

TRANSCRIPT

How and why to use broad-based index ETFs in my portfolio

Presenters: Don Raymond and Michael Keating

Don Raymond: Hello, good afternoon. My name is Don Raymond, I'm a regional brokerage consultant for Fidelity Investments. My role is designed to help support self-directed investors that are managing all or part of their portfolio, and look for support with our online research and investment tools to help them become a more efficient investor using our platform. We'll be talking about how and why to use broad-based ETFs in your portfolio, and I'm joined with Mike Keating. While we, before we get started, I'm going to, Mike, hand it over to you to introduce yourself, and then we'll jump right into it. Thanks Mike.

Mike Keating: All right Don, and thanks, and looking forward to spending the next hour with everyone. I also want to say I appreciate everyone joining today, and hopefully you're in store for a very educational session. Like Don said, my name is Mike Keating, I work for Blackrock iShares, and I've now been at the firm, it's going on 14 years now. A major function of my role at Blackrock is supporting the Fidelity relationship, and providing education around iShares ETFs, partnering with our regional brokerage consultants like Don to deliver

these national webinars. So again, excited to be here, and looking forward to the next hour.

Don Raymond: Great, thanks Mike. All right Mike, let's get started. I'm going to go through, Mike, and ask a handful of questions, and we'd love to hear your thoughts, anywhere that I can add value, I'll add in as well, but the piece that we want to get started with Mike, if we can, is at Fidelity, we hear from so many different investors that are interested in ETFs, that are using ETFs, I think it's a great place to just kind of start at the foundation and say why are investors buying ETFs, and where are they usually starting?

Mike Keating: Yeah Don, you know how I always like to start these conversations is with the tremendous flows we've seen within the ETF industry, really over the last, it's going on almost 30 years now, think about that. A lot of people are actually new to using ETFs, but ETFs have actually been around since 1993. So I think it's really important to talk about the tremendous growth that we've seen really post-financial crisis. So talking a little bit about that, but ETFs have truly become mainstream now. They've become of the primary ways that investors are accessing markets today, so as you can see on this slide, ETFs have become one of the fastest growing segments of the asset management industry, truly generating record flows, really what we saw last year for 2021,

we saw a little over a trillion in assets, in money that flowed into ETFs globally last year. So year over year, as you can see on this slide, ETFs continue to hit new records in terms of one, new money coming in, but also new investors that are starting to gravitate towards ETFs, using ETFs as tools. They may continue to use individual stocks or mutual funds, but they're just starting to blend in ETFs. So, investors use them in all different ways, but again I really like to show this slide, it's also important to remember that ETFs are also growing in terms of new products that are coming to the market. So new ETFs that are being launched, you know, and I know this presentation here is mainly around kind of what we call broad exposures, so broad ETFs, but there's also new ETFs are being launched that are very niche-y, or pinpoint exposures to different markets. So, many new asset managers are launching products, as you know, you can see, I represent iShares, you know, we pride ourselves on being the largest, we have the largest market share in the ETF industry. The ETF industry is now up to roughly 10 trillion in assets under management. So 30 years to get to that \$10 trillion market. As you can see on the bottom, how quickly that's growing year over year. So iShares represent, we are the largest ETF provider in the world¹, and we truly pride ourselves on delivering low-cost tax-efficient exposures to the market. So Don, like, I think it's important to kind of start out that way, but the bulk of those flows now are made up of what

¹*BlackRock ETP Global Landscape Report 1/31/13. Based on number of ETFs, AUM and market share.*

we call broad-based ETFs, or ETFs that hold a diversified basket of either companies, or industries, or countries, or different market cap sizes, like different companies in terms of mid cap, small cap, large cap. So these are ETFs that hold a basket of these securities, it allows investors to plug into specific kind of what we call building blocks of a portfolio, so to maintain kind of that ballast in your portfolio. And what we see many investors doing is kind of building around that. So building using individual stocks, or active mutual funds, around those types of exposures.

Don Raymond: The world of ETFs, Mike, has really grown. And I know in previous presentations that we've done, you know, the first ETF launched in '93, but when we think about broad-based ETFs, it's really, really grown to just give investors, like you said, more and more choice. If we could go to the next slide, I'd love to hear a little bit more around some of that choice, and then of course a little bit more around some of the why, right? Like we know that the choice is there, and we know that the net flows have gone into a lot of funds over the years, but on this slide here, talk to a little bit more around the choice, and give me a little bit more on the why, too.

Mike Keating: Yeah so Don, these are, right here, this is what we call our core, core ETFs. So these are kind of our flagship ETFs that are kind of low-cost, very tax

efficient, very large, historical, you know, have been around for a long time. You know, so I'll use a couple as an example, and I'm going to try to deliver it, because I think it's really interesting. First and foremost, IGV that you see there, right? So that's the S&P 500, the iShares S&P 500 ETF. You know, you get one trade exposure, IGV, you get direct exposure to the S&P 500, it's diversified across mainly large cap companies, and guess what? You'd get that for a price of 0.3 percent. So direct exposure. The other ones to mention here, you know, again, mid cap companies, right? Midsize companies. IJH, this is another broad-based mid cap ETF that's investing in midsized companies across all industries. You know, you can see there, for a price of 0.5 percent, small cap, again, you know, exposure to pinpointing small cap companies across many different industries, for 0.6 percent. But the one that I think is really interesting is ITOT, this pretty much gives you exposure to all three of those kind of large cap, mid cap, small cap companies, for 0.3 percent. So this is an ETF that tracks the, an index, which is the S&P Total Market Index. And think about this, Don, this gives you exposure to over 3,500 stocks in one trade. So diversified mix, one trade, exposure to large cap, mid cap, and small cap companies, and then to kind of round everything out, investors that need international exposure, right? So you have IEFA, this gives investors access to over 3,000 international stocks in one trade for 0.7 percent. And then lastly, just talking a little bit about the bond side, because there are

bond ETFs that you can invest in as well, one I'd like to highlight is IUSB, so that is low-cost exposure to the broad bond market. And there's over 14,000 bonds that are in this ETF, for 0.06 percent. So I think it's really worth mentioning all the different benefits to this, but really, it's, you know, one of the pillars to owning an ETF is low cost, and you can see that there, but also a diversification. The other thing I wanted to mention here, these are extremely tax efficient as well. So I think we're going to talk a little bit about that. One of the, again, a pillar to an ETF is tax efficiency in terms of how often does this portfolio distribute a capital gain distribution? The ones I had mentioned on the equity side, IVV, ITOT, these have actually never distributed a capital gain distribution. So extremely tax efficient, low-cost exposure to the markets.

Don Raymond: That's great Mike, and sometimes I get the question a lot from investors, you know, how many funds should I be using, right? Like should I be using one fund, should I be using a lot of funds, can I be using too many? And to me, that always starts with having the right plan, right? What am I buying, why am I buying it, what's the objective? And then how do I want to get there? You know, remember, Fidelity offers financial planning at all of our local offices, we can talk through overall investment objective, risk tolerance, what is it that we're looking to accomplish, and put together a unique plan that fits the way that you like to invest. And then of course, when you think about

using ETFs as some of those building blocks to get there and accomplish your investment objective, and put together the right overall strategy to get there, there really is no right or wrong answer, right? So for example, Mike, you said there's over, I think there's actually over 3,600 securities in the ITOT at that low cost. But what if I wanted an overweight in small cap, or what if I wanted an overweight in large cap, or in a specific sector, right? That's where I could start to take additional funds to, that building block, and put that together, to fit the way that I like to invest as an investor, and be a bit more hands-on. Let's go to the next slide if we can, Mike. So here, if you can share a little bit more, that kind of gets right into that question that I get a lot from investors, you know, just kind of the right mix, and there's a few more talking points that I'd love to hear from you on this slide, if you can share.

Mike Keating: Yeah, so first and foremost, I think we should, let me just take a step back and talk a little bit about, you know, really what an ETF is, Don. So I think it's important that anyone that's new to the ETF market, one of the defining factors of an ETF is the fact that it trades on an exchange, right? So, which is a little bit different than a mutual fund, right? So, I always compare ETFs to mutual funds, because they are similar in a couple ways. One, ETFs own a basket of securities, either equities, or stocks, or bonds, right? And that's a diversified basket, but what an exchange traded fund is, it's actually offered on

the stock exchange. So people can actually buy or sell it throughout the day.

Now, we're not saying you have to do that, but it just gives you that option, and a lot of people enjoy having that option to be able to trade it if they want to, either, you know, in the middle of the day, or towards the end of the day, or in the morning, you could do that with an ETF, which is a little bit different from a mutual fund, where you can only do that once a day, right? The majority of ETFs, again, ETFs have been around since 1993, they track an index, so think about this, like the S&P 500 I mentioned before. S&P is a huge index provider. Morningstar, Dow Jones, MSCI, all these different index providers, you know, you have ETFs that track these indexes. So what that does, it actually provides less turnover as well within the underlying securities, so in the end, you know, you have less turnover, which in other ways makes it, you know, another way that we deliver that tax efficiency on the other side. So again, talking a little bit about these other funds that we have, you know, in terms of the tax efficiency side of it, Don, think about this. If you look over the last 10 years, right, the impact of taxes has been more detrimental to portfolio outcomes than actually management fees. Think about that. In fact you look at the large cap fund universe, and the average fee, the average fee is approaching roughly 0.90 -- so almost 1 percent, just under 1 percent, 0.9 percent. And the average tax cost in that period is around 1.8 percent. So basically, twice the cost of a management fee. So tax efficiency has become a

huge driver of people buying ETFs. And I think this is really important to mention when you're talking about why people are buying ETFs, why we've seen this major growth. But also on this slide, guys, it's important to look at, these are what we call building blocks of a portfolio, so IIV, IJH, and IJR, this is a really good slide, it's a little confusing, but what we always say here is that ETFs, you want to have, be able to plug into specific market caps like large cap, mid cap, small cap, but what we're doing is, and I mentioned index providers, stick with the same index providers. So if you're using S&P for S&P 500 growth, S&P 500 exposure, if you want to add mid caps and small caps, stick with S&P indexes, because guess what? You're getting zero overlap between all of those securities, and if you see on the right, some people get this unintended risk in their portfolios by investing in a bunch of different index providers, and what that does, it gives you overlap. And you may have unintended risk where you're overexposed to large caps, or mid caps, or small caps, things like that. So I think this is an important slide to focus on when you're investing in ETFs, again, you know, keeping it with the same index provider and maintaining that exposure over time.

Don Raymond: That's excellent. If we can Mike, can we go to the next slide again?

Okay, perfect. You talked about, you talked about composition, and low cost,

and tax efficiency. Go a little bit more around how they work, and a little bit more here diving into like the composition itself of the funds.

Mike Keating: So Don, I think it's all about, to me, it's diversification. It's a basket, again, a basket that you can, you know, trade throughout the day. The other thing around this is transparency. So here, we're just showing, you know, the top five holdings of each of these. You can actually go in on Fidelity.com and you can actually pull open the portfolio and see exactly what it's invested in, down to the percentage. So, I think a lot of that growth also around tax efficiency, transparency, low cost, this all funnels into, you know, why people are buying ETFs as well. So, this is a good slide to bring up. But Don, I don't know if you can show, if you go to the website, you could show people how to actually do their homework to find this, I think that would be a good thing to do, if we can do that as well.

Don Raymond: Yeah, absolutely. Let's go into that, let's go to the Fidelity page for a minute, and I'd love to see if I can get a few questions, too, where can we go for the homework, where can we find some of these funds, where can we put some of this to work? And then from there we'll dive a little bit deeper into some of the other types of funds, too. I'm going to take control just for a second and go to the Fidelity page. So while I do that, I will just remind

everyone, the links and the examples, and what we've shown so far, there is a link to the slides, feel welcome to click on that link, and you can download any of the slides that you'd like to keep. And I'm going to take over for a second here and just go back to Fidelity.com. I am going to be on the Fidelity test account, so this is one of our accounts that I'll be using for our example here today. Now Mike, there's a few things on here that I'll show, but primarily, most of what we talked about is going to be found under here. So news and research, and then ETFs. This is the Fidelity ETF research center, there's a lot of different things that we can do in here. The first thing that I'm going to share though is if I did want to find funds by symbol, or by fund name, you know, I can type in the letters or the fund name, and hit enter, and that'll put me to the research page. But before I do that, I also want to show some of these tiles, and I want to go into a few of these screens here. So, we talked about some of these different building blocks by market cap. If I click into here Mike, I can go in and I can see different funds by different market caps. So I could look at multi cap funds, large cap funds, mid cap funds, and I'll click on large cap to start. And if I did want to find some of those funds, you can see what I can do here, and the ways that I can search. Now if I also wanted to overlap other criteria, I could do that, too. Let me show you some of the criteria that are available here. So under basic facts, I could look at things like net assets, we know that that's important, that expense ratio. So for example,

if I click on expense ratio, I'll get a full list of all the expense ratios on the right, but if I did want to filter that by some of the lower ones, with the lower expense ratios, I can do so. And these are all sortable columns that I can pick and choose from, too. Now if I also wanted to add in net assets to that, you can see, I can do the same thing, if I wanted the funds with the most assets in there, you know, like same thing, I can click and sort and over filter that in, too. Now other type of criteria that I have, just to show investors the type of choice that you have, I can look by style box, you know, sometimes I talk to investors that like to look at value, growth, a blend of the two, small cap, mid cap, large cap, we can do that or add that on later on into the filter, because I don't have to start with large cap. Other trading characteristics, that can all be filtered in. And I know a common one that I get asked about from investors, Mike, is can I add a rating in, like a Morningstar? And the answer is yes, and I know that more and more funds have been added to the ETF lineup over time, Morningstar's backwards looking, right? So we're going to have a Morningstar rating if the fund has been around long enough to be rated by Morningstar. This'll dive in a little bit into the way of the search, or how we can find funds. But if I want to look at some of the information that Mike, you talked about, I would either just click on the symbol, or I would go in and just type it in on the page we started at. Before I go into some of the research, I do want to share that we do make updates to the Fidelity research page, and as we do, we

always try to make it available so that you can go into the new research as we add to it, and then you can go back as you're learning the page. And on the new page, there's always the space to be able to add feedback, if there's anything you like about it that you want to keep, or if there's anything that we can add to maybe make it a little bit better, feel welcome to share your thoughts, those are all within here, in the new research page, or you can see on the right there, there's a feedback button that you can use at any time, too. So Mike, let's stop and let's go through a little bit of the research here, and then I'm going to go back to the deck, because I know there was a few more talking points there of some additional types of funds that we want to talk about how and why we might consider adding them to a portfolio with some broad-based funds.

Mike Keating: Hey Don, real quick, just to mention here, I think it's important to bring this up, because some of the questions we get are, you know, how do people use ETFs, like you know, how should I use the ETF? It's different for every investor. So we see investors that use 100 percent of their portfolios based in ETFs. We see investors that use ETFs simply as, you know, building blocks to fill the gaps within a portfolio. We see people that use ETFs that blend ETFs with mutual funds, or individual stocks. So I think it's important to mention that, and it's all different. And Don had mentioned before, hopefully

everyone has spoken to your advisor, or your financial consultant at Fidelity, I think that's really important as well, or your regional brokerage consultant, like Don, because I think just getting that relationship will also help, you know, learn more about these things, and just learn the Fidelity system, as well.

Don Raymond: Great, thank you Mike. And moving on here, just taking a look at some of this core information that's available to us, if I wanted to do my homework on a fund, you'll be able to see here the most recent price, the 52-week trading range. We can see the volume, and we talked about net assets. Generally speaking, the more assets in the fund, the more volume. And remember, ETFs trade like a stock, right? That's one of the differences between an ETF and a mutual fund. So volume and net assets can be an important characteristic. It wouldn't be the reason you pick an ETF, but those could be some of the characteristics that you consider when you're comparing similar funds. Here we have the yield, so if you're looking at distribution yield, you can find that here, too. And then of course, net expense ratio in 52-week performance. Mike, if I scroll down a bit, I can look at the prospectus, and I can look at the fund objective. And then of course, it trades like a stock, so it charts like a stock. So when I think about my analysis or my research on how I might be putting my portfolio together, or how I might be making changes to my portfolio, if you do like to look at historical performance of a security or a

fund, this is a great place to go there. And this chart is interactive, so I can change the timeframe, and I can add comparisons. So if I want to compare another security to here, or if I want to compare another fund, like the ITOT, or a thematic fund that I know you were chatting a bit about, those can be brought in here, too. Scrolling down just a little bit more, I'm going to share maybe one more thing Mike, and then I'm going to take us back to the presentation. We did talk about ETFs being transparent, this is the place I would go to for that, Mike. So when I think about what does the fund own, it's nice that you have all the top 10 holdings, and you can see the weight of them. So I have the top 10 holdings, and these top 10 holdings represent about 28, 29 percent of this fund. But if I want them all, they are available for me here. Let's go back to the presentation if we can, and I'd love to go onto the next slide. And then while we do that Mike, anything that you want to share up on here next, please feel welcome to.

Mike Keating: I was just going to get into, you know, what -- I think there's, you know, we talk a lot about broad-based ETFs, right? And like I said before, this is giving investors access to, you know, a diversified mix of, you know, market cap weighted indexes, flagship indexes, low-cost, but the other area of growth outside of just broad-based ETFs have become, you know, what I said before, like these more, these niche-y or pinpoint exposures, or these new ETFs, you

know, and a suite that I would like to highlight here is what we call megatrends.

Don Raymond: So –

Mike Keating: Yeah, go ahead Don.

Don Raymond: No, so what I was going to say then Mike is you know, starting with that core, starting with that broad, and talking a bit around some of the different ways that we can use them, I know you did mention that there are some other products, and I can see some other products here on the screen. This is where I'd love to hear not just about some of these funds, but you know, what could, what are some of the potential benefits of these?

Mike Keating: Oh, well. So, all right. So basically, as you guys can all see here, what we call this suite is what we named megatrends. So basically, these are what we've noticed or what we've come to realize are long-term trends that are transforming the way we live, really. The way we live and work. So, these are what we call megatrend exchange traded funds, and what we're trying to do here is capture a targeted group of stocks that are well positioned to benefit from shifts in technology, society, the environment, demographics over time.

So for all investors, megatrend ETFs are a transparent and easy way to own these types of trends. And also, it's getting you away from having to, or removing the need to pick a single stock winner, or have, you know, have that single company risk. So, we've built these out for investors, these have become very popular, and they're a way to access these types of markets.

Now you see, under here you can see anywhere from robotics, to self-driving cars, to clean energy, you can get all of those individually, but you can also own all of them through an ETF with the ticker XT. So, what we're doing is we're basically packaging all of these trends into one, so Don, like you know, we mention this all the time, are you an investor that wants to be more hands-on, right? Do you have, are you, you know, do you like to research this stuff? Which is great if you do. But if you don't, you just want access to it, hey, it might make sense to just, you know, maybe invest in just one that owns the entire suite, but again, if you'd like to do the research, you have specific views on the markets, or on specific trends, then you can kind of use individually these ETFs that will give you access, and I think it's that, it's a way that investors are using these to kind of fill the gaps in, to try to invest in some of these new trends, these new markets and things like that. So this is an area, again, we wanted to kind of highlight this because we do get the questions on, you know, broad-based ETFs are great, those are the building blocks, how can

I invest in more of these long-term, you know, trends that we're seeing in the markets?

Don Raymond: Mike, we covered this in a previous session, but I know there's a lot of new attendees here now, and we greatly appreciate you joining, and everyone that's on the session, thank you. But one of the topics that came up before, and I know we got a lot of questions about it, so I'd love to ask again for anyone new, income producing ETFs, any types of choice there, anything that investors should be thinking about, any thoughts that you want to share on that topic?

Mike Keating: Yeah, and Don, this might be a good area when you want to, like on the website, where we can access the iShares landing page on Fidelity.com, but I love this, because the beauty of the ETF industry is simply choice. So it's giving investors choice on what they want to invest in, really if you're an investor that's looking to generate income, if you're, you know, if you're in, if you're approaching retirement. You know, if you're, just simply want the income in your portfolio, there's several ways to do that through an ETF. Two ways, right? So you have bond ETFs, as we all know, bonds pay coupons, there are bond ETFs that pay monthly income. These could be bond ETFs ranging anywhere from investment-grade bonds, municipals, high-yield,

international bonds, Treasuries. You basically have all those different types of ETFs that as an investor, and based on your goals, and your views, and your time horizon, you know, building out your portfolio to potentially access some of that, it's really up to you, but those are ways that you could do it. And the thing I wanted to talk about, we talk to a lot of investors around why are they using, you know, ETFs to generate that income? And what many of them will say, and what we would always say, is it provides you with diversification. It's giving you a basket of securities, so you're diversified. So, it's taking away that either single company risk, or single bond risk, and two of the ones to highlight is on the stock side, on the equity side, Don, which is our ETFs that own a basket of dividend-paying stocks, so a lot of people don't know that these are out there. You can own an ETF that just invests in dividend-paying stocks, it pays out a quarterly dividend, and it's diversified. So you're moving away from that single company risk, and you're getting a diversified mix. Now I'm not saying that doing it individual stocks is a bad thing at all, but if you're the type of investor that wants to take some, that you know, you're hands off, you want to do other things, you don't necessarily want to do the research on these companies, then maybe a good opportunity is to investment in an ETF for diversification.

Don Raymond: Mike, you mentioned the iShares landing page, and I know there's some great Fidelity fund examples there, too, and I will point out to our investors that are on the presentation today that again, another benefit of being a Fidelity customer is, of course, the education that we're providing here today, but when you're thinking about ETFs, you do have access to the ETF universe, so any time we're in that screener, or any time you want to do research on a fund, the universe of ETFs are available to you. But Mike, I'm going to take investors to that landing page that you chatted about. I talked a little bit about it in previous sessions, but we haven't gone to it until now, so for anyone that was on the previous page here too, now we've gone here, we've spent a lot of time on news and research in ETFs. Now we're going to go to investment products. This is going to just talk more about the offering here through Fidelity, and there are some examples here, so investors do enjoy being able to come over to this side of the page, also. So I'm going to come to investment products and ETFs. And again, it's going to tell you more about the why Fidelity, great value, a lot of choice, and then of course, the expertise of being able to work with our team and using our platform to put it to work for you. But let me click here on the iShares page Mike, that we're chatting about, and then there are a few examples here that I'll give you the opportunity to share any talking points you want to provide, too. And also,

that question that we had around the income piece, there are some examples here, too.

Mike Keating: Yeah Don, I think this is a great page for investors, if you're doing ETF research, if you're looking for specific areas of the market. Again, if you're the type of investor simply looking to maximize growth or, you know, putting some cash to work, these are simple ways that you can do it through an ETF, and you know, what we wanted to do is we targeted the six really areas where we're seeing the most interest from investors, which is again, maximizing growth, generating potential income, putting cash to work, you know, so these are really good examples of ways that you could do that. One example, Don, is DGRO, what we call DGRO. Again, this is an ETF that invests in dividend growth companies. So these are, you know, the stocks that are in this ETF, there's a rule that these stocks have to be dividend, they have to grow their dividends. So those are the only types of companies that are in this portfolio, which is really cool, because if you're a client that likes that, you know, you can invest in this. And then there's also, outside of this, there's other ETFs that are dividend-based that are not necessarily dividend growth companies. There are other, you know, more high dividend paying companies through a portfolio like HDV. So again, it gives you a lot of choice here, it kind of sets

you on a path, and I think it's a good way to potentially do your ETF research on the Fidelity.com website.

Don Raymond: Mike, as investors are looking at yields, and I know one of the things we talked about a bit was tax efficiency. I'm going to go through and show just where some of that information exists on here. So first, you know, here's your distribution yield, trailing 12 months, and then your SEC yield, 30-day yield, that's taking the current yield and annualizing it out. So when you're looking at a lot of your bond funds, like for example if we pulled up, let me go to, what was the fund on there, AGG was the example on that page? You'll see the trailing 12-month yield here is 1.8, and the SEC yield is the 2.03, because we know that rates have gone up. If we looked at the last 12 months, and then we looked at the last 30 days, we know rates have gone up a bit, and you're seeing that yield being annualized out as of what the yield is looking like in the last 30 days. Going back to the DGRO and going to find, you know, where is some of that income, what are the distributions? As I scroll to the bottom of our page, and I'll try not to go too fast as I'll give investors the opportunity to look through at some of the information here, and we will get to some questions, and we'll get to, I think there's a handful of slides left, we'll get to those. But any questions you have on these pages here, feel welcome to send them over to us, and they'll add it to the questions that we have here.

But down at the far bottom, Mike, is where the distribution information exists. So when I click here on distributions and expenses, and I'm going to zoom this page, because I know the font on this page is slightly small. But what I'm getting here now is, I have a history of the distributions that are paid, and they're being color-coded, so the green are the dividends, that orangish red color there are long-term capital gains, that yellowish color is the short-term capital gains, and then of course the purple color is the return of capital. And what we like to see here, right, is it's all green. We don't have long-term cap gains, we don't have short-term cap gains, or return of capital from this fund over this timeframe. I'm a person that likes to see it in a table view, so being able to see like this gives you the opportunity to do your research, not just on the fund itself, but to also be able to see the type of distributions that the fund has distributed. If we can, let's go back to the presentation, I know there's a slide or two that we want to finish up with, and then I would, I'd love to open it up for some questions. Mike, while we go into that, I'm actually going to hand you a question or two while we go back to the presentation. One question that we got in was about one of the funds that you talked about, ITOT. It says, is buying ITOT the same as buying like, one third of IIV, IJH, and IJR?

Mike Keating: That's a good question. So, ITOT is a makeup of certain large cap, mid cap, small cap companies. But it's basically not the underlying ETFs that

are in the portfolio, you're going to have, it's a, you know, it's an index called the S&P Total Market Index. So, it's going to be a little bit different. The other thing we might want to talk about, Don, is the liquidity, in terms of how you -- because I think this is getting also to how you buy these ETFs, and you know, in terms of bid/ask spread, and things like that, because they're a little bit different from, obviously, mutual funds, that might be something to mention. But the underlying portfolio of ITOT is, it's all stocks, and it's represented across over 3,500 individual stocks.

Don Raymond: Let's take a look at that, actually there's a spot on the Fidelity page where I can do a bit more on there, so I'm actually going to, before we go back to any other slides, I actually want to show where you can see that type of information, so here's another way to open up a fund, you know the fund name, or you know the symbol, just type it in on the top right, hit enter, brings me to the page. This is one of the other things that's neat about the website is now, as I scroll down to the page, this was one of the things we didn't hit on, but as we scroll down to the page and we look at, here we are. So if I have a regional exposure, I have sector and industry exposure, Mike, but I can also see the market cap exposure right here too, so this is a really nice slide that I think that does a good job of helping answer that question, too. Let's go to that next, if we can, let's pull up that, the second or third slide that has the

asset allocation funds. Mike, I'll let you talk to that. And then while you do that, I'm going to take a look at a few of the questions here that we can go over together.

Mike Keating: So look to the right, I think this is another really good thing to bring up here, what we call asset allocation ETFs. So these are ETFs that own a basket of iShares ETFs. And they range anywhere from a conservative mix, or a conservative allocation, a moderate allocation, a growth allocation, to an aggressive allocation. So this slide here gives you the range kind of, of how hands-on you want to be. On the left-hand side, if you want to be the type of investor that you want to kind of overweight large cap, or overweight mid cap, underweight certain areas, you can do that dialing up or down that exposure, but if you're the type of client that just simply wants to be hands off, if you want to kind of set it and forget it, in a way, you can invest in any one of these ETFs, AOK, AOM, AOR, AOA, and basically what these ETFs do is they rebalance for you twice a year. So for, you know, 0.15 percent, you're getting an ETF that holds a portfolio of ETFs within it. So kind of an interesting way of actually talking about broad-based ETFs, this is as broad as you can get here. So I think that's a good thing to bring up. And again, ways that we see other investors that are more hands-off investing in ETFs.

Don Raymond: Mike, this is a question that we get quite a bit. And we usually get it more towards the later end of the presentation, right, because we've talked a lot about, you know, potential benefits of ETFs, transparency, potential tax efficiency, low-cost, but we do get the question from time to time, you know, what are some of the disadvantages, right? What are some of the bigger disadvantages of ETFs? If there are a few things that you want to throw out there. And while I do that, I'm going to take the Fidelity page back, and I got a few things that come to mind with that question, too.

Mike Keating: It's hard for me to talk about it. (laughs) I don't know what, Don, I would say it depends on the investor. So if you're an investor that is, you know, traditionally like a mutual fund investor, you don't need to buy or sell, you know, you don't need that extra option of trading it throughout the day, things like that, then I don't know if it's a negative or a drawback, but maybe you're more comfortable, you know, in an index mutual fund, right, that just, you know, trades once a day. You don't necessarily need something where you're buying and selling it every day. The other thing to mention here real quick, with ETFs, everyone thinks just because they trade on the exchange, active traders use them, that's not the case anymore. That was the case a long time ago, they were actively managed, but now it's become, investors hold them for the long-term. But again, I think again, it's not necessarily a drawback

or a negative, it's just the type of investor you are. Some investors we've seen just say you know what, I'd rather just go in a fund for that exposure. But, I think some investors don't necessarily want to have to go in and look at bid/ask spreads, right, or place a market order, something like that. You know, with all the ETFs that we talked about here, most of them you can just simply go in, place a market order, you'll get filled right away. There's other niche-y, very pinpointed exposure that you may want to do some research on the liquidity of that ETF, but that could be another, not necessarily a drawback, but just something that investors might just want to say hey, I just want to put an order in and get filled with a mutual fund company, instead of necessarily the ETF.

Don Raymond: So I'm thinking some of the same things there, Mike. So first and foremost, right, you know, make sure you have the right plan, and any time you have the right plan, then you can find potentially the funds that fit what you're looking to accomplish by doing some of the research on our platform. You know, sometimes I get the question first, then you know, what are the benefits of an ETF? And we talk about transparency and potential tax efficiency, and the low cost. But of course tradability is one of the potential benefits, because you have the intraday liquidity. But then sometimes when we get this question, you know, what are some of the potential disadvantages,

that could potentially, like you said, be a benefit or a disadvantage is the intraday liquidity, because they trade like a stock, they chart like a stock, so it's just the complexity of the equity market. If you're comfortable trading in and out of the equity market, then it's really not a disadvantage at all. But if you're not comfortable trading in and out of the equity market, then just understanding those things like order types and liquidity, it's just going through and getting the core fundamentals of how ETFs work first. You know, understand the product first before you make the investment. And as you go through those exercises and understand the complexities or just the potential fundamentals of understanding how ETFs work at the foundational level, that just puts you in a better position to make the right decision for you as you're, you know, managing part of your wealth through our platform. Let me jump into another question, Mike, and let's see what we got here next. There's a lot in here, so we're going to try and get to as many as we can. And what I like about this Mike is I feel like we do have a little bit of time to get a few questions in. Normally, when we do some of these longer slides, we have less time for questions. Now, we're going to get a few more minutes in for them here. So, can an ETF trade at a premium or discount, Mike? If so, where is that information available? Let's take –

Mike Keating: Yeah.

Don Raymond: -- is that something you want to talk to?

Mike Keating: Sure! Well, so yes, ETFs can trade at a premium and discount, and most of them actually do. And that is because the market price of an ETF is different than the underlying index. So throughout the day, there's going to be a slight disconnect between the two. Now the thing that you have to look at is this.

Don Raymond: Mike, maybe we even, maybe even want to talk about what a premium discount is too, at that level also.

Mike Keating: Yeah, so –

Don Raymond: Because I would love to, I know when I think that, that can certainly be, you know, a complex characteristic. If we can start there and then go into what they do.

Mike Keating: Yeah. So, and Don, after I go, just -- so basically, a premium discount is basically based on supply and demand, buys and sells coming in throughout the day. Based on the underlying market, that ETF could trade at either a premium or a discount, based on again, you know, supply and demand. So,

interest in the ETF. And Don, if you want to like, piggyback on that, definitely. But what I did want to say is the other thing that separates ETF providers is how well does that ETF provider track the index? That's important. So, you can find all that, you should be able to find all that on Fidelity.com, in terms of tracking

Don Raymond: Yeah, I'm on the -- I'm on the page here Mike, and I'll show everyone how I got there. So remember, there's a few ways to get the quote. So if I go to news and research, and then ETFs, remember, fund or name, I'll start by just putting in the fund symbol. And then the first page that we've spent a lot of time talking about is the quote, so we have the quote, the bid, the ask, the volume, more quote info, not always clicked on, but there's a wealth of information in here. The way I tend to explain premium or discount, Mike, right, is these are funds. There's mutual funds, and we're looking at exchange traded funds. So all funds have a net asset value. Mutual funds we know trade at one price, net asset value. Now because ETFs trade like a stock, you could potentially trade above or below net asset value. And things that tend to correlate to it is, you know, sometimes we focus on net assets, which tend to then relate closer to volume, and then when you tend to have more net assets, or more volume, you have more liquidity, and what tends to happen more often than not is, because there's a big market for a security, you tend to see

much less trading above or below net asset value, and you can see that right here, this is about as low as it can get, as far as trading above or below net asset value. And that just gets back to what we talked a little bit about earlier, right Mike? Just understanding some of the fundamentals of this as a product, and you know, some of the different ways of trading in and out of the equity market. But all this type of information could certainly be found here on our platform.

Mike Keating: Yeah, and it's also a good, you know, way of showing transparency.

So this is where you expect –

Don Raymond: Absolutely.

Mike Keating: -- to see the market, which is happening real-time.

Don Raymond: Absolutely.

Mike Keating: So I think it's a really cool way, if you really want to dig into it, this is truly what the market is doing. And again, I have to say, like you need to, you know, I would say, you know, of that 10 trillion in the ETF industry, it's highly skewed to certain providers that have been around for a long time, like

iShares, and one thing that we do pride ourselves on is how well do we actually manage the ETF? And how well do we actually track the index? That's always really important.

Don Raymond: Yeah, and that leads -- Mike, that leads right into this next question.

It's, you're almost starting to answer this next question. You know, why are larger ETF providers an advantage to investors? Can you be more agile than smaller ETFs, than the smaller providers? I mean this is going right into that type of question, if you want to just, you know, provide a little bit more to that.

Mike Keating: Well I think part of it has to do with, you know, history and how long the ETF company has been really doing ETFs. You know, we here at iShares, we've been running ETFs since roughly 1996. So we have history, number one. We've been running these ETFs for a long time, think about IVV, IVV's been around for roughly 20 years. So if you're an investor, a lot of times you want to buy, or you want to invest in, you know, something you're comfortable with. And if it's an ETF that has, that's well known, it's got good liquidity, a lot of times that's simply going to bring, you know, a lot of buyers into that specific ETF. So yes, I would say, you know, the history is a lot of it, you know, the fact that we've launched a lot of our broad-based ETFs, Don, we've had them out for a long time, so if you're an investor, we already have created, you

know, the volume and the interest in those ETFs. And you know, a lot of times that just creates more buyers and that's where a lot of the assets are coming from. Now, and I would say scale, right? So we have scale. And that helps when we're launching other ETFs out there, and the fact that if it is a smaller, more pinpoint ETF, you know, that's going to help in terms of keeping that ETF out there on the exchange, the fact that we have a very large scalable company behind us.

Don Raymond: Mike, I think, because we have a lot of investors on this call here, and we're grateful to have everyone here, and I'm sure some investors that we have on the call are new to ETFs, and then we probably have some investors here that are seasoned veterans with them and understand, you know, a lot of the complexities of different types of investments. I think what might be nice, if I could get that out, before I go to the next question, is where could I learn more, right? If I wanted to focus some of my energy in a specific area with ETFs, where can I learn a little bit more? That's not a question that we have, but I think that that could be a good value-add right here. I'm going to take us, Mike, from news and research, to Learning Center. And this is a really helpful place, and exploring through our Learning Center will help you with a lot of different topics. But one thing that I'll point out is if I go to on demand webinars, Mike, this is the library of all of our recorded webinars. And what

I'm going to point out is that I can actually sort by topic, so if I want to look at ETFs, and you can see I can sort by skill level too, you know, we could certainly spend some time on, you know, back to the basics, if I want to get some of those core fundamentals down more, or I could do something a bit more advanced if I wanted to go into more of, you know, making an impact, or looking at, you know, different ways to build the portfolio, all of this information exists, and I think it might be worth just pointing some of that out here, too.

Mike Keating: Yeah.

Don Raymond: Let me go, if I can Mike, I'm going to grab another question for us. Can you tell, can you tell how the rating is generated? I think that one came in when we were on one of the pages, and I can take this one. And I'm just using IVV, of course, as an example, for illustrative purposes. We could certainly go into a lot of different funds, but there's two different ratings. I'm sure someone noticed that there's two different ratings here. And you can actually, so you have the reports that you can click on and open on, but if I click on the rating itself, and I will make our font a little bit better, the methodology's all in here. So you can find, and dive a little bit deeper and evaluate the evaluators a little bit, if I'm saying that right, for the fact set and for the Morningstar, and

you can open the reports. Mike, I'll grab another question for you, and we're starting to get close to time, so I'm hoping we might be able to get one or two more in here. Mike, can you discuss how stocks are weighted within ETFs? Like cap, or equal, just any talking points you can provide to that.

Mike Keating: Yeah. So, it's an interesting question, and -

Don Raymond: And I can use any fund as an example, if you have a fund you want me to open up to talk to it.

Mike Keating: Yeah. I mean unfortunately it's, it's different for each index, right? So, each index provider has what we call different rules, or different criteria, depending on what the index is. Say it's a, right Don, like the S&P 500, or a large cap, you know, ETF, two index providers are going to have different rules, right? So it could be, you know, looking for specific, you know, price to book ratios, or you know, I know that there's other ETFs out there that have certain caps, cap weightings that they put on specific companies, which a lot of clients like. You know, like HDV, that's a dividend paying ETF, has specific rules for a stock to be included in that index, so it's hard to answer that question just on, you know, with one answer really, because it's all different for every index provider, the thing that people need to know is that every index,

again, has a different kind of criteria for a stock to be included in that, and that's what a lot of the, really the institutional investors actually look at. They will look at what is this index made of, what are the rules for this index, what types of stocks are in this index? One good example of that also is DGRO, DGRO, Don, where they're only including companies that grow their dividend. So again, it's different.

Don Raymond: I would-- I will point out, we haven't gone to this page, and then we'll probably just take one more question, Mike. I will point out this page here on the "See More." You know, you get a lot of fund characteristics, fund objectives, this is that more, almost like that more traditional mutual fund research page that we look at, and you can see this information. But let's take one more question on here.

Mike Keating: Hey Don, did you go to the -

Don Raymond: And this one -- go ahead.

Mike Keating: Okay. Because I saw before the sustainable ETF, so I saw we, we kind of hovered over that, but that's something to also mention, I just want to throw that out there, that another growth area within ETFs has become more of

these ESG-weighted portfolios, so something to be, you know, in the know on, if you're interested in that, there are, you know, what we call sustainable-based ETFs that are on the market now, that are, you know, we're seeing a lot of interest in, as well.

Don Raymond: So, one last question Mike, and then to keep on time. We do have a question on the bond ETF side now. If you can talk a little bit to how bond ETFs handle distributions on that side. And I'll pull up a bond fund, and I can go through and show where the distributions exist.

Mike Keating: Yeah, so with bonds, there's all different kind of bond ETFs, you can go anywhere from short maturity ETFs to longer maturity ETFs that own bonds that mature, you know, further out on the, you know, on the curve, you have high-yield bonds, but basically, these ETFs are payout coupons on a monthly basis. So depending on the underlying bonds within that portfolio, as an investor, again, all of them are going to have different yields, because they're all going to be different in terms of what types of bonds they hold. But some really interesting ways of, again, generating income. But the bond ETFs pay out monthly, Don.

Don Raymond: I pulled up a page here Mike, real quick, to show some of the fund characteristics. So any time you are looking at a bond fund, you will get this type of information. And then also, like before, we do have the distributions and expense page, where we can go in here and see that similar information as the equity fund that we were looking at. Mike, lot of information, I can, I mean I'm sure every knows now, you can tell the type of experience that you have in this space, so we can't thank you enough for your insight, your comments, your thoughts. I do want to stop and thank all of our customers for attending today, Mike, we know that all of the time is valuable. And thank you everyone for attending, we appreciate your business.

Mike Keating: Thanks everyone.

END OF VIDEO FILE

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