Tax-Smart Investing: Could Ben Franklin Have Been Wrong?

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Key takeaways:

- Careful planning offers the potential to reduce taxes, effectively increasing after-tax returns.
- When it comes to progress toward a goal, after-tax returns can provide a more reliable measurement.
- 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.

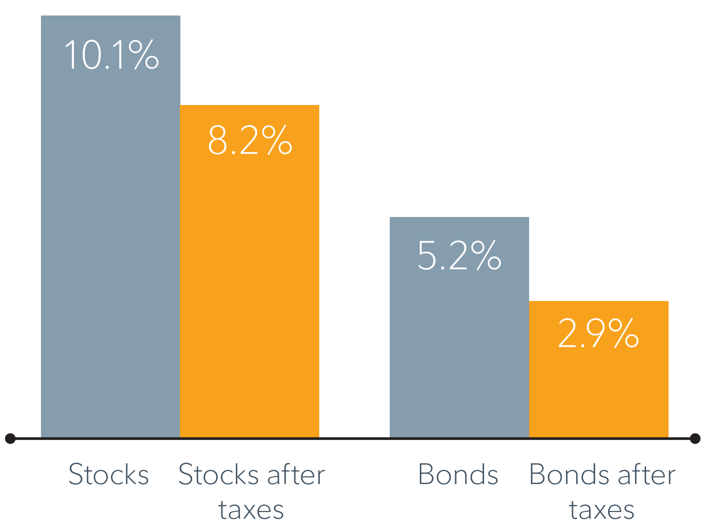
Taxes may be a certainty, but investors today can use a variety of tools to potentially reduce their impact. In particular, investors may be able to reduce or defer taxes through the use of specific tax-smart investing techniques.[1, 2]

The goal: Keep more of what you earn. A first step in doing this is to focus on after-tax returns, which measure the amount of money your investments ultimately generate. We believe after-tax returns are a much better way to measure your progress toward your goals than pre-tax returns, which only tell you what you would have earned in a theoretical world with no taxes—which we all know 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 account for taxes when making investment decisions saw their annual returns lag by about 2%, on average, sometimes referred to as tax drag.[3] As illustrated in Exhibit 1, taxes can have a large impact on returns over time, so they shouldn’t be ignored.

At Strategic Advisers LLC, we build portfolios that seek to enhance returns for the amount of risk clients are comfortable taking on. Our primary tool in this effort is asset allocation—the percentage of a portfolio invested in stocks, bonds, short-term investments, and other asset classes. We also seek to enhance after-tax returns through the use of a variety of tax-smart investing techniques.

We’ve developed a methodology we believe reasonably measures 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, methodology, and assumptions, we estimate that our tax-smart investment management has added up to 133% in cumulative returns over that time. (See Appendix A and the accompanying disclosures for important information about our methodology and assumptions, and their related risks and limitations.)

Exhibit 1
Taxes significantly reduce returns, 1926–2022



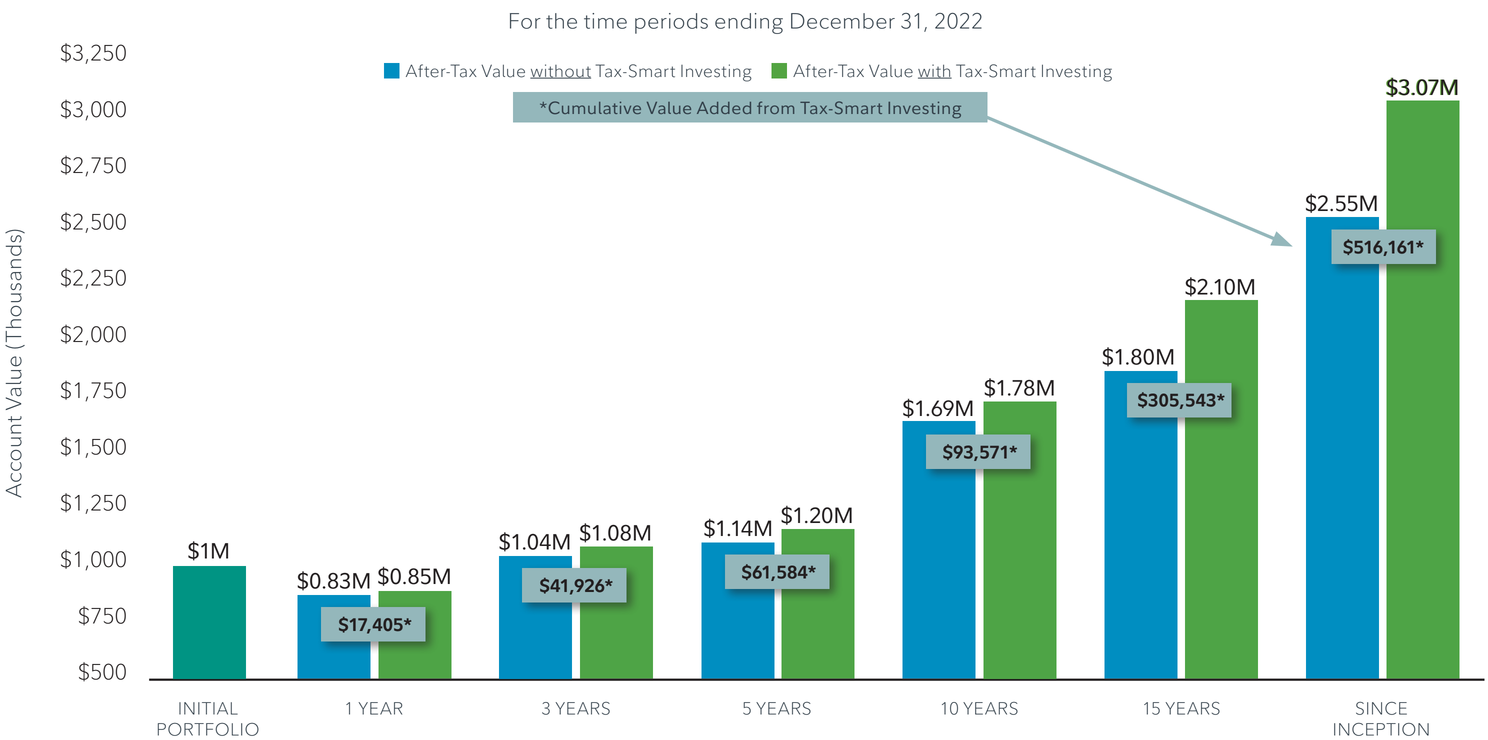
Taxes Can Significantly Reduce Returns data, © 2023 Morningstar, Inc. All rights reserved. Past performance is no guarantee of future results. This chart is for illustrative purposes only and does not represent actual or future performance of any investment option.

These additional returns can have a significant impact over time (see Exhibit 2). When you avoid or defer taxes by applying tax-smart investment management, that money can stay invested and working for you. 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 an illustrative example that assumes a $1 million initial investment with returns based on a comparison of pre- and after-tax return information. The chart includes an account's after-tax benchmark for a composite of accounts managed using our Growth with Income asset allocation (60% stocks/40% bonds and short-term investments) and the strategy characteristics listed below the chart from January 1, 2002, to December 31, 2022, with no contributions or withdrawals. In this illustrative example, tax-smart investing techniques added $516,161 to the final balance.

Exhibit 2
Value added from tax-smart investing techniques[4]

The chart below is designed to help demonstrate how tax-smart techniques can help add value, which can compound over time.



For illustrative purposes only.

Average Annual Returns for Growth with Income Composite with Tax-Smart Investing† (Period Ending December 31, 2022)

	1 year	3 years	5 years	10 years	15 years	Since Inception
Pre-Tax	–16.05%	2.35%	3.68%	6.02%	4.62%	5.11%
After-Tax	–14.83%	2.70%	3.81%	5.96%	5.08%	5.48%

For informational purposes only. Returns for individual clients will vary. In this example, we look at a group of accounts, each one with asset allocations of 42% domestic stocks, 18% international stocks, 35% bonds, and 5% short-term investments. **Each set of bars represents the after-tax value of a $1 million initial investment at the end of that period, with and without tax-smart investing applied.** The difference between the two bars in each case represents the additional value created by these techniques, based on our methodology and assumptions. The graph is based on the performance of a composite of accounts managed using the following strategy characteristics: Growth with Income asset allocation using tax-smart investing techniques (but not household tax-smart strategies), the total return investment approach, blended investment universe, and investing in municipal securities, and includes accounts that do and do not use separately managed account sleeves ("SMAs"). **Please be aware that the value of tax-smart investing techniques would be different, perhaps significantly, for an account that is not managed using the same configuration of strategy characteristics as the composites shown above.** The Growth with Income asset allocation, total return investment approach, and blended investment universe were chosen because they are the most commonly used asset allocation, investment approach, and universe in the program. Please speak with your Fidelity representative for information about the performance of other strategy characteristics available through the program.

Tax-smart investing

Tax-smart investing 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 a strategy to managing it on a daily basis.

Throughout the year, we look for ways to help reduce the impact of taxes on Portfolio Advisory Services tax-smart accounts.* While some strategies are applied on an ongoing basis, others are applied at specific points in time over the life of your account.

*Portfolio Advisory Services accounts are discretionary investment management accounts offered through Fidelity® Wealth Services for a fee.

†Asset location is available for certain qualifying goals. 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.

When transitioning clients into a new strategy, we carefully consider which investments to keep and sell. That's because simply selling every existing security and investing the proceeds in a client's selected strategy may trigger a large tax bill. While we'll always prioritize risk management and diversification, if we believe it makes sense in the context of a client's overall investment strategy, we'll use existing assets as building blocks for a strategy in order 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, *selling any ineligible securities without regard for tax consequences.*
2. Next, we review each remaining security, considering the potential tax impact of selling it and judging how well it aligns with the client's selected strategy.
3. When building a personalized portfolio, we may use some of a client's existing securities as a starting point.
4. Over time, we continually reevaluate portfolios for tax-smart opportunities designed to improve 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.

For qualifying goals, our ability to maintain different asset allocations across different accounts can help further enhance returns.

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
- The original purchase price of a 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

Harvesting tax losses

The average client with a Portfolio Advisory Services account using tax-smart strategies could save $3,900 per year in taxes—and that's just by harvesting tax losses. Over time, that savings can stay invested, giving it a chance to grow over the long term. *Based on an average account balance of $715,000.*[6]

We're mindful about when to realize losses as well as gains.

When an investment is sold for less than its purchase price, an investor can use the loss to offset realized capital gains elsewhere in their portfolio 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, is a way to defer the payment of taxes on some gains. The benefit of deferring taxes is that any money that's saved can be reinvested, which gives it the potential to grow.

Nevertheless, many investors fail to capitalize on the tax benefits of a loss because, like most aspects of tax-smart investing, this is easier in theory than in practice.

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

- Analyze all of a portfolio's tax lots, ideally on a daily basis.
- 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 research and practical experience that suggest **year-round loss harvesting is more effective than the common practice of harvesting losses only at year-end (see Exhibit 3).**

Performing daily reviews also enables us to take advantage of market volatility. For example, we might identify a security that's 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 2022 created additional tax-loss harvesting opportunities, helping to generate $3.5 billion in tax savings for Fidelity clients in managed accounts.*

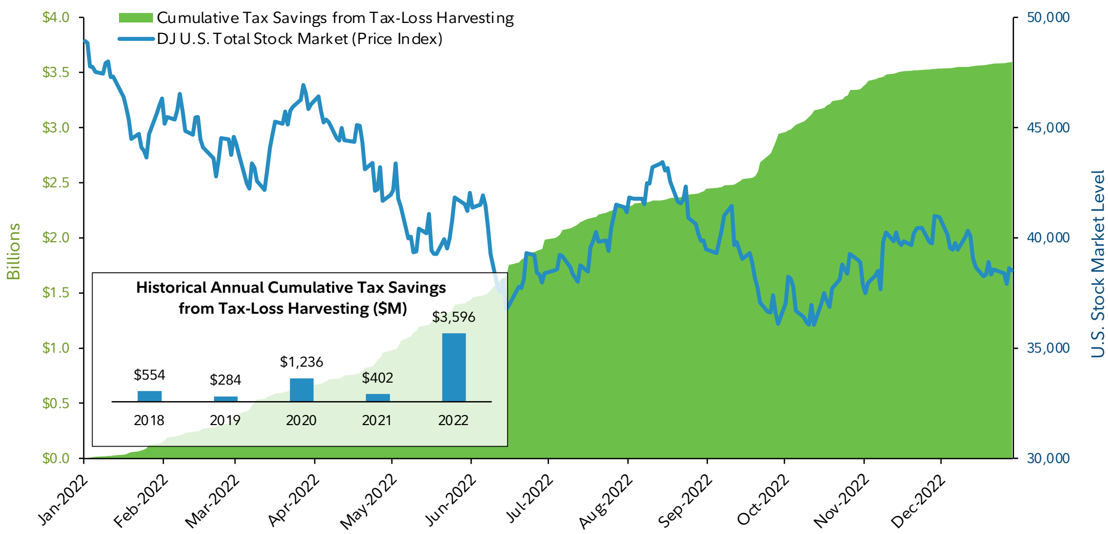
When thinking about this concept, there are two important things to remember. The first is that if you've created more than $3,000 in tax assets in a given year, you may use those losses to offset up to $3,000 in gains that tax year ($1,500 if married filing separately). If there are harvested losses beyond that amount that are carried over into future years, these same limitations would apply. The second is that while tax-loss harvesting is designed to defer taxes, at some point in the future, depending on your tax situation and any withdrawals you take, you may owe taxes on those gains. 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 or diversification.

*Results will vary. 2022 is not typical.

Exhibit 3

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



Dow Jones U.S. Total Stock Market Average Annualized Returns as of 12/31/2022	1-year	5-year	10-year
	–19.53%	8.65%	12.03%

*Results will vary: those from 2020 and 2022 are not typical. In our analysis over the past five years, cumulative tax savings from tax-loss harvesting differed from year to year and have ranged from as much as the amount reported for 2022 to as low as less than a tenth of the amount reported for 2022.

The right axis and blue line represent the movements of the U.S. stock market as measured by the Dow Jones U.S. Total Stock Market as of 12/31/2022. 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 volatility early in the year and then continued to experience periodic volatility as the year progressed. Strategic Advisers was able to harvest losses during these 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, 2022, 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.

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 investments that they've held in taxable accounts 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 make investing more tax-efficient (see Exhibit 4).[9]

Holding securities for at least a 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 at different times, 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 must also 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.**

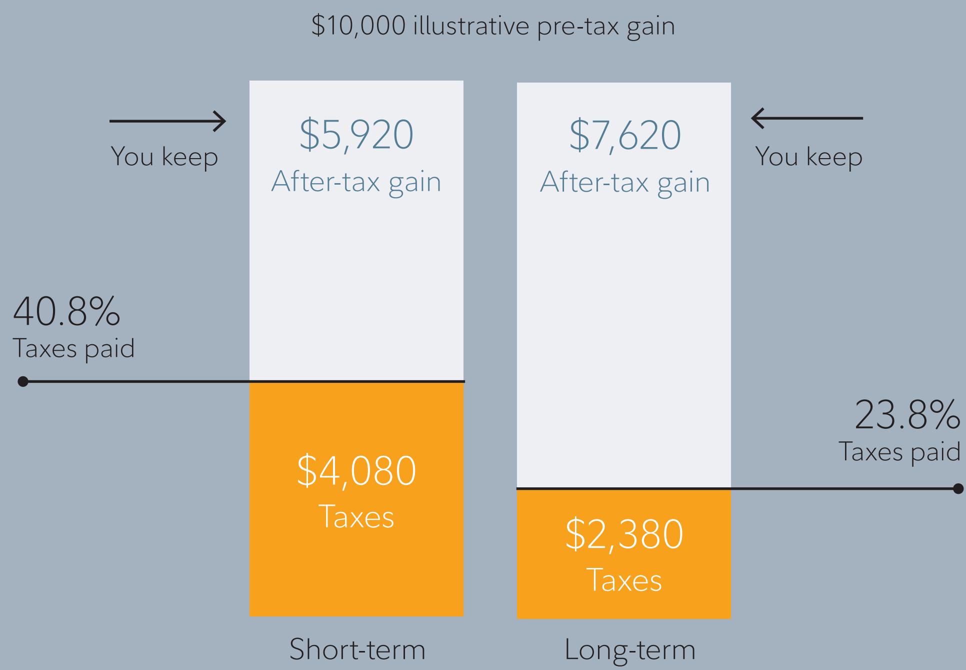
40.8%

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 an illustrative 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 is $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 a $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 (less than 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 that 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 an illustrative 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 share-holders 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 gain, if the outlook for the fund is especially positive, or if it would be replaced by another fund that would also 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 2022, we were able to manage distributions from about 3,200 funds across roughly 32.6 million individual tax lots.*

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

Investing in municipal bond funds or ETFs

Making allocation decisions, even in tax-advantaged accounts, can be critical to long-term after-tax performance.

Our managers consider how 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 eligible 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 when applying tax-smart investment management.

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

*This does not include any separately managed account sleeves that may be part of Portfolio Advisory Services accounts.

Asset location*

When seeking to reduce tax liabilities, we've found that the tax treatment of an account is an important factor to consider.

Some investment types generate and pay out income in different ways. In addition, some account types receive different tax treatment for this income. Therefore, for qualifying goals, we may look to match certain types of investments with certain types of accounts, also known as asset location. For instance, we may place investments that generate significant amounts of taxable income into tax-deferred accounts, and investments that tend to generate less income in taxable accounts. This approach, which is illustrated in greater detail in the table below, is designed to help further enhance after-tax returns.

	TAXABLE	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.

Tax-smart rebalancing

How we rebalance accounts is almost as important as when.

At different times, we may rebalance client accounts, meaning we adjust the mix of exposure to stocks and bonds. There could be many reasons for this, such as a change in a client's comfort with risk, a revised time horizon, or the fact that one asset class outperformed another, causing the mix of investments to "drift."

With tax-smart rebalancing, we look for ways to be tax-efficient, such as prioritizing tax lots that have been held for longer than one year when deciding what to sell.

For goals that have accounts with varying tax registrations, we have an additional tool at our disposal. In these cases, where it makes sense in the context of the client's overall portfolio, we may only look to reduce exposure to a certain asset class in tax-advantaged accounts. By doing this, we can defer taxes to a later date or, in the case of a tax-exempt account, avoid paying taxes altogether. Avoiding having to trade in the taxable account may also help us avoid capital gains. This enhanced tax-smart rebalancing, made possible by our ability to maintain different asset allocations across the various Portfolio Advisory Services accounts assigned to a goal, can help maintain the integrity of the portfolio's asset allocation in a more tax-efficient manner.

*For goals that qualify, we're able to offer "Household Tax-smart Strategies," which allow us to apply enhanced tax-smart investing decisions across the Portfolio Advisory Services accounts with varying tax registrations assigned to a goal. These enhanced tax-smart strategies allow us to build and maintain unique asset allocations for each PAS account, providing greater investment flexibility, and include asset location, enhanced tax-smart rebalancing, and enhanced tax-smart withdrawals to help further enhance after-tax returns. 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 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.

For clients who plan to make regular withdrawals, we try to keep a portion of the account from which those withdrawals will be made in short-term investments, such as money market funds. When investments in an 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.

If we do have to sell securities, we'll look at how long an investment has been held and may sell securities that have been held for more than a year, as 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 tax obligations. While the primary goal is always to help maintain an asset allocation that aligns with a client's 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 an account.

For certain qualifying goals,* 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 tax-smart investment management 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 a 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.** In cases where we believe it's prudent and makes sense in the context of a client's portfolio, our platform helps us navigate IRS wash-sale rules. These rules defer the tax benefit of selling at a loss if a "substantially identical" investment has been purchased in a client's account 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. Note that any monitoring we do only takes place within certain Fidelity® managed account programs, will not prevent wash sales in all cases, and does not attempt to monitor any transactions that occur in a client's self-directed accounts, which can lead to wash-sale rule consequences for the client.

*Qualifying goals have multiple Portfolio Advisory Services accounts with varying tax registrations assigned to a goal. 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-Aware Investment Management Practice," by Stephen M. Horan and David Adler, a 2009 study funded by the Research Foundation of CFA Institute.

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.

Appendix A: Performance Details

The table below provides a high-level analysis demonstrating the added value of tax-smart investing.

Value from Tax-Smart Investment Management for a Range of Strategies, 12/31/2001–12/31/2022

Investment Strategy	**Pre-tax excess returns** (pre-tax composite returns – pre-tax benchmark returns)	**After-tax excess returns** (after-tax composite returns – after-tax benchmark returns)	**Average annual net excess return** (after-tax excess – pre-tax excess = average annual net excess return)	**Cumulative return** (% added from tax-smart investment management)
All-Stock Composite	–0.74	0.93	1.67	133.63
Aggressive Growth Composite	–1.08	0.21	1.29	92.34
Growth Composite	–0.93	0.04	0.97	62.53
Growth with Income Composite	–0.86	–0.07	0.79	48.83
Balanced Composite	–0.88	–0.23	0.65	36.53
Moderate Composite*	–0.78	–0.57	0.22	3.96
Moderate with Income Composite*	–0.86	–0.71	0.14	2.49
Conservative Composite	–0.78	–0.46	0.32	13.31

Based on the performance of a composite of accounts for the investment strategies listed above and managed using a tax-smart investing approach (but not household tax-smart strategies), the total return investment approach and blended investment universe, investing in municipal securities, and includes accounts that do and do not use SMA sleeves.

*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.

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 12/31/2022	**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	−19.28	−18.32	−0.96	5.82	6.40	−0.58	9.02	9.84	−0.82	6.45	7.26	−0.82
All-Stock Composite After-Tax	−17.81	−18.36	0.54	6.60	5.84	0.76	9.35	8.87	0.48	7.41	6.48	0.93
Aggressive Growth Composite Pre-Tax	−18.84	−16.80	−2.05	4.98	5.83	−0.85	7.82	8.82	−1.00	5.75	6.90	−1.14
Aggressive Growth Composite After-Tax	−17.13	−17.07	−0.06	5.55	4.80	0.75	7.96	8.10	−0.14	6.52	6.31	0.21
Growth Composite Pre-Tax	−17.05	−14.81	−2.24	4.16	5.11	−0.96	6.72	7.60	−0.88	5.30	6.27	−0.97
Growth Composite After-Tax	−15.76	−15.02	−0.74	4.40	4.15	0.25	6.71	6.94	−0.22	5.79	5.75	0.04
Growth with Income Composite Pre-Tax	−16.05	−13.81	−2.24	3.68	4.64	−0.96	6.01	6.85	−0.84	5.11	6.01	−0.90
Growth with Income Composite After-Tax	−14.83	−13.94	−0.88	3.80	3.77	0.03	5.96	6.27	−0.31	5.48	5.54	−0.07
Balanced Composite Pre-Tax	−14.51	−12.36	−2.14	3.22	4.11	−0.89	5.22	6.00	−0.78	4.56	5.47	−0.90
Balanced Composite After-Tax	−13.32	−12.39	−0.93	3.26	3.32	−0.06	5.14	5.49	−0.35	4.84	5.07	−0.23
Moderate Composite Pre-Tax*	−13.00	−10.93	−2.07	2.72	3.56	−0.84	4.42	5.14	−0.72	4.44	5.16	−0.72
Moderate Composite After-Tax*	−11.75	−10.89	−0.86	2.78	2.88	−0.10	4.35	4.72	−0.37	4.28	4.85	−0.57
Moderate with Income Composite Pre-Tax*	−11.53	−9.50	−2.03	2.20	2.98	−0.78	3.49	4.26	−0.76	3.52	4.31	−0.78
Moderate with Income Composite After-Tax*	−10.22	−9.25	−0.97	2.27	2.46	−0.19	3.43	3.94	−0.51	3.37	4.09	−0.71
Conservative Composite Pre-Tax	−9.63	−7.62	−2.01	1.52	2.35	−0.82	2.49	3.28	−0.79	2.99	3.73	−0.74
Conservative Composite After-Tax	−8.38	−7.23	−1.16	1.59	1.96	−0.37	2.41	3.02	−0.61	3.10	3.56	−0.46

Based on the performance of a composite of accounts for the investment strategies listed above and managed using a tax-smart investing approach (but not household tax-smart strategies), the total return investment approach and blended investment universe, investing in municipal securities, and includes accounts that do and do not use SMA sleeves.

*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 methodology and assumptions (and their related risks and limitations) used in calculating 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. 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 12/31/2022)

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 Growth 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 Composite	28%	12%	45%	15%
Moderate with Income Composite	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 that are not managed using tax-smart investing techniques. Detailed information on these mutual funds is available on Fidelity.com.

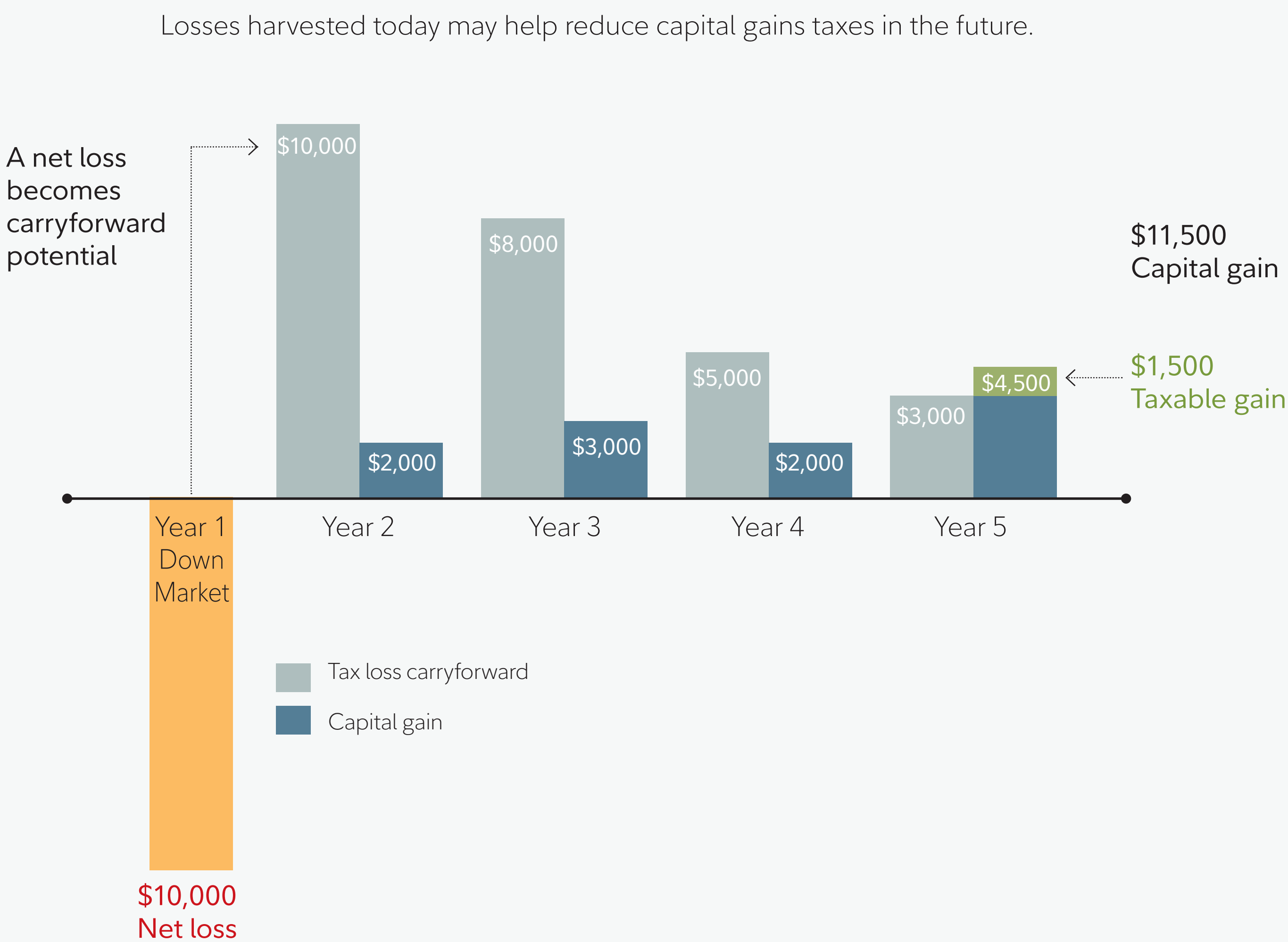
The after-tax money market component of the benchmark changed to the Fidelity Government Cash Reserves Fund effective March 31, 2016. For accounts in a muni strategy, the previous fund was the Fidelity Tax-Exempt Treasury Money Market Fund. For accounts not in a muni strategy, the previous fund was the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

Illustrative example of how carryforward tax losses offset future gains



For illustrative purposes only. In this example, the investor used a $10,000 net loss by using the carryforward tax-loss strategy and avoided paying capital gains for the next four years. It wasn't until four years later 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 an illustrative example for informational 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. 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 the 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., 2023. This example reflects a 97-year period from 1926 to 2022 and is based on the following data: stocks at 10.1%, stocks after taxes at 8.2%, bonds at 5.2%, and bonds after taxes at 2.9%.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2023 and Precision Information, dba Financial Fitness Group 2023. All rights reserved. Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $130,000 in 2020 dollars every year. This annual income is adjusted using the CPI 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. Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond. The data assumes reinvestment of income and does not account for transaction costs.

[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 methodology and assumptions (and their related risks and limitations) used in calculating 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]Clients who fund a tax-smart account with appreciated securities should understand that we could sell securities notwithstanding that the sale could trigger significant tax consequences. Note that 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.

[6]Tax-loss harvesting is one of several tax-smart investing techniques we apply in managed portfolios. Tax savings will vary from client to client. In any given year it may offer significant benefits during volatile markets. Past performance is no guarantee of future results. Factors that could impact the value of our tax-smart investing techniques include market conditions, the tax characteristics of securities used to fund an account, client-imposed investment restrictions, client tax rate, asset allocation, investment approach, investment universe, the prevalence of SMA sleeves, and any tax law changes. This analysis is based on the performance of all accounts in good order within investment strategies (offered through Fidelity® Wealth Services), within taxable account registrations from 1/1/2013 for the Total Return Blended strategy, and from 1/28/2019 for Total Return Fidelity-Focused and Index-Focused strategies and the Defensive approach (when tax-smart investment management capabilities were introduced) through 12/31/2022. Accounts managed with household tax-smart strategies are not included in this analysis. The analysis includes calculating the average of each year's average account's capital gains tax savings over the past 10 years. We estimate potential capital gains tax savings by multiplying each harvested tax loss by the applicable short- or long-term capital gains tax rate for each client account at the end of each year. The average account balance is $715,367, which is the average of each year's average account balance over the past 10 years. The average balance has decreased over the course of the past 10 years as we have seen a growth in the number of accounts after lowering minimums in recent years.

Our after-tax performance calculation methodology uses the full value of harvested tax losses without regard to any future taxes that would be owed on a subsequent sale of any new investment purchased following the harvesting of a tax loss. That assumption may not be appropriate in all client situations but is appropriate where (1) the new investment is donated (and not sold) by the client as part of a charitable gift, (2) the client passes away and leaves the investment to heirs, (3) the client's long-term capital gains rate is 0% when they start withdrawing assets and realizing gains, (4) harvested losses exceed the amount of gains for the life of the account, or (5) where the proceeds from the sale of the original investment sold to harvest the loss are not reinvested. Our analysis assumes that any losses realized are able to be offset against gains realized inside or outside of the client account during the year realized; however, all capital losses harvested in a single tax year may not result in a tax benefit for that year. Remaining unused capital losses may be carried forward to offset up to $3,000 of ordinary income per year. It is important to understand that the value of tax-loss harvesting for any particular client can only be determined by fully examining a client's investment and tax decisions for the life the account and the client, which our methodology does not attempt to do. Clients and potential clients should speak with their tax advisors for more information about how our tax-loss harvesting approach could provide value under their specific circumstances.

[7]The table and chart represent the cumulative total tax-lot losses harvested, or potential tax savings, in all accounts in good order in Fidelity Wealth Services accounts managed with tax-smart investing techniques. 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. If you have more capital losses than gains, you may be able to use up to $3,000 a year to offset ordinary income on federal income taxes and carry over the rest to future years. Results will vary. In our analysis over the past five years, cumulative tax savings from tax-loss harvesting differed from year to year and were as small as a tenth of the amount shown in the chart. Source: Fidelity Tax Account System as of 12/31/2022.

[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 a 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]**Important information about performance returns.** *Performance cited represents past performance. Past performance, before and after taxes, does not guarantee future results and current performance may be lower or higher than the data quoted. Investment returns and principal will fluctuate with market and economic conditions, and you may have a gain or loss when you sell your assets. Your return may differ significantly from those reported.* The underlying investments held in a client's account may differ from those of the accounts included in the composite. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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Market indexes are included for informational purposes and for context with respect to market conditions. All indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. Review the definitions of indexes for more information. Please note that an investor cannot invest directly into an index. Therefore, the performance of securities indexes does not incorporate or otherwise reflect the fees and expenses typically associated with managed accounts or investment funds.

Information about the calculation of account and composite returns. *Returns for periods of one year or less in duration are reported cumulatively. Returns for periods greater than one year may be reported on either a cumulative or average annual basis. Calendar year returns reflect the cumulative rates of return for the 12-month period from January 1 to December 31, inclusively, of the year indicated.*

Reported rates of return utilize a time-weighted calculation, which vastly reduces the impact of cash flows. Returns shown assume reinvestment of interest, dividends, and capital gains distributions. Assets valued in U.S. dollars. Performance for accounts managed without tax-smart investing techniques begins when assets are available in the account. Performance for accounts managed with tax-smart investing techniques ("tax-smart accounts") begins after the Investment Manager reviews the account and deems it ready for investment in the chosen strategy.

Rates of return shown are net of the actual investment advisory fees paid for each account, and are net of any applicable fee credits, any underlying fund's own management fees and operating expenses, and, for certain Fidelity Wealth Services accounts, the fees attributable to separately managed account sleeves. Performance information presented for an investment advisory program offered by Fidelity Personal Workplace Advisors LLC ("FPWA") includes performance for accounts enrolled in legacy programs previously offered and managed by FPWA's affiliate, Strategic Advisers LLC, for periods prior to July 2018. Fees for these legacy programs differ from current fee schedules for FPWA's programs, and fees for accounts enrolled in those legacy programs may have been higher or lower than FPWA's current fees. Fee structures and the services offered have changed over time. Please consult a Fidelity financial advisor or the applicable investment advisory program's current Program Fundamentals for current fee information. Additional information about our methodology for calculating pre- and after-tax performance return information is available at Fidelity.com/information in a document titled "About Performance."

Assumptions used in calculating after-tax returns. *After-tax rate of return measures the performance of an account, taking into consideration the impact of a client's U.S. federal income taxes, based on the activity in the account. 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. Any realized short-term or long-term capital gain or loss retains its short- or long-term characteristics in the after-tax calculation. The gain/loss for any account is applied in the month incurred and there is no carryforward.* We assume 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 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. 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. Adjustments for reclassification of dividends from non-qualified to qualified status that occur in January of the subsequent year are reflected in the prior December monthly returns. We assume that a client reclaims in full any excess foreign tax withheld and is able to take a U.S. foreign tax credit in an amount equal to any foreign taxes paid, which increases 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 amount of distributions from those securities.

We assume that losses are used to offset gains realized outside the account in the same month, and we add the imputed tax benefit of such a net loss 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, and after-tax returns may exceed pre-tax returns as a result of an imputed tax benefit received upon realization of tax losses. Our after-tax performance calculation methodology uses the full value of harvested tax losses without regard to any future taxes that would be owed on a subsequent sale of any new investment purchased following the harvesting of a tax loss. That assumption may not be appropriate in all client situations but is appropriate where (1) the new investment is donated (and not sold) by the client as part of a charitable gift, (2) the client passes away and leaves the investment to heirs, (3) the client's long-term capital gains rate is 0% when they start withdrawing assets and realizing gains, (4) harvested losses exceed the amount of gains for the life of the account, or (5) where the proceeds from the sale of the original investment sold to harvest the loss are not reinvested. It is important to understand that the value of tax-loss harvesting for any particular client can only be determined by fully examining a client's investment and tax decisions for the life of the account and the client, which our methodology does not attempt to do. Clients and potential clients should speak with their tax advisors for more information about how our tax-loss harvesting approach could provide value under their specific circumstances.

Information about composite returns. *The rates of return featured for accounts managed to a long-term asset allocation represent a composite of accounts managed with the same long-term asset allocation, investment approach, and investment universe as applicable; rates of return featured for accounts managed with a single asset class strategy represent a composite of accounts managed to the applicable strategy. Accounts included in the composite utilize a time-weighted calculation, which vastly reduces the impact of cash flows. Composites are asset-weighted. An asset-weighted methodology takes into account the differing sizes of client accounts (i.e., considers accounts proportionately).* Larger accounts may, by percentage, pay lower investment advisory fees than smaller accounts, thereby decreasing the investment advisory fee applicable to the composite and increasing the composite's net-of-fee performance. For tax-smart accounts in Fidelity Wealth Services, composite results are based on the returns of the managed portion of the accounts; assets in a liquidity sleeve are excluded from composite performance.

Composites set minimum eligibility criteria for inclusion. Accounts with less than one full calendar month of returns and accounts subject to significant investment restrictions are excluded from composites. Accounts with a do-not-trade restriction are removed from the composite once the restriction has been applied to the account for 30 days. For periods prior to October 1, 2022, composite inclusion required a minimum investment level that reflected product-relative investment requirements. Effective October 1, 2022, product composites will reflect all accounts for which we produce a rate of return and that meet the aforementioned criteria. Non-fee paying accounts, if included in composite, will increase the net-of-fee performance. Certain products, like Fidelity Go, offer investment services where accounts under a certain asset level do not incur investment advisory fees. Employees do not incur investment advisory fees for certain products.

Information about after-tax composite benchmarks. *Return information for an after-tax benchmark represents 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) and ETFs in the same asset class percentages as the client's investment strategy. The after-tax benchmark uses mutual funds and ETFs 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.

Additional Information. *Changes in laws and regulations may have a material impact on pre- and/or after-tax investment results. Strategic Advisers LLC relies on information provided by clients in an effort to provide tax-smart investing techniques and does not offer tax advice.* Strategic Advisers LLC can make 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. Consult a tax advisor for additional details.

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Investing involves risk, including risk of 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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