

# Measuring municipal bond separately managed account (SMA) performance

## How should I evaluate the performance of my municipal bond SMA strategy?

We believe the most effective way to evaluate performance is to look at how your account is doing compared to your goals and the strategy's objectives:

- Are the investments in your account high quality and rated as investment-grade bonds?
- Does your account provide predictable, federally tax-exempt income?
- Are you experiencing a limited amount of risk to your principal investment?

As an SMA client at Fidelity, you benefit from a personal approach to professional management. Your investment team actively manages the bonds in your account by providing extensive research analysis and utilizing efficient trading capabilities. In addition, we provide ongoing credit quality monitoring and manage the risk exposure of your portfolio.

## Should I use indexes to evaluate how my portfolio is doing?

In general, indexes can serve as good benchmarks for your portfolio. They can provide an important perspective on how an investment strategy has performed over time, and how it is currently positioned:

- Benchmarks are especially meaningful when they share similar characteristics (e.g., sector allocations, credit ratings, or geographic details) with the portfolio, allowing for a more relevant comparison.
- It is also important that the underlying securities in the benchmark can be bought and sold in the open market. If the benchmark contains securities that are very similar to an actual portfolio, it helps to make the performance comparison more realistic and meaningful. Equity and corporate bond indexes, for example, are generally well suited as performance benchmarks. This is because equities and corporate bonds are heavily traded, making it easier for portfolios to track the indexes.

## What makes municipal bond indexes different?

Municipal bond indexes have some important limitations:

- **Municipal bond indexes tend to have different characteristics compared to actively managed portfolios.** This is because the indexes are generally created using very specific rules-based, quantitative criteria. Also, index providers do not perform research or analysis on bonds or bond issuers. As a result, municipal bond indexes tend to have higher weightings to issuers with higher amounts of debt, and lower credit profiles. Bond managers typically look for issuers with *better* credit quality and *less* debt.
- **Municipal bond indexes are not easy to replicate.** Municipal bond indexes contain thousands of bonds that are difficult to acquire and/or are rarely traded.

## Why do the municipal bond SMAs have benchmarks?

The portfolio managers for the municipal bond SMAs offered at Fidelity primarily use the benchmark to compare and analyze your account's positioning, with a focus on bond characteristics, such as duration.<sup>1</sup> Duration, quoted in years, measures a bond's or bond portfolio's level of interest-rate sensitivity. The duration of these strategies has generally remained within close range of the duration of the benchmark.

Here are additional details on the key differences between the municipal bond SMAs at Fidelity and the chosen benchmark.

Municipal Bond SMAs at Fidelity	Bloomberg Managed Money Short (1-5) Municipal Bond Index & Short/Intermediate (1-10) Municipal Bond Index
<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>• Invest in liquid securities that trade with some frequency</li> <li>• Hold 20–80 bonds, on average, per portfolio</li> <li>• Provide active professional management and portfolio construction</li> </ul>	<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>• Not investable</li> <li>• Contains thousands of bonds</li> <li>• Contains many bonds traded too infrequently for reliable pricing</li> </ul>
<p><b>Sectors</b></p> <ul style="list-style-type: none"> <li>• Tend to have lower weighting to state General Obligation (GO) bonds</li> <li>• Tend to have higher weighting to revenue bonds</li> <li>• Avoid or limit industrial development bonds</li> <li>• Permit hospital bonds</li> <li>• Permit housing bonds</li> </ul>	<p><b>Sectors</b></p> <ul style="list-style-type: none"> <li>• More exposure to state GO bonds</li> <li>• Less exposure to local GOs</li> <li>• Includes industrial development bonds</li> <li>• Excludes hospital bonds</li> <li>• Excludes housing bonds</li> <li>• Excludes tobacco</li> </ul>
<p><b>Credit exposure</b></p> <ul style="list-style-type: none"> <li>• Permit, but limit, exposure to single A–rated or BBB-rated bonds, depending on the SMA strategy</li> </ul>	<p><b>Credit exposure</b></p> <ul style="list-style-type: none"> <li>• Bonds must be rated Aa3/AA– or higher by at least two of these major rating agencies: Moody's, S&amp;P, or Fitch?</li> </ul>
<p><b>Transaction costs &amp; fees</b></p> <ul style="list-style-type: none"> <li>• Include transaction costs in performance</li> <li>• Display net-of-fee performance</li> </ul>	<p><b>Transaction costs &amp; fees</b></p> <ul style="list-style-type: none"> <li>• Transaction costs not included in performance</li> </ul>
<p><b>Taxes</b></p> <ul style="list-style-type: none"> <li>• May consider tax impact of trading activity</li> <li>• Offer certain state-preference portfolios for increased potential of in-state income tax exemption (varies by state and by SMA strategy)</li> </ul>	<p><b>Taxes</b></p> <ul style="list-style-type: none"> <li>• Does not consider the tax consequences of removing bonds or the potential tax advantages from in-state investment.</li> </ul>

The various differences listed above understandably may cause your portfolio to perform above or below the benchmark at any given point in time. However, while no index perfectly matches the municipal bond SMAs at Fidelity, we believe the chosen benchmark provides an appropriate comparison for your portfolio.

Please reach out to your Fidelity representative if you have any questions or concerns, and to help ensure that your account remains in line with your financial situation and long-term goals.

<sup>1</sup>Duration is a measure of a security's price sensitivity to changes in interest rates. Duration differs from maturity in that it considers a security's interest payments in addition to the amount of time until the security reaches maturity, and also takes into account certain maturity-shortening features (e.g., demand features, interest rate resets, and call options) when applicable. Securities with longer durations generally tend to be more sensitive to interest rate changes than securities with shorter durations. A fund with a longer average duration generally can be expected to be more sensitive to interest rate changes than a fund with a shorter average duration.

<sup>2</sup>There are credit rating agencies that analyze the creditworthiness of a company or security and indicate that credit quality by means of a grade, or credit rating. In the United States, major rating agencies include three Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's Investors Service, Inc. (Moody's), Standard & Poor's S&P Global Ratings (S&P), and Fitch Ratings, Inc. (Fitch).

**Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.**

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

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Information provided is general in nature. It should in no way be considered investment or tax advice. Investment decisions should take into account the unique circumstances of the individual investor. Consult an attorney or tax advisor regarding your specific legal or tax situation.

In general, the bond market is volatile, and 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. Any fixed income security sold or redeemed prior to maturity may be subject to loss. The municipal market is volatile and can be significantly affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities.

Indexes are unmanaged. It is not possible to invest directly in an index. Securities indices are not subject to fees and expenses typically associated with managed accounts or investment funds.

The Bloomberg Managed Money Short/Intermediate (1-10) Municipal Bond Index is a component of the Bloomberg Municipal Bond Index, a rules-based, market value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated Aa3/AA- or higher by at least two of the following ratings agencies: Moody's Investors Service, Inc. (Moody's); Standard & Poor's S&P Global Ratings (S&P); or Fitch Ratings, Inc. (Fitch). If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Aa3/AA-. The bonds must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, must have been issued within the last five years, and must be at least one year from their maturity date. Alternative minimum tax (AMT), hospital, housing, tobacco, and airline bonds, along with remarketed issues, taxable municipal bonds, floaters, and derivatives, are excluded from the index.

The Bloomberg Managed Money Short Term (1-5) Municipal Bond Index covers the investment grade USD-denominated tax exempt bond market. It is a subset of the US Municipal Index and includes only bonds issued within the past 5 years. Bonds must have an index rating Aa3 and above. Bonds whose purpose is for health care or housing are excluded. The index was created in April 2005 with monthly data backfilled to its inception date of July 1, 1993

**Fidelity® Strategic Disciplines provides nondiscretionary financial planning and discretionary investment management for a fee.** Fidelity® Strategic Disciplines includes the Breckinridge Intermediate Municipal Strategy, Breckinridge Limited Duration Municipal Strategy, Fidelity® Intermediate Municipal Strategy, and the Fidelity® Limited Duration Municipal Strategy. Advisory services offered by Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. Strategic Advisers, FBS, and NFS are Fidelity Investments companies.

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