account was applied to calculate the dollar loss of each tax lot, applying the client's ordinary income tax rate to short-term losses and applying the client's capital gains tax rate to long-term losses. All capital losses harvested in a single tax year may not result in a tax benefit for that tax year. Any remaining unused capital losses may be carried forward and applied to offset income in future tax years indefinitely. Results will vary. In our analysis over the past three years, cumulative tax savings from tax-loss harvesting differed from year to year and was as small as half the amount shown in the chart. Source: Fidelity Tax Account System as of 12/31/2020.

[8]Capital losses may generally be used to offset only capital gains and, in the case of individuals, $3,000 of ordinary income. A capital loss that can't be used for any year is carried forward.

[9]Tax rates are dependent on each individual investor's financial situation and also vary over time as tax regulations change. Please visit irs.gov for the latest information on current tax rates.

[10]The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Municipal money market funds normally seek to earn income and pay dividends that are expected to be exempt from federal income tax. If a fund investor is resident in the state of issuance of the bonds held by the fund, interest dividends may also be exempt from state and local income taxes. Income exempt from regular federal income tax (including distributions from tax-exempt, municipal, and money market funds) may be subject to state, local, or federal alternative minimum tax. Certain funds normally seek to invest only in municipal securities generating income exempt from both federal income taxes and the federal alternative minimum tax; however, outcomes cannot be guaranteed, and the funds may sometimes generate income subject to these taxes. For federal tax purposes, a fund's distributions of gains attributable to a fund's sale of municipal or other bonds are generally taxable as either ordinary income or long-term capital gains.

[11]Please note that you may be charged an additional fee for any SMAs held in your account. These fees are in addition to the basic advisory fees for Fidelity® Wealth Services. Please refer to your Client Agreement for detailed fee information.

[12]Charitable contributions of securities held longer than one year are usually deductible at the fair market value at the time of donation. If held less than one year, the deduction is usually limited to cost basis. Information relates to charitable deductions at the federal level. Deductions of charitable donations at the state level varies by state.

[13]Composite returns shown for Fidelity® Wealth Services ("FWS") includes performance of accounts enrolled in legacy programs (Fidelity Private Portfolio Service® ["PPS"] and Fidelity® Personalized Portfolios ["FPP"]) that were ultimately transitioned into FWS accounts by 7/16/2018. For periods prior to 7/27/2010, returns are based on accounts enrolled in PPS; for periods from 7/27/2010 through 5/31/2012, returns are based on accounts enrolled in either PPS or FPP (all PPS accounts were converted to FPP accounts by the latter date); and for periods from 5/31/2012 through 7/16/2018, returns are based on accounts enrolled in FPP (all FPP accounts were converted to FWS accounts on the latter date). Composite returns are based on the managed portion of FPP and FWS accounts (assets in the liquidity sleeves of these accounts have been excluded from returns; PPS accounts did not have a liquidity sleeve). The liquidity sleeve is established to meet client-directed cash flow instructions, including withdrawals and gradual investment, and contains short-term positions including money market funds. Accounts must be active, eligible and over $20,000 to be included in composite returns, except that 1) PPS accounts had to be over $100,000 prior to 8/1/2009 to be included, and 2) FPP accounts had to be over $5,000 to be included from 7/27/2010 until 7/1/2015. PPS accounts did not have access to separately managed account sleeves ("SMAs") that invest directly in individual securities and that may have additional fees, or certain additional personalization options for account management. Each of these legacy programs had fee schedules that differ from that of FWS, and while the gross advisory fees charged to PPS and FPP accounts were generally higher than those charged to FWS accounts, both FPP and FWS operate under a different fee structure that includes additional fees for certain services, including separate fees for investment in SMAs. Accordingly, the advisory fees paid by FPP and FWS accounts may be more variable than those paid by PPS accounts, and the fees paid by FWS accounts may be higher or lower than those experienced in past periods for PPS and FPP accounts. FWS fees are fully described in the FWS Program Fundamentals. Past performance is no guarantee of future results, and there is no guarantee that FWS will have performance that is similar to the performance generated by the legacy programs in prior periods.

Calculation of composite returns. Composite returns represent the asset-weighted composite performance of accounts managed to the indicated asset allocation strategy. Accounts must have at least one full calendar month of returns to be included in the composite. Accounts subject to significant investment restrictions provided by clients are excluded from the composite. In limited circumstances, additional accounts with nonstandard characteristics are excluded from the composite. Accounts with a do-not-trade restriction are removed from the composite once the restriction has been on the account for 30 days. Accounts for which clients provided short-term and long-term tax rates of zero are also excluded from the composite. Account performance is calculated using time-weighted methodology, which minimizes the effect of cash flows in and out of accounts and related impacts to account returns during the period. Composite returns are calculated using asset-weighted methodology, which takes into account the differing sizes of client accounts (e.g., considers larger and smaller accounts proportionately). Individual accounts will vary based on individual tax and investment situations and, therefore, performance may be better or worse than the performance shown. Performance shown is net of the actual investment management fees paid by each client, including any fee credits applicable to the account, as well as any underlying fund expenses, and reflects the changes in share prices and the reinvestment of any interest, dividends, or capital gains distributions if applicable. These are manually reinvested, but not necessarily into the issuing fund or security. Mutual fund redemption fees that would otherwise apply may be paid the program sponsor. Larger accounts may, by percentage, pay lower management fees than smaller accounts.

Calculation of the after-tax composite returns. The following assumptions have been used as part of the after-tax composite returns calculations. All distributions of qualified dividend income are assumed to meet the required holding period. In most cases, specific ID cost-basis methodology rather than average cost basis is applied when managing client accounts. Performance and rates of return are calculated net of the payment of the quarterly advisory fee on client accounts where applicable. Returns are calculated net of the payment of underlying mutual fund expenses as described in individual fund prospectuses. Individual share price and returns will vary, and you may have a gain or loss when your shares are sold. Performance, whether reported on a pre- or after-tax basis, includes accrued interest for the following securities: fixed-rate bonds, fixed-rate government bonds, and commercial paper. Other securities are computed on a cash basis only, so, for example, accrued interest on money market funds, mutual funds, and accrued dividends on equities are not included in the calculation. For accounts with individual bonds, amortization and accretion for bonds are not included in performance calculations. After-tax composite returns are calculated based on a daily valuation time-weighted methodology estimating the impact of federal ordinary income taxes, Medicare surtaxes, and the alternative minimum tax where customers have indicated this applies. For accounts migrated from PPS, the account was calculated in some historical months using modified Dietz method or, depending on the relative size of cashflows, a daily valuation method, taking into consideration the impact of federal income taxes based on the activity in client accounts. Returns are calculated by adjusting for actual transactions (sales, dividend earnings, etc.) that have taken place in the accounts, and by assuming that (i) each category of income is taxed at individual marginal rates in effect for the period in which the taxable transaction took place and is computed based on long-term capital gains rate and marginal income tax rate information provided by the client, and (ii) cost-basis and holding period information provided by the client is accurate. Cost-basis information provided in customer communications may not reflect all adjustments to such information that may be necessary due to events outside the control of, or unknown to, Fidelity (e.g., wash sales resulting from purchases and sales of securities in non-FWS accounts). Such after-tax returns take into account the effect of federal income taxes only; taxes other than federal income taxes including state and local taxes, foreign taxes on non-U.S. investments, and estate, gift, and generation-skipping transfer taxes, are not taken into account. The calculation assumes that a client reclaims in full any excess foreign tax withheld and that the client is able to take a U.S. foreign tax credit in an amount equal to any foreign taxes paid. Clients should be aware that the reclamation process for foreign tax withholding can be complex and time-consuming. Clients may engage an agent (for a fee) to assist them in the reclamation process. These assumptions will increase an account's after-tax performance; the amount of the increase will depend on the total mix of foreign securities held and their applicable foreign tax rates, as well as the volume of distributions from those securities.

Any realized short-term or long-term capital gain or loss retains its character in the after-tax calculation. The gain/loss for any account is applied in the month incurred and there is no carryforward. The calculation assumes that losses are used to offset gains realized outside the account in the same month and the imputed tax benefit of such a net loss is added to that month's return. This can inflate the value of the losses to the extent that there are no items outside the account against which they can be applied. The calculation assumes that taxes are paid from outside the account. Taxes are recognized in the month in which they are incurred. This may inflate the value of some short-term losses if they are offset by long-term gains in subsequent months. After-tax composite returns do not take into account the tax consequences associated with income accrual, deductions with respect to debt obligations held in client accounts, or federal income tax limitations on capital losses. Any year-end adjustments for dividends with respect to classifications as qualified versus non-qualified are not taken into account. After-tax composite returns may exceed pre-tax returns as a result of an imputed tax benefit received upon realization of tax losses. Withdrawals from client accounts during the performance period result in adjustments to take into account unrealized capital gains across all securities in such account, as well as the actual capital gains realized on the securities.

Changes in laws and regulations may have a material impact on pre- and/or after-tax investment results. Strategic Advisers relies on information provided by clients in an effort to provide tax-sensitive investment management, and does not offer tax advice. Strategic Advisers can make no guarantees as to the effectiveness of the tax-sensitive investment management techniques applied in seeking to reduce or minimize a client's overall tax liabilities or as to the tax results that may be generated by a given transaction. Consult your tax advisor for additional details.

After-tax composite benchmark returns represent an asset-weighted composite of clients' individual after-tax benchmark returns. Each client's personal after-tax benchmark is composed of mutual funds (index funds where available) in the same asset class percentages as the client's investment strategy. The after-tax benchmark uses mutual funds as investable alternatives to market indexes in order to provide a benchmark that takes into account the associated tax consequences of these investable alternatives. The after-tax benchmark returns implicitly take into account the net expense ratio of their component mutual funds because mutual funds report performance net of their expense. They assume reinvestment of dividends and capital gains, if applicable. The after-tax benchmark also takes into consideration the tax impact of rebalancing the benchmark portfolio, assuming the same tax rates as are applicable to each client's account, as well as an adjustment for the level of unrealized gains in each account. The after-tax composite benchmark return is calculated assuming the use of the "average cost-basis method" for calculating the tax basis of mutual fund shares.

All indexes are unmanaged and include reinvestment of interest and/or dividends. Please note that an investor cannot invest directly in an index. The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate. Current performance may be higher or lower than the performance data quoted.

Investing involves risk, including risk of loss.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

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Investment Risks:
In general, the bond and municipal bond markets are volatile. Fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. The interest payments of TIPS are variable; they generally rise with inflation and fall with deflation.

The municipal market can be significantly affected by adverse tax, legislative, or political changes and by the financial condition of the issuers of municipal securities. Some or all of a municipal security's dividends or interest payments may be subject to federal, state, or local income taxes or may be subject to the federal alternative minimum tax.

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

You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fidelity Investments and its affiliates, the fund's sponsor, have no legal obligation to provide financial support to money market funds and you should not expect that the sponsor will provide financial support to the fund at any time.

Fidelity's government and U.S. Treasury money market funds will not impose a fee upon the sale of your shares, nor temporarily suspend your ability to sell shares if the fund's weekly liquid assets fall below 30% of its total assets because of market conditions or other factors.

Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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