Finding Income with ETFs
Agenda

What is a Dividend?

Why Dividends Matter

Why Dividends Now?

A Factor—Based Approach to Dividend Income
What is a Dividend?
What are Dividends?

A payment made by a company to shareholders

When a company sees a profit, the earnings can be used in two ways:

- Reinvested back into the company
- Paid to shareholders as a dividend
Why Dividends Matter
Dividends can be a Powerful Investing Tool

Since 1930, dividends have represented 40% of the average equity investor’s total return.

DIVIDEND CONTRIBUTION TO TOTAL RETURN, 1930–2017

- Price appreciation: 60%
- Dividend return: 40%

Source: Morningstar, 12/31/17.
Income Challenge of an Aging Population

More investors are transitioning into retirement, so investments that generate income are becoming more important in meeting their financial goals.

THE INCOME CHALLENGE OF AN AGING POPULATION

- U.S. Population Over 65
- Resident Population: 65+ (projected)
- 10-Year Treasury Yield

Left axis: World Bank, 6/30/17.
Right axis: Board of Governors of the Federal Reserve System (U.S.), 9/30/17.
More Companies are Growing Dividends

Over the last five years more than 80% of dividend-paying companies have increased their dividends

Source: Standard and Poor’s.
Dividends ETFs & Rising Rates
Unintended Risks when Rates Rise

Dividend-focused ETFs primarily look for high yield or dividend growth or a combination of the two. This may lead to a sector bias.

DIVIDEND ETFS RELATIVE SECTOR WEIGHTS
RELATIVE TO RUSSELL 1000

Based on the average sector weight of dividend-focused ETFs.
Source: Morningstar, 12/31/17.
Fidelity Dividend for Rising Rates Overview
Targeting higher yielding companies with low correlation to interest rates can provide protection in a rising rate environment

<table>
<thead>
<tr>
<th>Factor Rationale</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Dividend Yield</td>
<td>63%</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>13.5%</td>
</tr>
<tr>
<td>Dividend Growth</td>
<td>13.5%</td>
</tr>
<tr>
<td>Correlation to 10-Yr Treasury Yields</td>
<td>10%</td>
</tr>
</tbody>
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Index can invest up to 10% in international developed securities. See additional information including risks involved on page 12.

Past performance is no guarantee of future results.
S&P 500 is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Russell 2000 Index is a market capitalization–weighted index designed to measure the performance of the small-cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.

Unlike mutual funds, exchange traded fund (ETF) shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund. ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses.

Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. The securities of smaller, less well-known companies can be more volatile than those of larger companies. There is no guarantee that a factor-based investing strategy will enhance performance or reduce risk. Before investing, make sure you understand how the fund’s factor investment strategy may differ from more traditional index products. Depending on market conditions, fund performance may underperform, potentially for extended periods of time, compared to products that seek to track a more traditional index. The return of an index ETF is usually different from that of the index it tracks because of fees, expenses and tracking error. An ETF may trade at a premium or discount to its Net Asset Value (NAV). Given the nature of the relevant markets for certain of the fund’s securities, shares may trade at a larger premium or discount to the NAV than shares of other ETFs as well as become less liquid in stressed market conditions.

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