MARCH 2017

DISCOVERING ETFS FOR THE CURRENT ECONOMY

Discover the basics of exchange-traded funds, how they may perform in today's economy, and where to learn more on fidelity.com

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AGENDA

Introduction to ETFs

How Do ETFs Compare to Mutual Funds?

Potential for Change in the Marketplace

Factor Investing

Tools/Resources

What Is an Index?

An Index…

- IS designed to measure a particular market or a portion of it
- IS NOT a direct investment vehicle and is unmanaged

A FEW OF THE BIG U.S. INDEXES INCLUDE:

- Dow Jones Industrial Average
- S&P 500®
- Nasdaq Composite
- Barclays U.S. Aggregate Bond

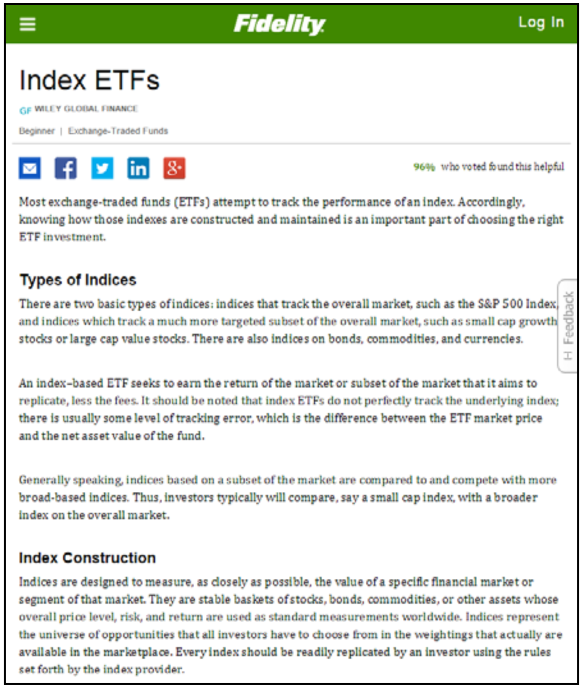
Keep in mind, there are thousands of indexes tracking nearly any market. Most exchange-traded funds track an index.

Indexes are unmanaged. It is not possible to invest directly in an index. Please see important information page for index definitions.

An Index Fund…

- Allows investors to invest in securities representing market segments
- IS passively managed

PASSIVE MANAGEMENT	ACTIVE MANAGEMENT
• A fund's portfolio attempts to replicate the performance of a market index • Also known as "index investing"	• A strategy where the manager makes specific investments based on research and analysis with the goal of outperforming an index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Index ETFs

GF WILEY GLOBAL FINANCE

Beginner | Exchange-Traded Funds

96% who voted found this helpful

Most exchange-traded funds (ETFs) attempt to track the performance of an index. Accordingly, knowing how those indexes are constructed and maintained is an important part of choosing the right ETF investment.

Types of Indices

There are two basic types of indices: indices that track the overall market, such as the S&P 500 Index, and indices which track a much more targeted subset of the overall market, such as small cap growth stocks or large cap value stocks. There are also indices on bonds, commodities, and currencies.

An index-based ETF seeks to earn the return of the market or subset of the market that it aims to replicate, less the fees. It should be noted that index ETFs do not perfectly track the underlying index; there is usually some level of tracking error, which is the difference between the ETF market price and the net asset value of the fund.

Generally speaking, indices based on a subset of the market are compared to and compete with more broad-based indices. Thus, investors typically will compare, say a small cap index, with a broader index on the overall market.

Index Construction

Indices are designed to measure, as closely as possible, the value of a specific financial market or segment of that market. They are stable baskets of stocks, bonds, commodities, or other assets whose overall price level, risk, and return are used as standard measurements worldwide. Indices represent the universe of opportunities that all investors have to choose from in the weightings that actually are available in the marketplace. Every index should be readily replicated by an investor using the rules set forth by the index provider.

Feedback

Where can I learn more?

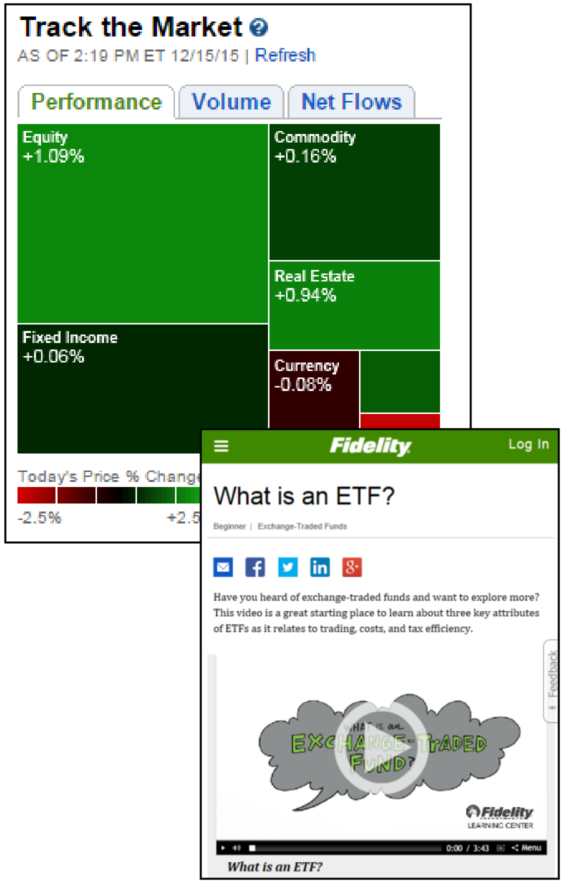
Research > Learning Center > [Index ETFs]

Images are for illustrative purposes only.

What Is an Exchange-traded Fund?

An Exchange-Traded Fund (ETF) Is…

- A basket of securities designed to offer exposure to a certain segment(s) of the market
- Can be either passively, enhanced or actively managed—most are passive
- An exchange-traded product



HAVE YOU HEARD OF THESE PASSIVE ETFS?

- **SPY:** tracks S&P 500®
- **IWM:** tracks Russell 2000®
- **QQQ:** tracks Nasdaq-100
- **AGG:** tracks Barclays U.S. Aggregate Bond

Where can I learn more?

Research > Learning Center > What is an ETF?

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Why Use ETFs?

Product Features that Are Driving the Popularity of ETFs

ETF

DIVERSIFICATION
a way to build a portfolio that meets specific asset allocation goals

TRANSPARENCY
Typically disclose holdings daily

PRICING
Continuous pricing and trading throughout the day

LOWER COST
Potentially lower expense ratios

TAX EFFICIENCY
lower portfolio turnover and the ability to do in-kind redemptions

How Do ETFs Compare to Mutual Funds?

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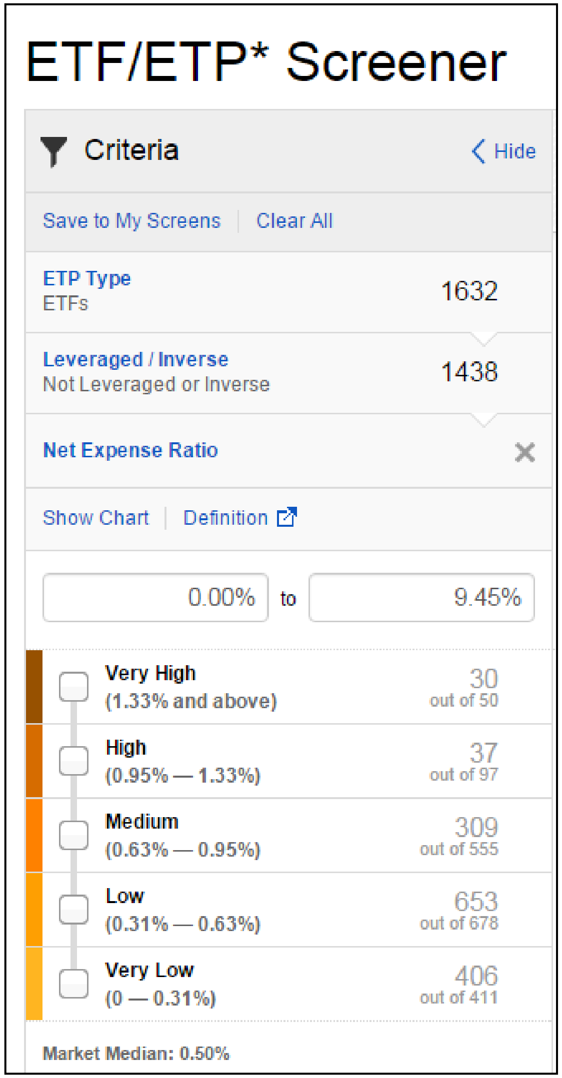
Things to Know about COSTS

ETFs

- Expense ratios
- Commissions (may be waived)
- Bid-Ask spreads
- Premium/Discounts

MUTUAL FUNDS

- Expense ratios
- Load and no-load
- Bought/Sold at NAV (may have redemption fees)
- Bought/Sold at NAV (no load funds)



Where can I learn more?

Research > ETFs > ETF/ETP Screener

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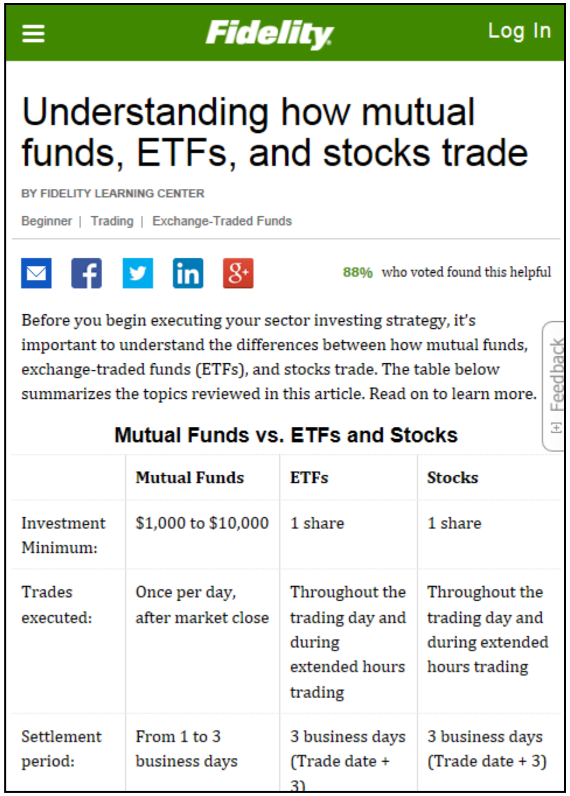
Things to Know about TRADING ATTRIBUTES

ETFs	MUTUAL FUNDS
• Intra-day trading on secondary market • Allows Limit, Stop and Conditional Orders • Allows Shorting and Margin	• Most transact once a day at close • No Limit, Stop or Conditional Orders • No Shorting (Margin 30 days)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Understanding how mutual funds, ETFs, and stocks trade

BY FIDELITY LEARNING CENTER

Beginner | Trading | Exchange-Traded Funds

88% who voted found this helpful

Before you begin executing your sector investing strategy, it's important to understand the differences between how mutual funds, exchange-traded funds (ETFs), and stocks trade. The table below summarizes the topics reviewed in this article. Read on to learn more.

Mutual Funds vs. ETFs and Stocks

	Mutual Funds	ETFs	Stocks
Investment Minimum:	$1,000 to $10,000	1 share	1 share
Trades executed:	Once per day, after market close	Throughout the trading day and during extended hours trading	Throughout the trading day and during extended hours trading
Settlement period:	From 1 to 3 business days	3 business days (Trade date + 3)	3 business days (Trade date + 3)

Feedback

Where can I learn more?

Research > Learning Center > Understanding how mutual funds, ETFs, and stocks trade

Images are for illustrative purposes only.

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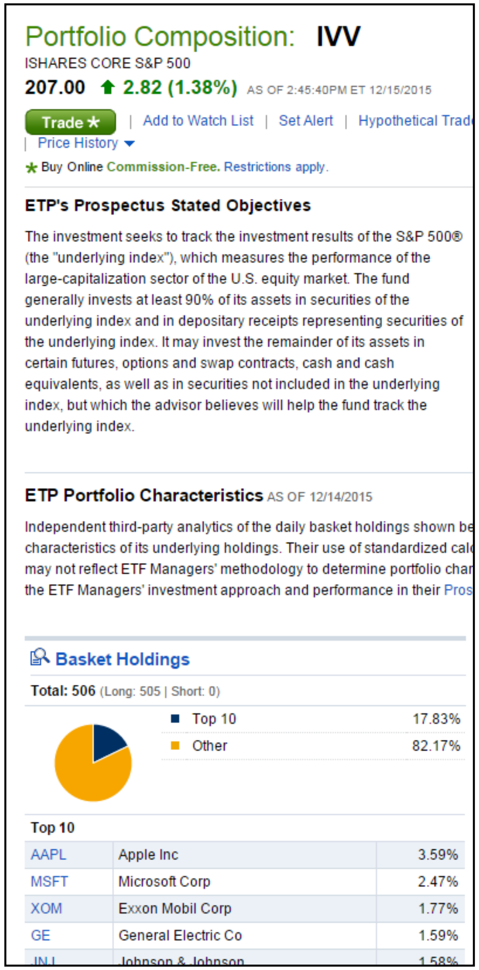
Things to Know about ACCESS, TRANSPARENCY and TAXES

ETFs	MUTUAL FUNDS
• Many sub-sector and industry focused ETPs in addition to broader market ETPs • Generally, daily transparency of all holdings • Capital gains tend to be lower due to creation and redemption	• Most funds focus on broader markets; few sub-sector funds • Holdings data usually at least 1 month old • Less tax efficient structure, all shareholders bear tax burden



Where can I learn more?

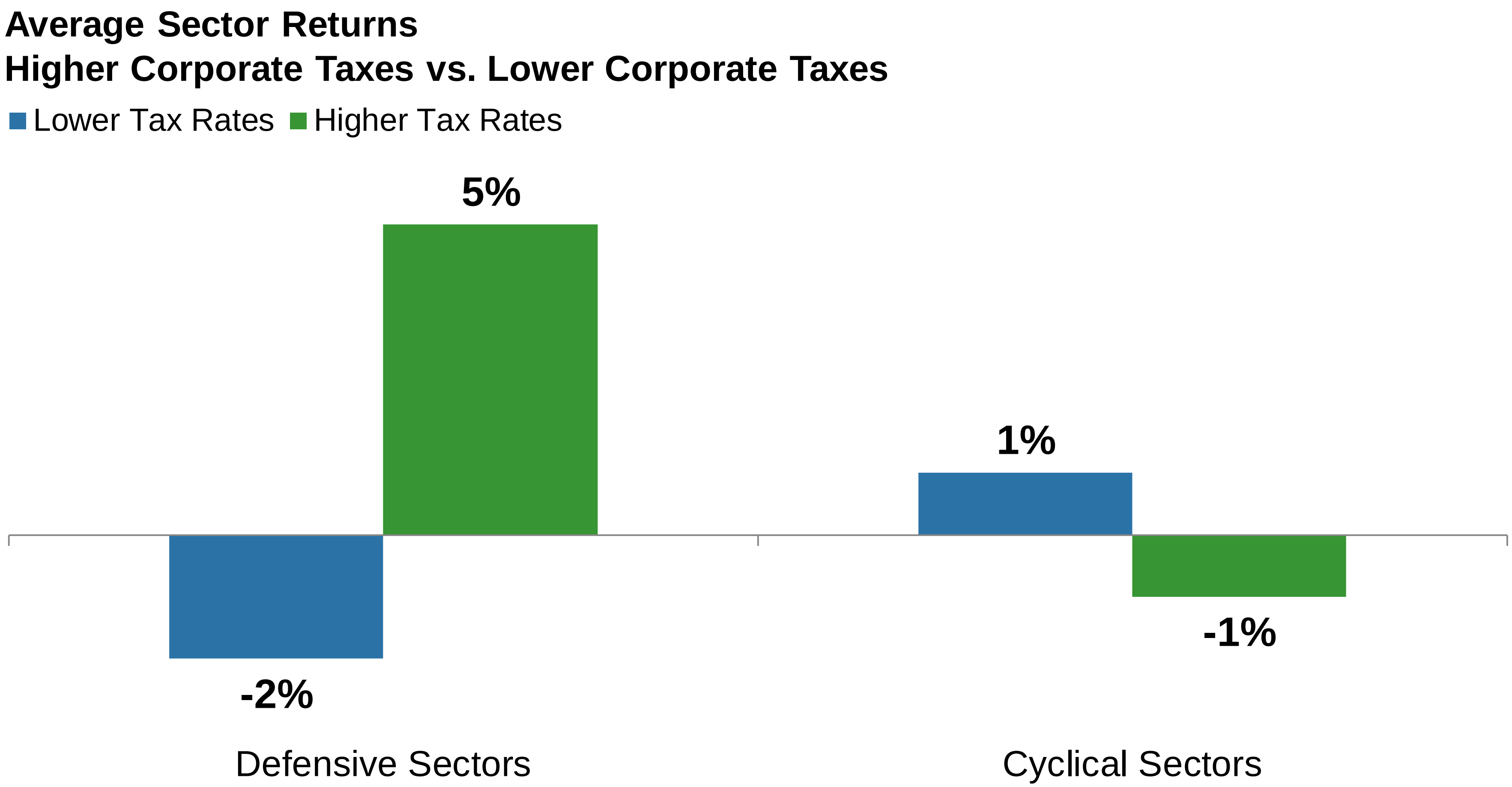
Research > Learning Center > [What's in your ETF ? Understanding ETF portfolio composition]

Images are for illustrative purposes only.

Potential for Change

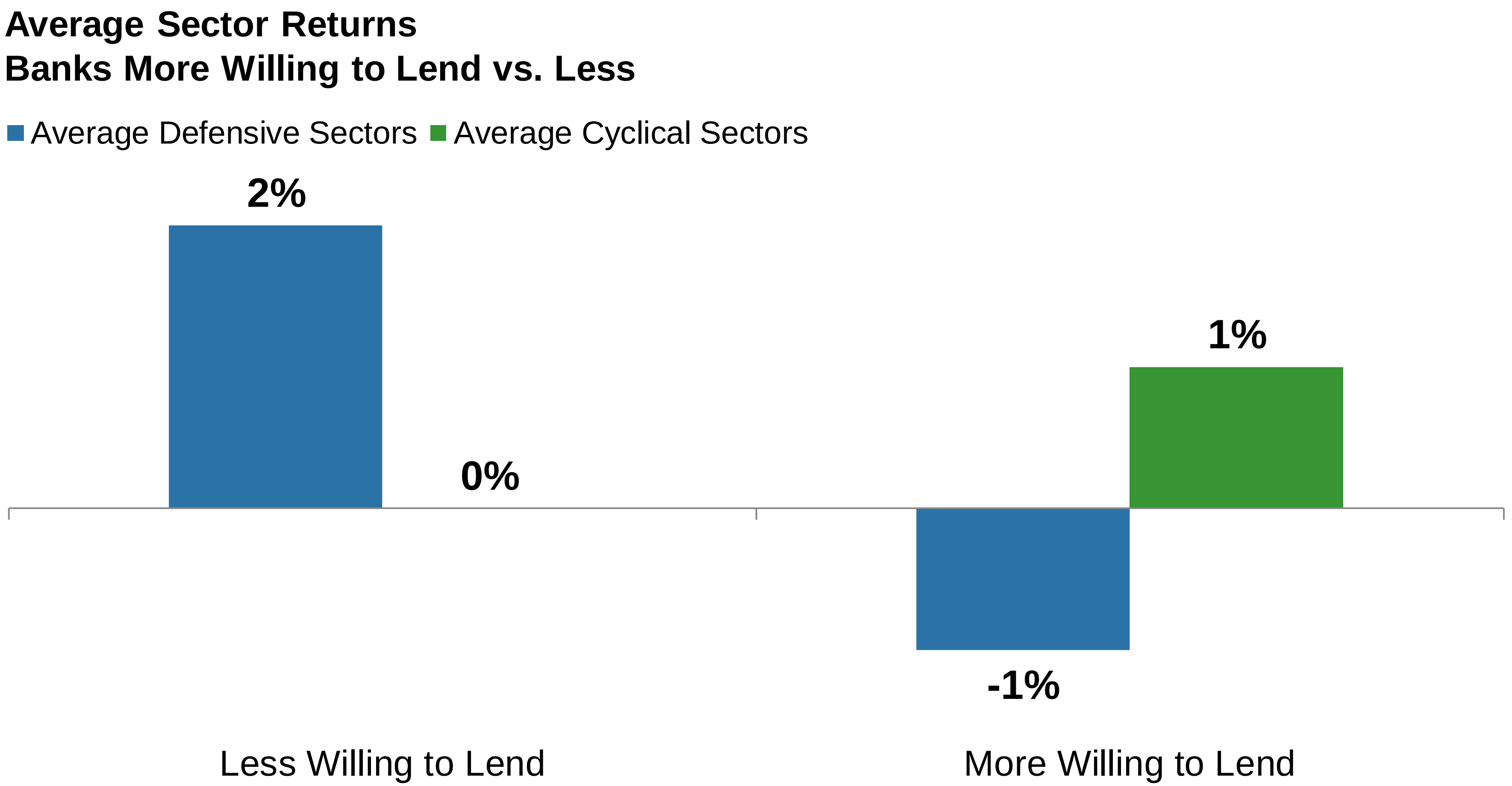
- Corporate Tax Reform
- Potential for Financial Services Deregulation?
- Opportunities

Tax Reform Implications



Equity universe is defined as the top 3,000 U.S. stocks by market capitalization; sectors as defined by the Global Industry Classification Standard (GICS). Haver, as of 12/16, Defense is an average of Staples, Healthcare, Utilities and Telecom sector relative performance. Cyclicals is an average of Energy, Industrials, Materials, Discretionary, Technology, and Financials Relative performance.

Financial Services Deregulation Implications



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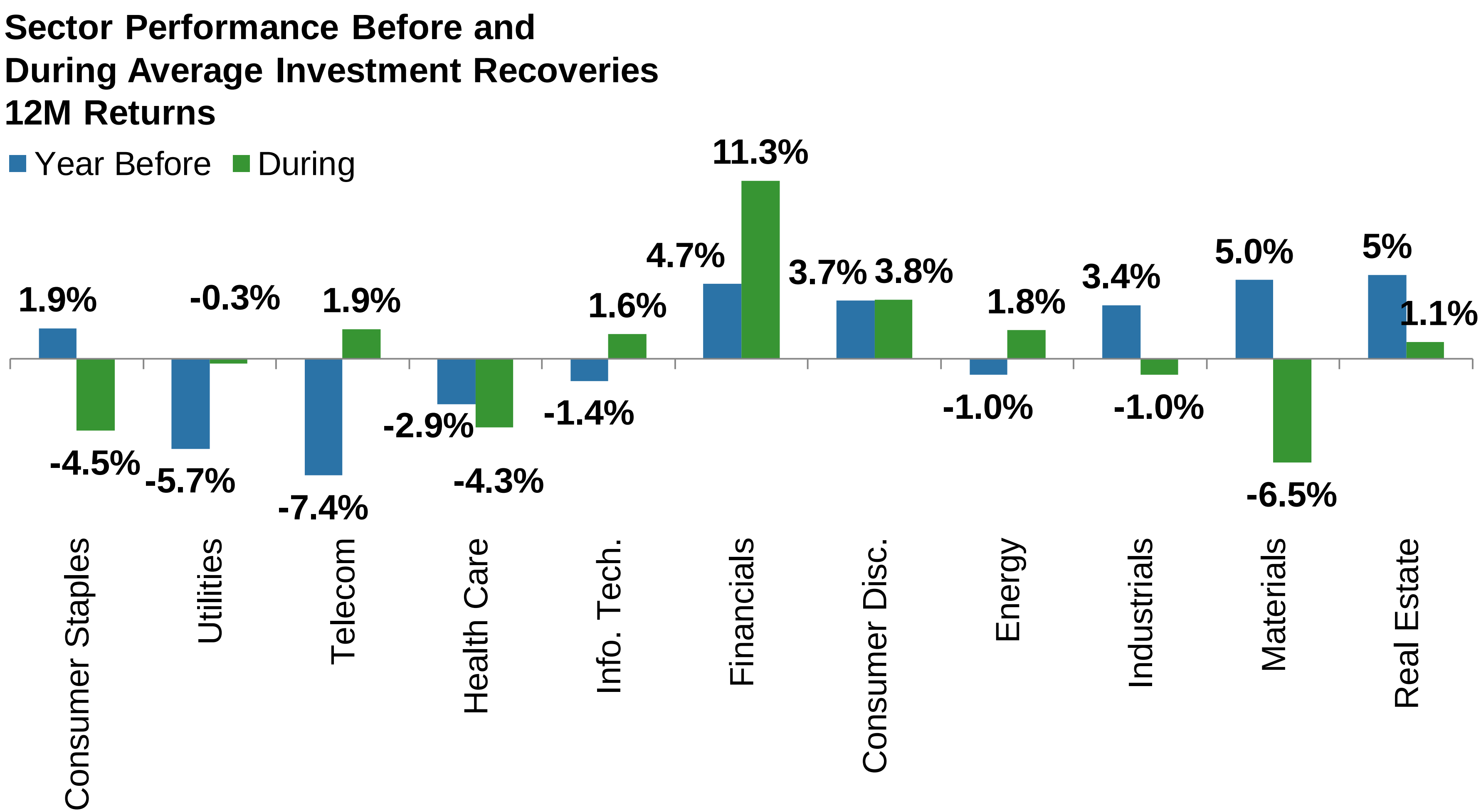
Poised for Opportunity



Source: Equity universe is defined as the top 3,000 U.S. stocks by market capitalization; sectors as defined by the Global Industry Classification Standard (GICS). Haver, as of 12/15 Alpha: A measure of performance on a risk-adjusted basis. Also referred to as excess return.

Defensive vs. Cyclical

DEFENSIVE	CYCLICAL
• Consumer Staples	• Consumer Discretionary
• Health Care	• Energy
• Telecom	• Financials
• Utilities	• Industrials
	• Materials
	• Real Estate
	• Technology

Source: Fidelity Investments.

Factor Investing

What Are Factors?

Factor Investing Involves

Identifying securities with certain common characteristics, based on the idea that all securities have some level of sensitivity to the movement of the broader market.

Low Volatility	Quality	Momentum	Value	Dividends
Securities generating returns comparable to the broader market with less volatility.	Securities with higher profitability, more stable income and cash flows, and a lack of excessive leverage.	Outperforming stocks that have a tendency to continue to outperform over the medium term.	Inexpensive stocks with low prices relative to their fundamental value.	While not historically considered factors, factor-investing principles can also be applied to certain characteristics of income-producing (or dividend) securities, such as dividend income potential or protection when rates are rising.

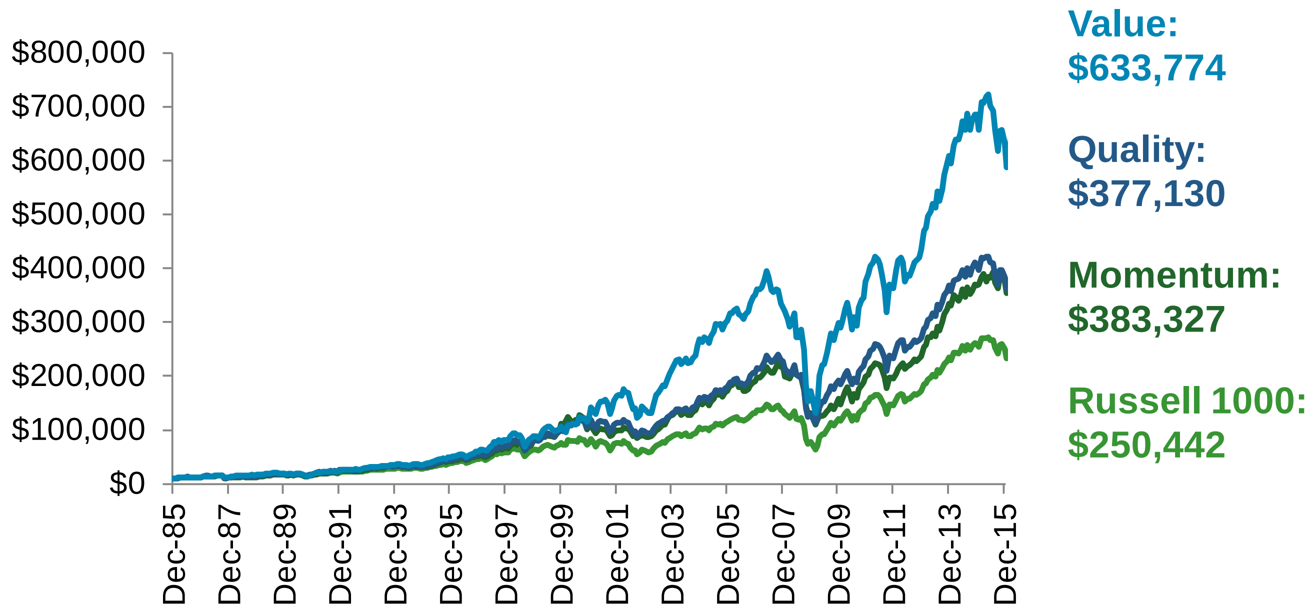
Source: Fidelity Investments.

Factors Matter

Research reveals the return potential of these factors over time

Exposure to these key strategic factors has generated market outperformance over time

Growth of $10,000: Factor Portfolios Vs. Broader Market 1985–2015



Returns are cumulative and assume reinvestment of dividends. Returns do not reflect the performance of any Fidelity index or ETF. Past performance is no guarantee of future results. Value composite is a combined average ranking of stocks in the equal-weighted top quintile (by book/price ratio) and stocks in the equal-weighted top quintile (by earnings yield) of the Russell 1000 Index. Momentum returns are the equal-weighted top quintile (by trailing 12-month returns) of the Russell 1000 Index. Quality returns are the equal-weighted top quintile (by return on equity) of the Russell 1000 index. Low-volatility returns are yearly returns of the equal-weighted bottom quintile (by standard deviation of weekly price returns) of the Russell 1000 Index.

Source: Fidelity Investments as of 12/31/2015.

Key Uses of Factor Strategies in a Portfolio

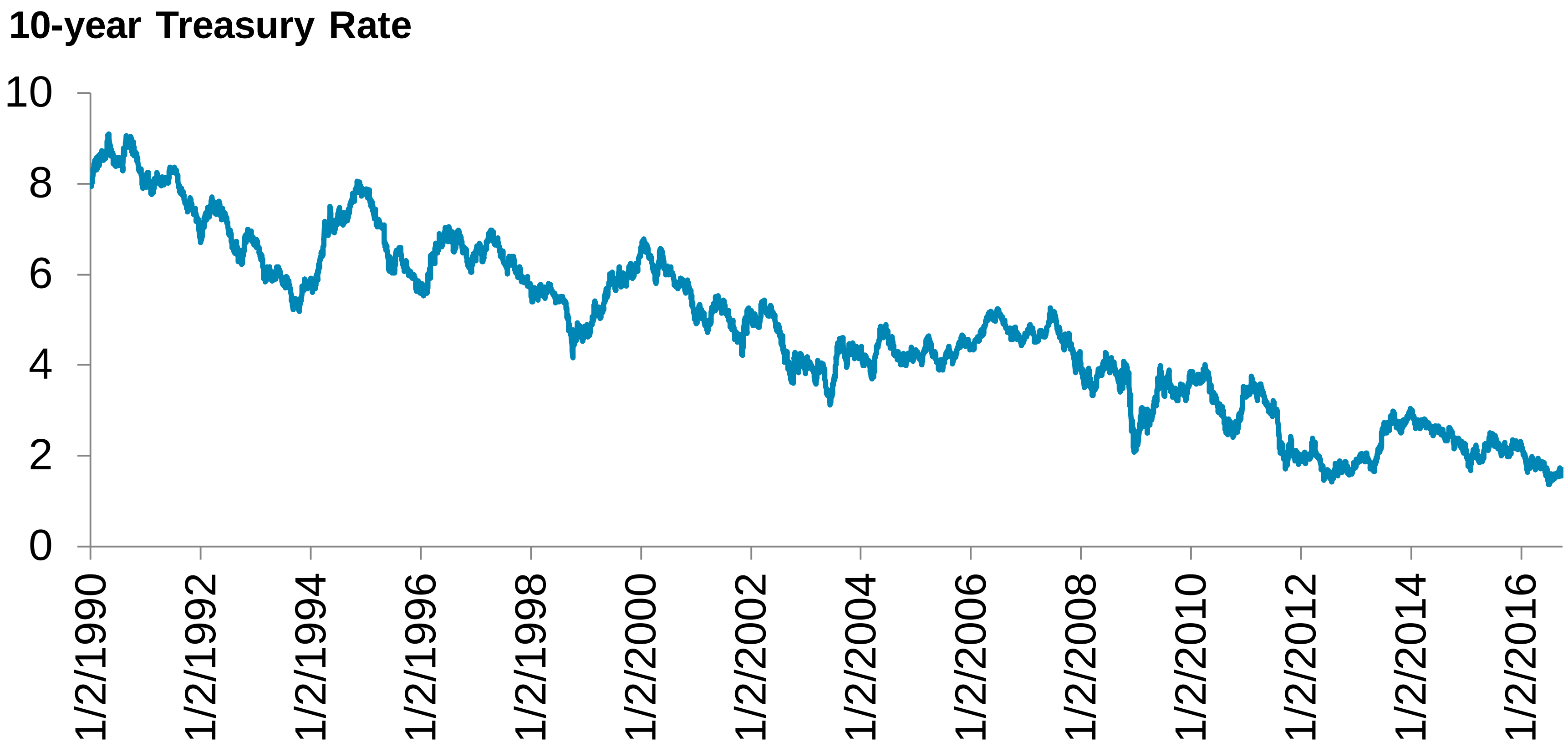
Investors seek out factor exposures for return/outcome potential and risk management

Intended Objectives

	ENHANCED RETURNS	RISK MANAGEMENT	TARGETED OUTCOME
	Improve long-term performance with lower costs	Complement or diversify portfolio to reduce risk	Support investment objectives such as income or low volatility
Investor Uses	• Certain factors may enhance risk-adjusted returns • Certain factors may outperform in varying phases of business cycle	• Enhanced diversification • Leveraging targeted exposures may better align portfolios with intended risk profiles	• Deliver income via higher dividend yield • Augment existing portfolio to deliver a desired impact (e.g., reduce volatility)

FDRR: Low Rate Environment Driving Fear of Rate Rise

Fidelity Dividend for Rising Rates ETF (FDRR) is designed to look for companies that pay dividends and that have done well in a rising rate environment



Past performance is no guarantee of future results.

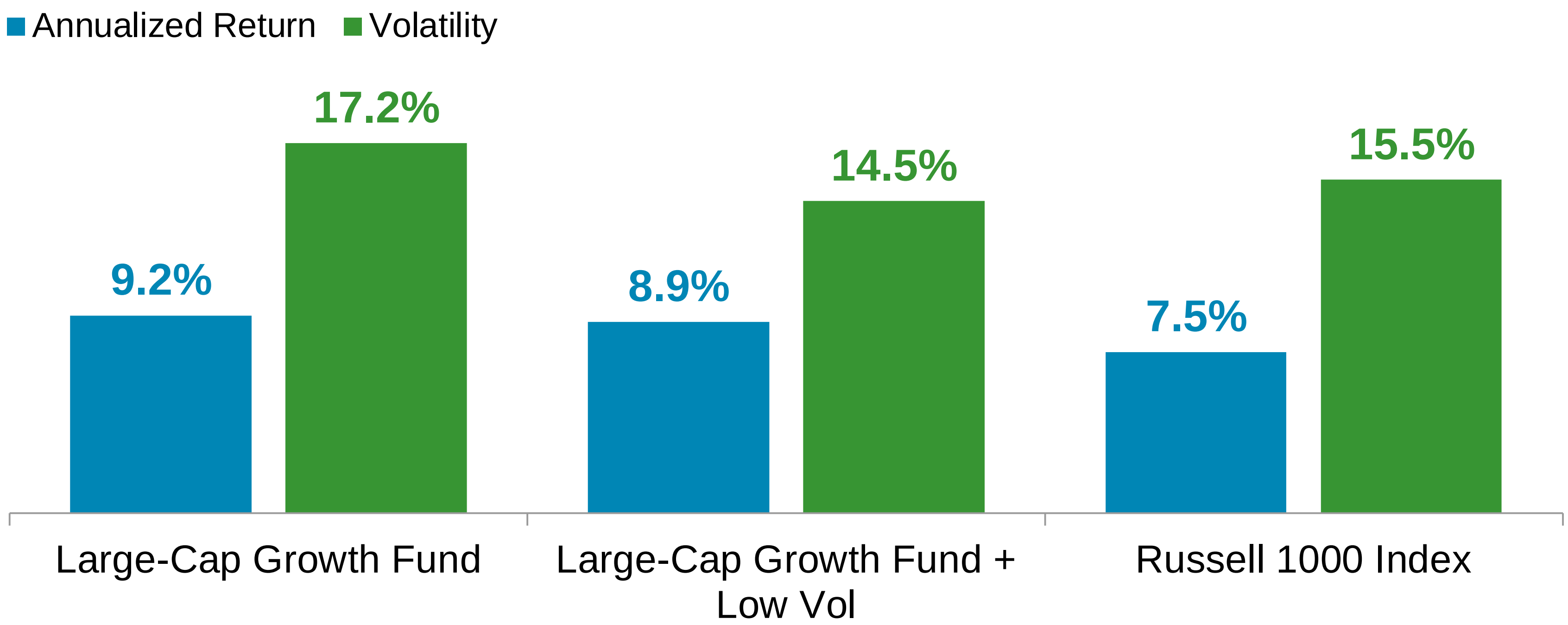
US Depart of the Treasury - https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldAll

WSJ - http://www.wsj.com/articles/yellen-says-there-is-no-fixed-timetable-on-rate-increase-1475085581

FDLO: Concerns over Increased Market Volatility

Fidelity Low Volatility Factor ETF (FDLO) can potentially reduce level of risk in a portfolio while maintaining return potential

Annualized Return and Volatility (%)
January 1986–March 2016



Large-cap growth fund represented by the median fund by return volatility within the top quintile of 10-year performance in the Morningstar large-cap growth category. Low-volatility portfolio is the equal-weighted bottom quintile (by standard deviation of weekly price returns) of the Russell 1000 Index. Large-cap growth fund + low vol is an equal-weighted portfolio of this active large cap growth fund and a low-volatility factor portfolio. Annualized returns from July 2006 through June 2016. Volatility represented by standard deviation (a measure of return variance). A portfolio with a lower standard deviation exhibits less volatility. For more detail, see September 2016 Fidelity Leadership Series “Putting Factors to Work”.

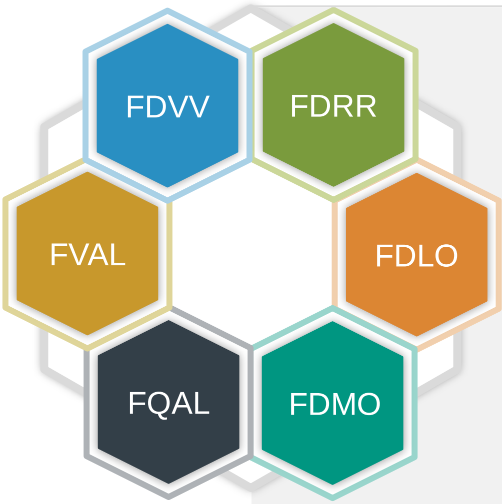
Past performance is no guarantee of future results.

Source: Fidelity Investments and FactSet, as of 6/30/2016.

Where Can I Research and Learn More on Fidelity.com?

Fidelity Factor ETFs—Buy Online Commission Free

Focus on fundamental investment opportunities, leveraging our unique insights to define our factor-based strategies



FDVV
Fidelity Core Dividend ETF

FDRR
Fidelity Dividend ETF for Rising Rates

FDLO
Fidelity Low Volatility Factor ETF

FDMO
Fidelity Momentum Factor ETF

FQAL
Fidelity Quality Factor ETF

FVAL
Fidelity Value Factor ETF

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 funds. Depending on market conditions, funds may underperform compared to funds that seek to track a market-capitalization weighted index.

See page 32 for more information, including Factor ETF investment risks.

Source: Fidelity Investments.

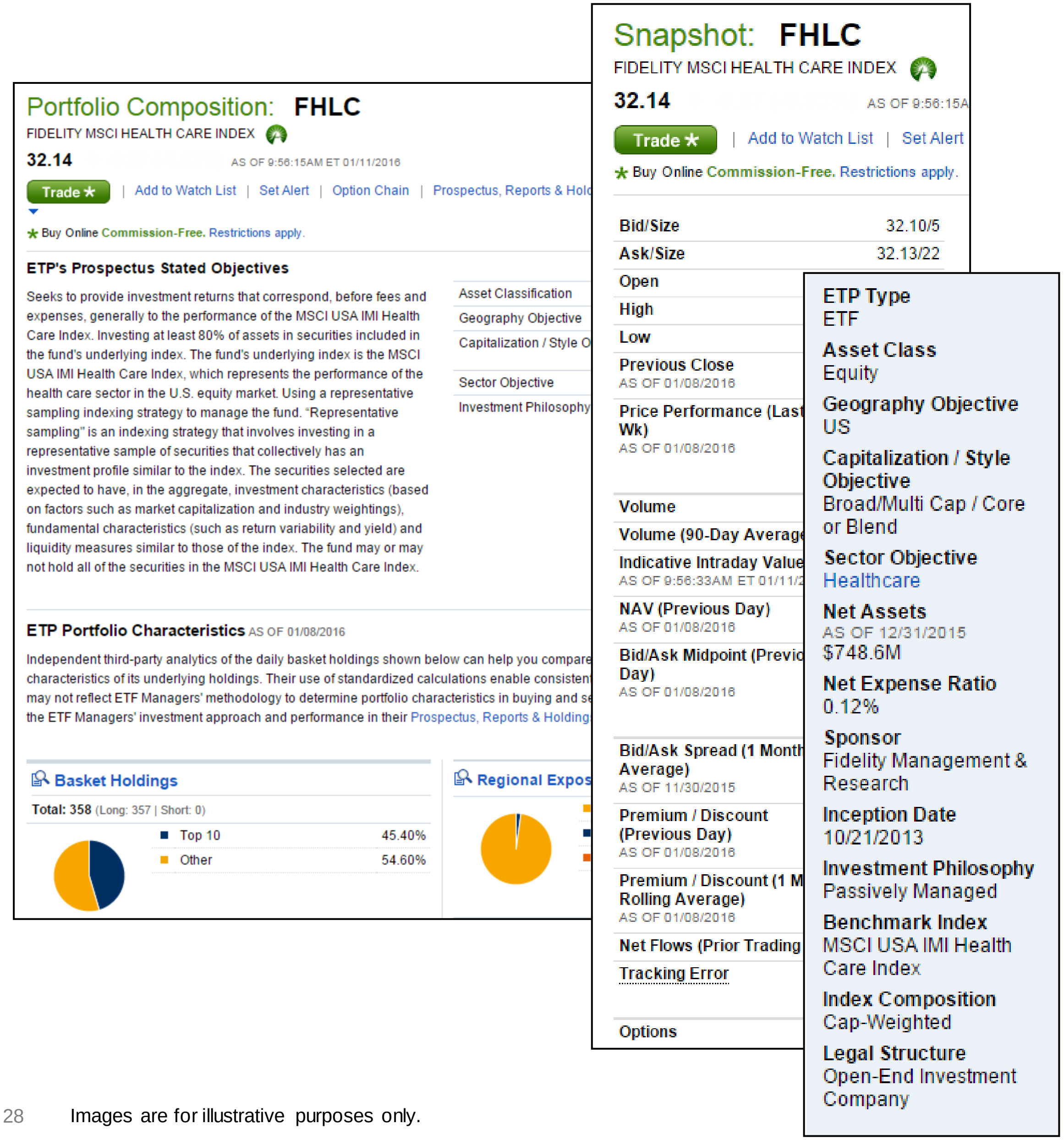
Fidelity Sector ETFs—Buy Online Commission Free

Get Sector exposure with low cost sector ETFs

FDIS	Fidelity MSCI Consumer Discretionary Index ETF
FSTA	Fidelity MSCI Consumer Staples Index ETF
FENY	Fidelity MSCI Energy Index ETF
FNCL	Fidelity MSCI Financials Index ETF
FHLC	Fidelity MSCI Health Care Index ETF
FIDU	Fidelity MSCI Industrials Index ETF
FTEC	Fidelity MSCI Information Technology Index ETF
FMAT	Fidelity MSCI Materials Index ETF
FREL	Fidelity MSCI Real Estate Index ETF
FCOM	Fidelity MSCI Telecommunication Services Index ETF
FUTY	Fidelity MSCI Utilities Index ETF

Free commission offer applies to online purchases of Fidelity ETFs in a Fidelity brokerage account with a minimum opening balance of $2,500. The sale of ETFs is subject to an activity assessment fee (from $0.01 to $0.03 per $1,000 of principal). Fidelity ETFs are subject to a short-term trading fee by Fidelity if held less than 30 days.

ETF Research



Use the information available to learn more about an individual ETF or to compare an ETF to others.

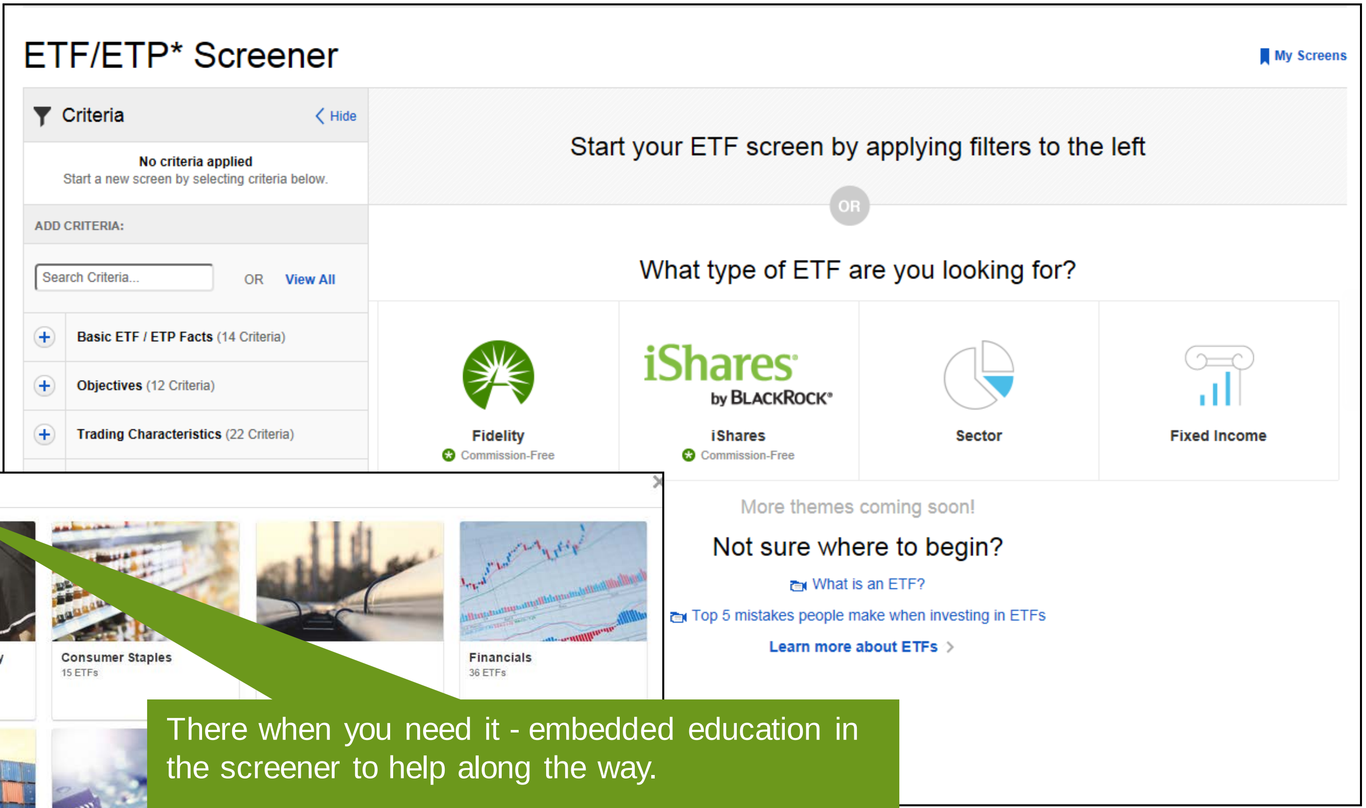
Commonly used pages include:

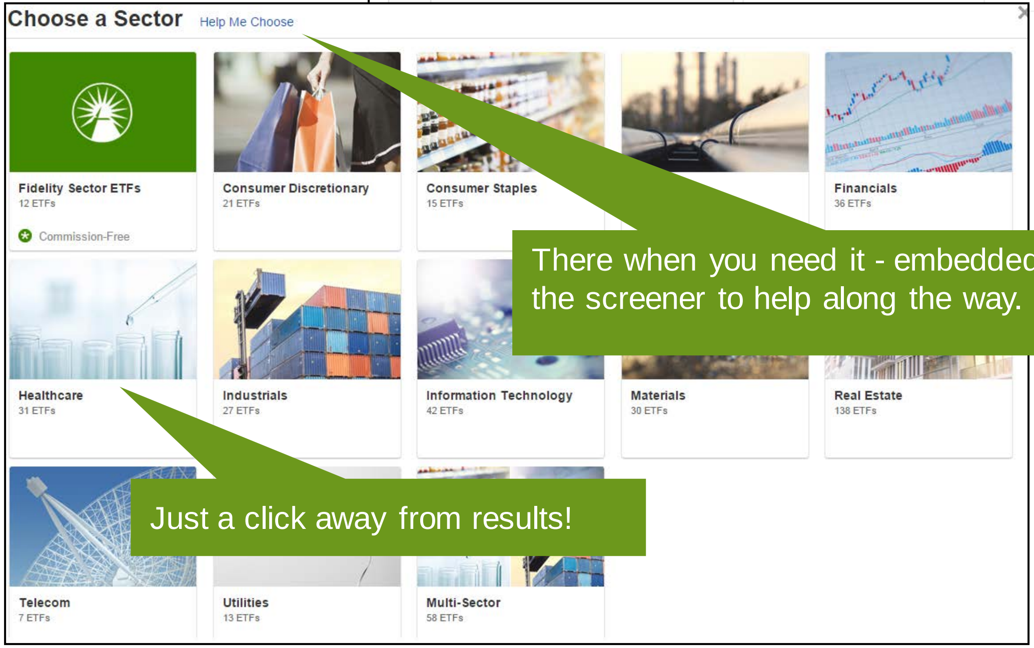
- **Snapshot:** one-page summary
- **Detailed Quote:** interesting facts, such as: NAV, Bid/Ask, Short Interest, and Yield
- **Portfolio Composition:** view the Top 10 Holdings
  Compare: perform a side-by-side comparison of up to 5 different securities

Images are for illustrative purposes only.

ETF/ETP Screener: Two Ways to Get Started

Build your own screen by identifying criteria that is important to you or select a theme that best describes the type of ETF you are looking for.



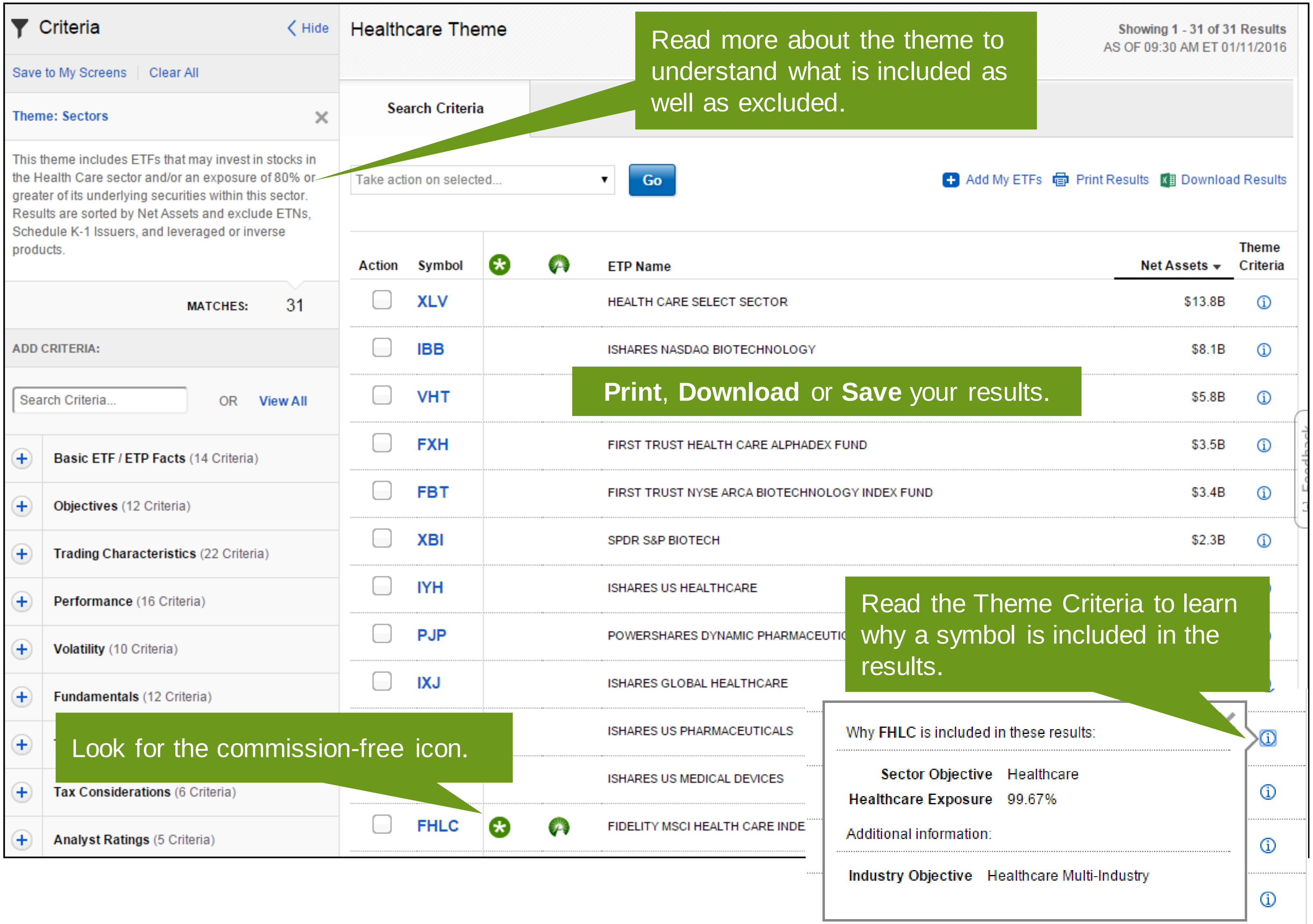


There when you need it - embedded education in the screener to help along the way.

Just a click away from results!

Images are for illustrative purposes only.

ETF/ETP Screener: Results



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Important Information

Diversification does not ensure a profit or guarantee against loss.

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

Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency-exchange rate, economic, and political risks, all of which are magnified in emerging markets. Exchange-traded products (ETPs) that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus. ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case of exchange-traded notes). Each ETP has a unique risk profile, which is detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

The S&P 500 Index 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.

Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies. Nondiversified sector funds may have additional volatility because they can invest a significant portion of assets in securities of a small number of individual issuers.

Margin trading entails greater risk, including, but not limited to, risk of loss and incurrence of margin interest debt, and is not suitable for all investors. Please assess your financial circumstances and risk tolerance before trading on margin. Margin credit is extended by National Financial Services, Member NYSE, SIPC.

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular, or, if available, a summary prospectus containing this information. Read it carefully.

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Views expressed are as of the date indicated, based on the information available at that time, and may change based on market or other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

References to specific investment themes are for illustrative purposes only and should not be construed as recommendations or investment advice. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

This piece may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Investing involves risk, including risk of loss.

All indices are unmanaged. You cannot invest directly in an index.

Market Indices
The S&P 500® Index 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. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS).

The S&P 500 sector indices include the standard GICS sectors that make up the S&P 500 Index. The market capitalization of all S&P 500 sector indices together composes the market capitalization of the parent S&P 500 Index; each member of the S&P 500 Index is assigned to one (and only one) sector.

Barclays U.S. Aggregate Bond Index is an unmanaged index considered representative of the US investment-grade, fixed-rate bond market.

Barclays U.S. Corporate High Yield Bond Index is a market value-weighted index that covers the universe of dollar-denominated, fixed-rate, non-investment grade debt.

The **Russell 3000® Index** measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. equity market.

Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

Nasdaq Composite Index is a broad-based capitalization-weighted index of all Nasdaq domestic and international based common type stocks listed on the Nasdaq Stock Market.

Sectors are defined as follows: **Consumer Discretionary:** companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. **Consumer Staples:** companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be less sensitive to economic cycles. **Energy:** companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. **Financials:** companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and real estate, including REITs. **Health Care:** companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products. **Industrials:** companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. **Technology:** companies in technology software and services and technology hardware and equipment. **Materials:** companies that are engaged in a wide range of commodity-related manufacturing. **Telecommunication Services:** companies that provide communications services primarily through fixed-line, cellular, wireless, high bandwidth, and/or fiber-optic cable networks. **Utilities:** companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

Important Information

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Diversification does not ensure a profit or guarantee against loss.

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The S&P 500 Index 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.

Global Industry Classification Standard—GICS is a standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's. The GICS hierarchy begins with 10 sectors and is followed by 24 industry groups, 67 industries, and 147 sub-industries. Each stock that is classified will have a coding at all four of these levels.

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