

## **A. BUILDING FIDELITY'S STOCK MODELS**

1A. **THEMATIC STOCK MODELS** follow long-term trends and themes, focusing on potential opportunities created by economic, technological, and social developments.

### **Step 1 - IDENTIFY AND DEFINE A THEME**

Fidelity's global equity research team helps identify themes from 5G to Robotics & AI.

Themes are identified to provide diversified exposure to market trends, and technological advancements. The team continuously evaluates new themes.

### **Step 2 - REFINE THE STARTING UNIVERSE**

The team starts with a broad universe of US-listed stocks and then narrows that universe to make sure that stocks are appropriate for use in Fidelity Basket portfolios. These filters include making sure companies are big enough and their shares trade often and are available in fractional trading.

Where appropriate we make sure that a portion of the companies' revenue is associated with the specific theme. For sector or income, we similarly make sure the stocks belong to the specific sector or have qualities of an income-oriented stock.

### **Step 3 - RANK STOCKS BY MODEL RELEVANCY**

The stocks are then ranked within each theme based on their thematic relevancy score, which consists of thematic revenue and a Natural Language Processing (NLP) score. The NLP score is generated by an Artificial Intelligence model that reviews company descriptions and earnings call transcripts to determine how closely the company aligns to the specific theme.

### **Step 4 - DETERMINE MODEL WEIGHTING**

Companies are weighted based on adjusted market capitalization, and up to 30 stocks are included in the model.

### **Step 5 - REVIEW ON A REGULAR BASIS**

Every quarter our models are reviewed to ensure holdings continue to align with the themes. Daily, we make any needed adjustments to reflect corporate actions such as mergers. As the lists change, we make sure to avoid unnecessary turnover.

1B. **SECTOR & INCOME STOCK MODELS** offer targeted exposure to companies in specific segments of the economy that can help you pursue income, growth, diversification, and manage risk.

**Step 1 – DEFINE THE SECTOR OR INCOME EXPOSURE**

The Sector and Income stock models are designed with input from the Fidelity Quantitative Research Team who help identify and define relevant sub-sectors from the Fidelity US Total Market Index that reflect the largest parts of the U.S. market.

**Step 2 - REFINE THE STARTING UNIVERSE**

The team starts with a broad universe of stocks and then narrows that universe to make sure that stocks are appropriate for broad investment. These filters include making sure companies are big enough and their shares trade often, and are available in fractional trading, along with a few other checks.

**Step 3 – RANK STOCKS & DETERMINE MODEL WEIGHTS**

Companies are ranked based on market capitalization and weighted based on adjusted market cap. Finally, up to 30 stocks are included in the model.

**B. BUILDING FIDELITY’S ETF MODELS**

**Step 1 - Creating Target Asset Mixes**

We’ve created seven target asset mixes which are a combination of four different investment types: Domestic Equity, International Equity, Fixed Income, and Short-Term investments. We used historical return analysis to create seven different Mixes that can be used by investors with varying investment objectives and risk tolerances.

**Asset Class Target Asset Mix**

	Domestic Equity	International Equity	Fixed Income	Short Term
Conservative	14%	6%	50%	30%
Moderate with Income	21%	9%	50%	20%
Moderate	28%	12%	45%	15%
Balanced	35%	15%	40%	10%
Growth with Income	42%	18%	35%	5%
Growth	49%	21%	25%	5%
Aggressive Growth	60%	25%	15%	0%

(As of 12/15/2024)

## **Step 2 – Selecting ETFs**

We select ETFs that have at least 1-year of track record. For Fidelity Only models we choose ETFs managed by Fidelity, for the Blended models we choose ETFs managed by Fidelity or iShares that are part of the Core Product Range.

## **Step 3 – Creating the model portfolios**

For each Target Asset Mix we create a portfolio of ETFs that aligns with the asset class weights. When comparing the ETF portfolio to the Target Asset Mixes, we look at the volatility of the portfolios, the fees, and the alignment of asset classes, size of companies, and duration of bonds to align as closely as possible to the index-based Target Asset Mixes.

## **Step 4 – Review and Updates**

All of the portfolios are reviewed four times a year and updated if necessary.

*Investing involves risk, including risk of loss.*

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

As with all your investments through Fidelity, you must make your own determination whether an investment in any particular security or securities is consistent with your investment objectives, risk tolerance, financial situation, and evaluation of the security. Fidelity is not recommending or endorsing this investment by making it available to its customers.

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. 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). The degree of liquidity can vary significantly from one ETP to another and losses may be magnified if no liquid market exists for the ETP's shares when attempting to sell them. Each ETP has a unique risk profile, detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

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