## FIXED INCOME WEBINAR

# **BONDS, BOND FUNDS, AND BOND ETFS**

Beau Coash, Fixed Income Portfolio Manager
Lee Sterne, ETF Strategist
Luke Vance, Regional Brokerage Consultant, Fixed Income
Richard Carter, VP, Fixed Income Products





# Agenda

Bond Market Context

Individual Bonds

Comparing Bond ETFs to Bond Mutual Funds

Summary and Next Steps

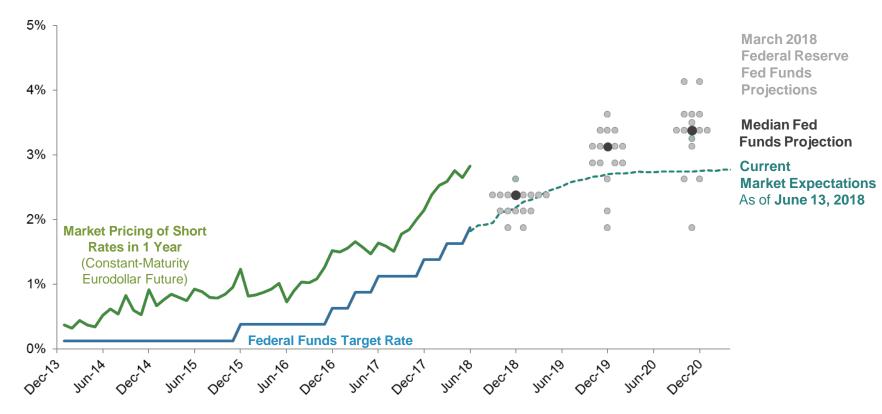




# Bond Market Context Beau Coash



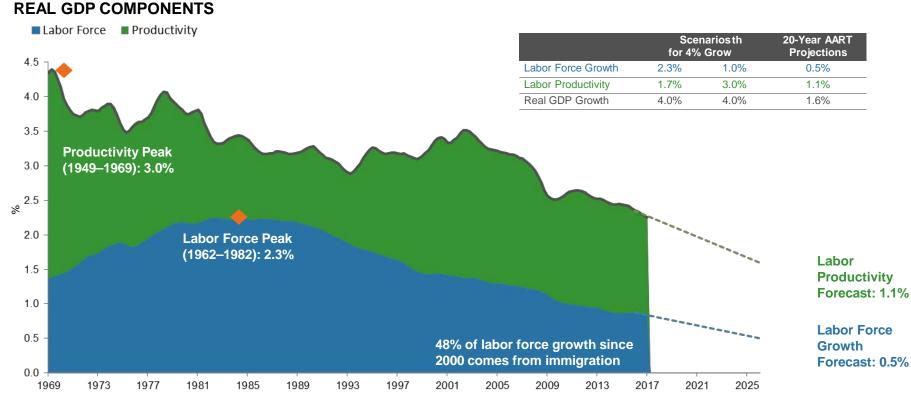
# Fed Funds Target Rate: Market Expectations and Fed Projections





Source: Federal Reserve and Bloomberg, as of 6/13/18.

# **Productivity and Labor Force Growth**



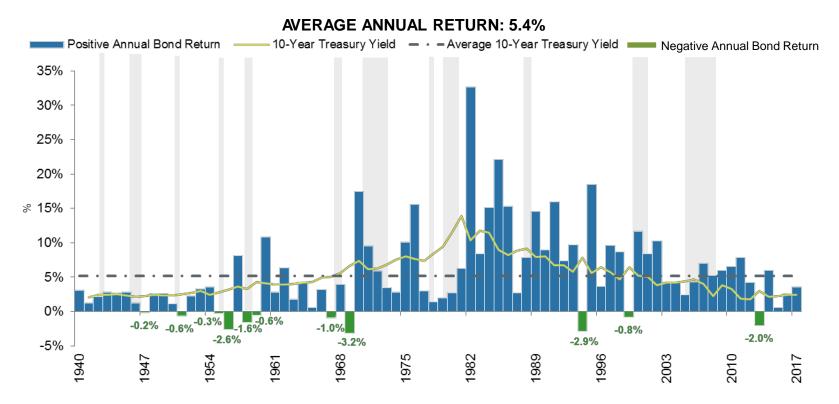
Source and Forecasts: Fidelity Investments Asset Allocation Research Team (AART), as of 9/30/17.

The date range corresponding to the productivity peak in the late 1960s reflects the aftermath of World War II, when the U.S. converted from a military-industrial based economy to a consumer-based economy. The date range corresponding to the labor force peak in the early 1980s reflects the entrance of the baby boomer generation into the U.S. workforce.



# **Bond Returns vs. Interest Rates**

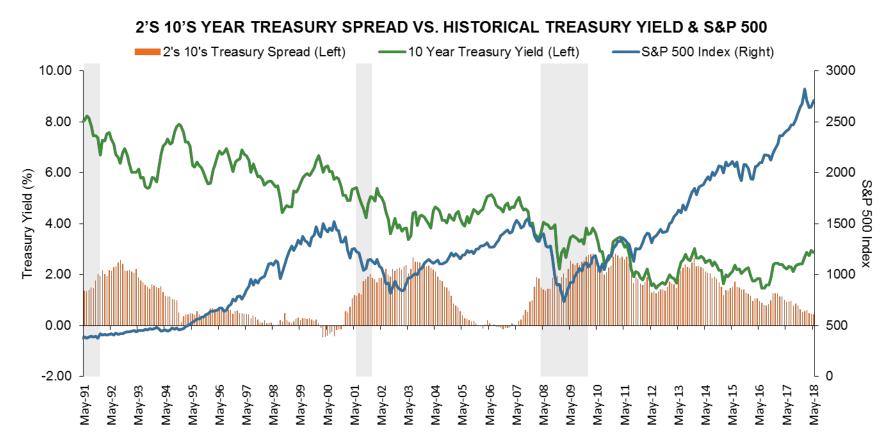
## (1940 - 2017)



Source: Bloomberg, as of 12/31/17. Investment-grade bond returns are represented by the Bloomberg Barclays (BBgBarc) U.S. Aggregate Bond Index from January 1976 and by a composite of the IA SBBI U.S. Intermediate-Term Government Bond Index (67%) and the IA SBBI U.S. Long-Term Corporate Bond Index (33%) from January 1940 through December 1975. Shaded gray bars represent periods in which the U.S. was in a recession. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Not intended to represent the performance of any Fidelity fund.



## **Historical Treasury Yields and S&P 500**



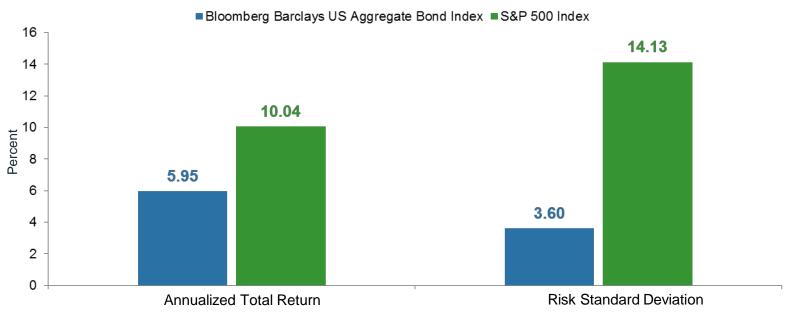
Source: Bloomberg as of 5/31/18 Shaded gray bars represent periods in which the U.S. was in a recession. **Past performance is no guarantee of future results.** 



# **Bonds Have Been Attractive on a Risk/Return Basis**

EQUITY AND FIXED INCOME RISK AND RETURN CHARACTERISTICS

January 1990–May 2018



### Source: Fidelity Investments as of 5/31/2018.

Past performance is no guarantee of future results. Index performance is not meant to represent the performance of any Fidelity fund. You cannot invest directly in an index. Standard deviation shows how much variation there is from the average (mean or expected value). Low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data is spread out over a large range of values. A higher standard deviation represents greater relative risk.

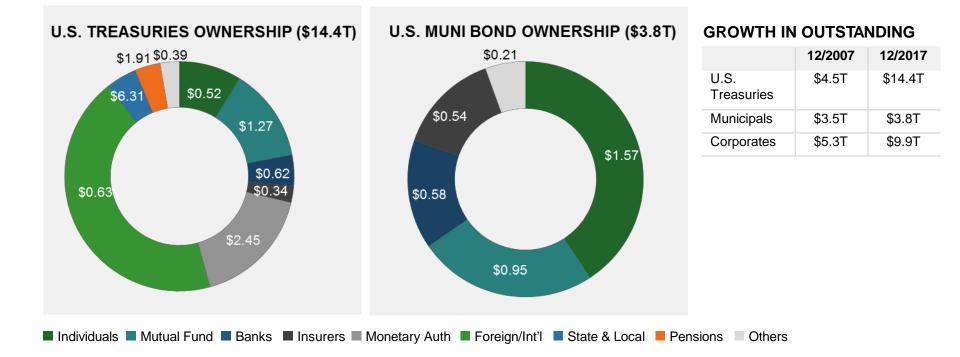




# Individual Bonds Luke Vance



# **Bond Ownership Varies Across Bond Types**





# **Bond Sub-asset Classes Have Different Risk/Reward Characteristics**

You manage credit review and reinvestment for individual bonds

### BOND RETURNS VARY BY BOND SECTOR



Considerations when investing in Bonds:

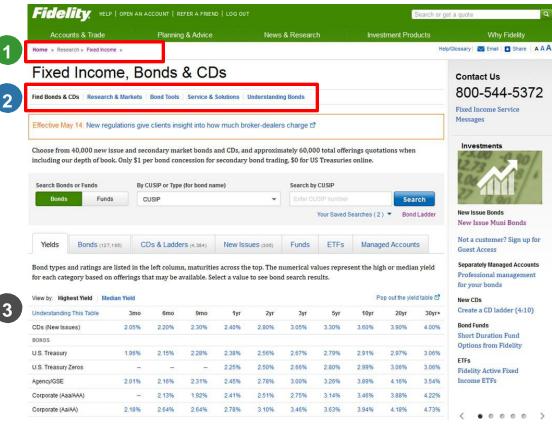
- 1. Assessing bond sectors and features
- 2. Assessing credit ratings
- 3. Assessing liquidity
- 4. Assessing diversification

Source: Barclays 12//31/2017

HY Corp—Bloomberg Barclays U.S. High Yield Index, IG Corp—Bloomberg Barclays U.S. Corporate Investment Grade Index, Muni—Bloomberg Barclays Municipal Bond Index, U.S. Agg—Bloomberg Barclays U.S. Aggregate Index, UST—Bloomberg Barclays U.S. Treasury Index. Past performance is no guarantee of future results.



# Using the Bond Yield Table on Fidelity.com



Where can I learn more?

For illustrative purposes only.



Research > Fixed Income Bonds & CDs



| Research > Fixed Income > Individual Bond | Search Results   | features a                  | ind at                    | tribu      | tes  | Fidelity.com   |
|---|------------------|-----------------------------|---------------------------|------------|--|--|
| CALIFORNIA ST G                           |                  | 00% 03/01/2028              |                           |            | Buy<br>Hypothetical Trade                            | Material Events<br>View documents on EMMA<br>03/29/2018 5:04 PM EDT                  |
| Details                                   |                  | Ratings                     |                           |            | 7  | FINANCIALS FILED<br>STATE OF CALIFORNIA GO, VET FYE 06/30/                           |
| CUSIP                                     | 13063CRT9        | Moody's Rating              | Current                   | Prior      | Official Municipa                                    |  |
| Pay Frequency                             | SEMI-ANNUALLY    |                             | Effective Date            |            | Offering Statement (                                 | 03/29/2018 5:03 PM EDT   |
| Coupon                                    | 5.000            | Rating                      | AA2                       | -          | DPC Data 🖾   | FINANCIALS FILED   |
| Maturity Date                             | 03/01/2028       | MALE LATER                  | 03/20/2016                |            | Access official municipa<br>and other municipal bond | STATE OF CALIFORNIA GO, VET FYE 06/30/   |
| Insurer                                   | N/A              | Watchlist                   | -                         | -          |  |  |
| Obligor                                   | -                | Underlying Rating           | AA3                       | -          | Latest Municipal                                     | 03/30/2017 5:42 PM EDT   |
| Material Events                           | YES              | Insured Rating              | -                         | -          | Internet Sales Tax Ru                                | FINANCIALS FILED   |
| EMMA                                      | YES              | Enhanced Rating             | -                         | -          | Avoid Revenue Erosi                                  | AUDITED BASIC FINANCIAL STA FYE 06/30/   |
| Bond Type                                 | Municipal        | Obligor Rating              |                           | -          | Economy (PDF)  | 02/20/2047 5.42 DM EDT   |
| Interest Accrual Date                     | 03/18/2015       | S&P Rating                  | Current<br>Effective Date | Prior      | 06/21/18<br>Summary: California:                     | 03/30/2017 5:42 PM EDT<br>FINANCIALS FILED<br>AUDITED BASIC FINANCIAL STA FYE 06/30/ |
| Redemptive Features                       |                  | Rating                      | AA-<br>03/30/2016         | -          | General Obligation; J<br>岱                           | AUDITED BASIC FINANCIAL STAFTE 00/30/  |
| Call Protection                           | View Schedule NO | Credit Watch                | 03/30/2016                |            | BY STANDARD & POOR<br>04/03/17                       | 08/22/2016 12:28 PM EDT  |
| Continuously Callable                     | YES              |                             |                           |            |  | FITCH RATING UPGRADE   |
| Call Defeased                             | NO               | Underlying Rating           |                           | -          |  | EFF 8/12/16 UNDERLY FROM A+ TO AA-   |
| Called Bonds                              | NO               | Insurer Rating              |                           | -          |  | 00/00/0040 0.50 BM EDT   |
| Make Whole Call                           | NO               | School ICR                  | -                         | -          |  | 03/30/2016 2:50 PM EDT   |
| Sinking Fund Protection                   | YES              | Obligor Rating              |                           | -          |  | FINANCIALS FILED<br>AUDITED BASIC FINANCIAL STA FYE 06/30.                           |
| Sink Defeased                             | NO               |                             |                           |            |  | AUDITED DAGIC FINANCIAE STAFTE 00/30   |
| Extraordinary Redemption                  | NO               | Coupon Information          |                           |            |  | 03/30/2016 2:49 PM EDT   |
| Special Mandatory Redemption              | NO               | Coupon Type                 |                           | FIXED      |  | FINANCIALS FILED   |
| Special Optional Redemption               | NO               | Current Rate Effective Date |                           | 03/05/2015 |  | AUDITED BASIC FINANCIAL STA FYE 06/30/   |
| Put Option                                | NO               | Reset Frequency             |                           | 03/03/2013 |  |  |
| Pre-Refunded                              | NO               | Benchmark Reference         |                           |            |  | 07/09/2015 10:30 AM EDT  |
| Pre-Refunded Price                        | N/A              | Benchmark Formula           |                           |            |  | S&P RATING UPGRADE   |
| Escrow End Date                           |                  | Next Reset Date             |                           |            |  | EFF 7/2/15 FROM A+ TO AA-  |

Source: Fidelity.com, June 2018. For illustrative purposes only.



# Issuer-Specific Credit Reports

## Understand why a bond has its rating and potential risks

Research > Fixed Income > Individual Bonds > Search Results

### CALIFORNIA ST GO BDS05.00000% 03/01/2028

| Overview | Price & Performance |
|----------|---------------------|
|----------|---------------------|

| Details               |               |
|-----------------------|---------------|
| CUSIP                 | 13063CRT9     |
| Pay Frequency         | SEMI-ANNUALLY |
| Coupon                | 5.000         |
| Maturity Date         | 03/01/2028    |
| Insurer               | N/A           |
| Obligor               | -             |
| Material Events       | YES           |
| EMMA                  | YES           |
| Bond Type             | Municipal     |
| Interest Accrual Date | 03/18/2015    |
|                       |               |

#### **Redemptive Features**

| Call Protection              | View Schedule NO | Credit \ |
|------------------------------|------------------|----------|
| Continuously Callable        | YES              | Underh   |
| Call Defeased                | NO               | Insurer  |
| Called Bonds                 | NO               |          |
| Make Whole Call              | NO               | School   |
| Sinking Fund Protection      | YES              | Obligor  |
| Sink Defeased                | NO               |          |
| Extraordinary Redemption     | NO               | Coupo    |
| Special Mandatory Redemption | NO               | Coupon   |
| Special Optional Redemption  | NO               | Current  |
| Put Option                   | NO               | Reset F  |
| Pre-Refunded                 | NO               | Benchm   |
| Pre-Refunded Price           | N/A              | Benchm   |
| Escrow End Date              |                  | Next Re  |

|         | Ratings                     |                           |            |
|---------|-----------------------------|---------------------------|------------|
| CRT9    | Moody's Rating              | Current<br>Effective Date | Prior      |
| 5.000   | Rating                      | AA3<br>03/30/2016         | -          |
| 2028    | Watchlist                   |                           | -          |
| N/A     | Underlying Rating           | AA3                       | -          |
| <br>YES | Insured Rating              | -                         | -          |
| YES     | Enhanced Rating             | -                         | -          |
| icipal  | Obligor Rating              | -                         | -          |
| 2015    | S&P Rating                  | Current<br>Effective Date | Prior      |
|         | Rating                      | AA-<br>03/30/2016         | -          |
| le NO   | Credit Watch                | -                         | -          |
| YES     | Underlying Rating           | -                         | -          |
| NO      | Insurer Rating              | -                         | -          |
| NO      | School ICR                  | -                         | -          |
| YES     | Obligor Rating              | -                         | -          |
| NO      |                             |                           |            |
| NO      | Coupon Information          |                           |            |
| NO      | Coupon Type                 |                           | FIXED      |
| NO      | Current Rate Effective Date |                           | 03/05/2015 |
| NO      | Reset Frequency             |                           |            |
| NO      | Benchmark Reference         |                           |            |
| N/A     | Benchmark Formula           |                           |            |
|         | Next Reset Date             |                           | -          |

### Print A A A



### Official Municipal Documents

Offering Statement (PDF) DPC Data

Access official municipal documents for this and other municipal bonds.

#### Latest Municipal Reports

04/03/17

Internet Sales Tax Ruling Helps States Avoid Revenue Erosion In The New Economy (PDF) BY STANDARD & POOR'S - 3:07 PM ET 06/21/18

Summary: California: Appropriations: General Obligation; Joint Criteria (PDF) BY STANDARD & POOR'S - 3:26 PM ET

### Summary:

### California; Appropriations; General Obligation; Joint Criteria

| Credit Profile                        |               |          |
|---------------------------------------|---------------|----------|
| US\$636.0 mil GO rfdg Bnds ser 2017 d | ae 08/01/2030 |          |
| Long Term Rating                      | AA-/Stable    | New      |
| California GO                         |               |          |
| Long Term Rating                      | AA-/Stable    | Affirmed |

### Rationale

S&P Global Ratings assigned its 'AA-' long-term rating, and stable outlook, to California's estimated \$636 million of various purpose general obligation (GO) refunding bonds.

At the same time, S&P Global Ratings affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's \$72.9 billion of GO bonds outstanding, as of March 1, 2017. In addition, we affirmed our 'A+' long-term ratings and SPURs on the state's \$9.6 billion of lease revenue appropriation-backed debt. The outlook on all ratings is stable.

Finally, we affirmed the long-term component of the 'AA+/A-1' and 'AAA/A-1+' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings of the LOC providers.

The GO ratings are based on our view of the state's:

- · Diverse economy of 39.3 million people (est. 2016), or 12% of the total U.S. population, which is currently expanding faster than the nation's thanks in part to its prominent higher-education institutions and wide range of businesses in innovative sectors--fueled by California's position as the leading venture capital recipient state;
- · Demonstrated commitment in six consecutive budgets to aligning recurring revenues and expenses while paying down budgetary debts;
- · Good and increasing budgetary reserve levels funded in part from a redirection of capital gains-related revenues;
- Strong enough overall liquidity in fiscal 2017 that for the second consecutive year, the state's typical intrayear general fund cash deficits can be financed entirely from internal sources;
- · Projected cash flows that indicate strong enough liquidity that the state will also be able to finance its intrayear cash deficits in fiscal 2018 as well; and
- Declining, but still moderately high, debt ratios.

Somewhat offsetting these strengths, in our view, are the state's:

 Persistently high cost of housing relative to other states, which contributes to a relatively weaker business climate in California, posing a threat to longer-term economic growth prospects;

#### WWW.STANDARDANDPOORS.COM/RATINGSXPRESS



# Using Pricing Information to "See the Market"

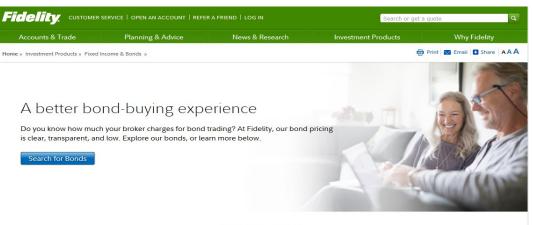
## Aggregated live "depth of book" and historical trading prices

Research > Fixed Income > Individual Bonds > Search Results

### CALIFORNIA ST GO BDS05.00000% 03/01/2028

|                           |   |                           | Fidelit            | <b>.y</b> .                    |            |  |                  |                                      |                    |       |
|---------------------------|---|---------------------------|--------------------|--------------------------------|------------|--|------------------|--------------------------------------|--------------------|-------|
| Overview Price & P        | Performance                               |                           |                    | GO BD\$05.00000% 03            |            |  |                  |                                      |                    | 🖶 Р   |
|                           |   |                           | Depth of Book      | as of 06/22/2018 at 1:<br>Bids | 12:45 pm   |  |                  | Asks                                 |                    |       |
|                           |   |                           | Action Yield       |                                | Min) Price | ice Price                                  | Quantity(Min)    | Asks<br>Yield Attributes             |                    | Act   |
| Basic Analytics           |   | Complex Analytics         | 1 1000             | auguny (                       | a)         | 116.830                                    | 3075(5)          | 2.270 ME SFP                         |                    | E     |
| -                         | N/A                                       | Duration to Worst         |                    |                                |            | 116.830                                    | 3125(5)          | 2.270 ME SFP                         |                    |       |
| Price (Bid)               | N/A                                       | Duration to worst         | *Indicates best    | price                          |            |  | -                |                                      |                    |       |
| Price (Ask)               | 116.830                                   | Option Adjusted Duration  | Recent Trades      |                                |            |  | Display Recent T | t Trades   Qty: 🖲 50 💿 100           | 0 🔘 All   🗾 Cancel | cel 📕 |
| Depth of Book             | View                                      | Option Adjusted Spread    | Price              | Quantity                       | Yield      | Date/Time                                  |                  | Buy/Sell 🞯                           | Trade Attributes 🛛 | 1     |
| eptilorBook               | VIEW                                      | Option Aujusted Opread    | 117.78             | 50                             | 2.130      | 06/22/2018 11:26:28                        |                  | Customer Buy                         | 470                |       |
| sk Yield to Worst         | 2.270%                                    | Convexity to Worst        | 116.83<br>116.705  | 50<br>50                       | 2.270      | 06/22/2018 11:26:25<br>06/22/2018 11:26:00 |                  | Dealer to Dealer<br>Dealer to Dealer | ATS<br>ATS         |       |
| 1 Martin Realizable       | 2.005%                                    | Option Adverted Oppionity | 118.884            | 40                             | 2.289      | 06/21/2018 16:19:00                        |                  | Customer Buy                         | AIS                |       |
| sk Yield to Maturity      | 2.985%                                    | Option Adjusted Convexity | 116.634            | 40                             | 2.300      | 06/21/2018 16:19:00                        |                  | Dealer to Dealer                     |                    |       |
| ïeld to Sink              | -   |                           | 116.298            | 1,760                          | 2.350      | 06/21/2018 11:25:00                        | 0                | Customer Sell                        |                    |       |
|                           |   |                           | 117.163            | 80                             | 2.226      | 06/19/2018 15:15:00                        |                  | Customer Buy                         |                    |       |
| Current Yield             | 4.279%                                    |                           | 116.863            | 80                             | 2.270      | 06/19/2018 15:15:00                        |                  | Dealer to Dealer                     |                    |       |
| hird Party Price          | 116.298                                   |                           | 117.5              | 100                            | 2.177      | 06/18/2018 15:24:20<br>06/18/2018 15:24:20 |                  | Customer Buy<br>Customer Buy         |                    |       |
|                           |   |                           | 116.801            | 250                            | 2.280      | 06/18/2018 15:24:00                        |                  | Dealer to Dealer                     | ATS                |       |
| pread to Treasuries       | 0.640-                                    |                           | 118.099            | 300                            | 2.089      | 06/18/2018 14:25:00                        |                  | Customer Buy                         |                    |       |
| reasury Benchmark         | 10 YR.(2.875% 05/15/2028)                 |                           | 116.599            | 300                            | 2.310      | 06/18/2018 14:25:00                        | 0                | Dealer to Dealer                     |                    |       |
|                           |   |                           | 116.901            | 100                            | 2.265      | 06/18/2018 13:41:42                        |                  | Customer Buy                         |                    |       |
| Recent Trade              | 2 View Recent Trades                      |                           | 116.801            | 100                            | 2.280      | 06/18/2018 13:41:00                        |                  | Dealer to Dealer                     | ATS                |       |
| Price                     | 117.780                                   |                           | 116.698<br>116.698 | 250<br>250                     | 2.300      | 06/13/2018 13:21:05<br>06/13/2018 13:19:00 |                  | Customer Buy<br>Dealer to Dealer     | NTBC               |       |
| lice                      | 117.700                                   |                           | 116.832            | 5,000                          | 2.300      | 06/13/2018 06:01:04                        |                  | Customer Sell                        |                    |       |
| Quantity                  | 50  |                           | 116.832            | 10,000                         | 2.287      | 06/13/2018 06:01:04                        |                  | Customer Sell                        |                    |       |
| )ate/Time                 | 06/22/2018 11:26:28                       |                           | 117.248            | 20                             | 2.220      | 06/12/2018 10:23:53                        | .3               | Customer Buy                         | NTBC               |       |
| ate/Time                  | 00/22/2010 11.20.20                       |                           | 117.248            | 10                             | 2.220      | 06/12/2018 10:23:38                        |                  | Customer Buy                         | NTBC               |       |
| Buy/Sell                  | CB  |                           | 117.248            | 20                             | 2.220      | 06/12/2018 10:23:00                        |                  | Dealer to Dealer                     | ATS                |       |
|                           |   |                           | 117.248<br>117.057 | 10<br>250                      | 2.220      | 06/12/2018 10:23:00 06/08/2018 12:40:41    |                  | Dealer to Dealer<br>Customer Buy     | ATS<br>NTBC        |       |
| Source: Fidelity.com, Jun | une 2018. For illustrative purposes only. |                           | 117.057            | 250                            | 2.250      | 06/08/2018 12:38:00                        |                  | Dealer to Dealer                     | NIBC               |       |
|                           |   |                           | 118.583            | 625                            | 2.031      | 06/06/2018 12:04:00                        |                  | Customer Buy                         |                    |       |

# **Understanding the Impact of Transaction Costs**



### Why pay more?

See how Fidelity's mark-up per bond compares to the competition for potential cost savings\*

| (1)                        | Morgan Stanley              | Wells Fargo                 | TD Ameritrade               | Merrill Lynch               | Fidelity                   |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
|                            | Average mark-up per<br>bond | Average mark-up per<br>bond | Average mark-up per<br>bond | Average mark-up per<br>bond | Actual mark-up per<br>bond |
| Corporate Bonds            | \$22                        | \$21                        | \$10                        | \$15                        | \$1                        |
| Municipal Bonds            | \$7                         | \$12                        | \$10                        | \$13                        | \$1                        |
| Example Trade: 22<br>Bonds | \$160-485                   | \$280-470                   | \$230-240                   | \$305-340                   | \$22                       |

The average mark-up per bond shown in the table is taken from a March 2018 study by Corporate Insight. This illustrates how you could save \$13 per bond by choosing Fidelity versus potentially spending essentially 14 times more elsewhere.

## Where can I learn more?

fidelity.com/fixed-income-bonds/bond-pricing

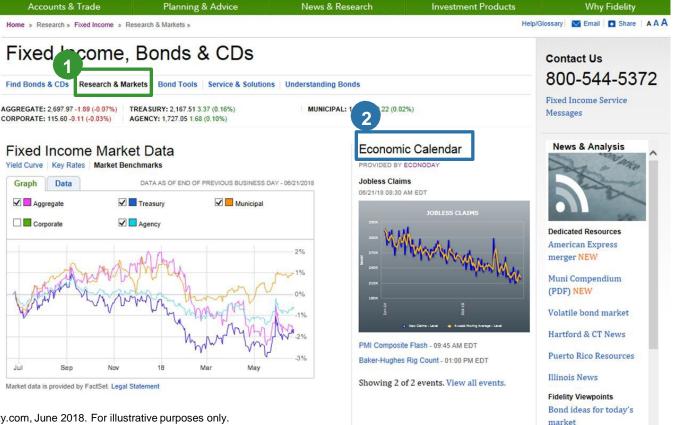
Source: Fidelity.com, Jul 2018. For illustrative purposes only.

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# **Bond Market News and Reports**

## News and analysis from Fidelity and 3<sup>rd</sup> parties



Source: Fidelity.com, June 2018. For illustrative purposes only.

News, commentary, and research reports are from third-party sources unaffiliated with Fidelity. Fidelity does not endorse or adopt their content. Fidelity makes no guarantees that the information supplied is accurate, complete, or timely, and does not provide any warranties regarding results obtained from its use.



# **Key Advantages of Individual Bonds**

Using Fidelity's proprietary tools to plan & monitor

**Bonds mature**—plan for future expenses, real estate tax payment, college education, reinvestment

**Cash flow planning**—bond valuations may fluctuate but cash flow is consistent, barring an issuer default

Research before you invest—bond structure and pricing

**Strive to lower costs**—use Depth of Book. Compare Fidelity to firms with significant markups. New issue products no charge at Fidelity<sup>1</sup>

**Monitor your holdings**—Fixed Income Analysis; Alerts on maturities, ratings changes

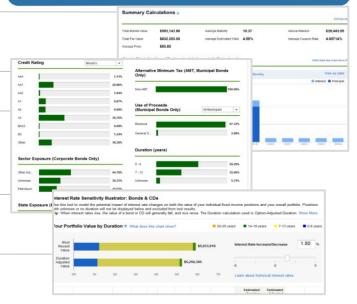


Research > <u>Fixed Income Bonds & CDs</u> > Bond Tools tab

For illustrative purposes only.

<sup>1</sup> Fidelity makes certain new issue products available without a separate transaction fee. Fidelity Brokerage Services LLC and National Financial Services LLC receive compensation for participating in the offering as a selling group member or underwriter.

## Fixed Income Analysis with interest rate sensitivity







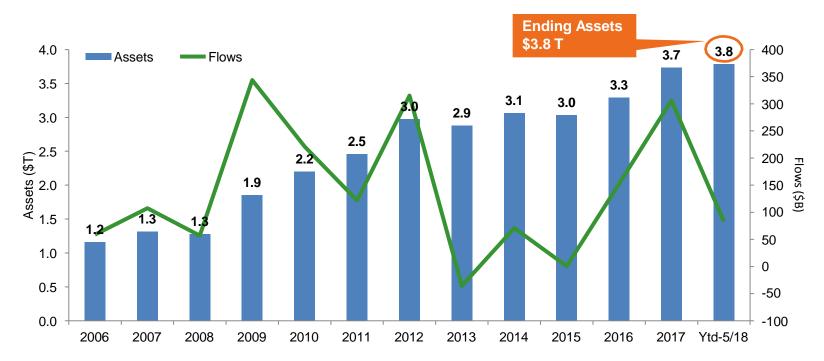
# How Do Bond ETFs Compare to Bond Mutual Funds?

Lee Sterne



# **Bond Fund Market Landscape**

### FIXED INCOME MUTUAL FUND GROWTH





# **Bond ETF Market Landscape**

### FIXED INCOME ETF ASSET GROWTH





# **Things to Know About COSTS**

| ETFs                                 | Mutual Funds                                   |
|--------------------------------------|--|
| Expense ratios                       | Expense ratios                                 |
| Commissions (may be waived)          | Load and no-load                               |
| Premium/ discounts & bid-ask spreads | Bought/ sold at NAV (may have redemption fees) |





# **Things to Know About TRADING ATTRIBUTES**

| ETFs  | Mutual Funds                             |
|---|--|
| Intra-day trading on secondary market           | Most transact <b>once a day</b> at close |
| <b>Allow</b> limit, stop and conditional orders | No limit, stop or conditional orders     |
| Allow shorting and margin                       | No shorting (margin 30 days)             |



## Where can I learn more on Fidelity.com?

Research > Learning Center > <u>Understanding how mutual funds, ETFs, and stocks trade</u> https://www.fidelity.com/learning-center/trading-investing/trading/trading-differences-mutual-funds-stocks-etfs



# Things to Know About ACCESS, TRANSPARENCY, and TAXES

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

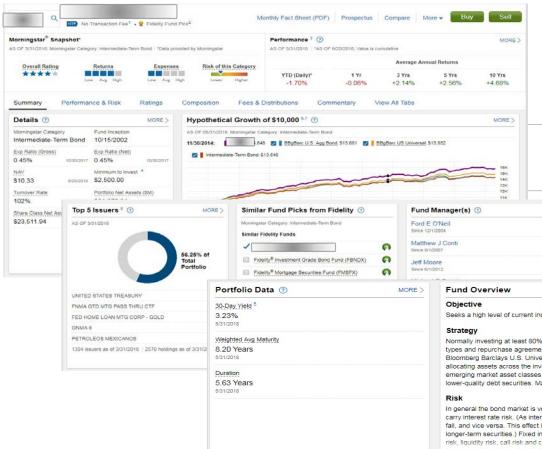


## Where can I learn more on Fidelity.com?

*Research > Learning Center > <u>What's in your ETF ? Understanding ETF portfolio composition</u> <u>https://www.fidelity.com/learning-center/investment-products/etf/whats-in-your-etf</u>* 



# **Mutual Fund Research**



## Commonly used pages include: SUMMARY

one-page summary with details on category, expense ratios, ratings, and objectives

### PORTFOLIO COMPOSITION View the Top 10 Holdings

COMPARE Perform a side-by-side comparison of up to five different securities

Seeks a high level of current income.

Normally investing at least 80% of assets in debt securities of all types and repurchase agreements for those securities. Using the Bloomberg Barclays U.S. Universal Bond Index as a guide in allocating assets across the investment-grade, high yield, and emerging market asset classes. Investing up to 20% of assets in lower-quality debt securities. Managing the fund to have ...

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



Images are for illustrative purposes only.

## **ETF Research**

Detailed Quote—Bid/Ask, Volume, and Yield Profile— Summary of Holdings, Performance and Structure Portfolio Composition—view the Top 10 Holdings **Compare**—side-by-side comparison of 5 similar ETFs

#### Profile

s a capitalization-weighted, non-leveraged, actively managed fixed income ETF with the benchmark index of Bloomberg Barclays U.S. Government/Credit 1-5 Year Bond Index. The ETF's geographic objective is Global with a focus on a blend of issuer types. Stated Objectives | Portfolio Characteristics Report | Fidelity Commentary

| What is it holding?<br>AS OF 08/20/2018 |   |  | How is it AS OF 06/20/2 | How is it                                 |           |                                  |
|---|---|--|-------------------------|---|-----------|----------------------------------|
| Q                                       | Make up 19.3                                  | op 10 Holdings<br>ake up 19.38% of portfolio |                         | Total Bli<br>Returns (Price Return) AS OF |           | Fidelity Man                     |
| B                                       | Top Debt Typ<br>Corporate (81                 |  |                         | -0.80%                                    | -0.539    | 10/06/2014                       |
|   | Top Credit Grade<br>Investment Grade (77,59%) |  | 4 Week                  | -0.03%                                    |           | 6 \$108.6M                       |
| Ğ                                       | Top Maturity<br>Short Term (!                 |  | 49.001                  | .0.00%                                    | MORE >    | Buy Online<br>Yes<br>ETF Structu |
|   | See more                                      | Top 10 Holdings<br>AS OF 06/20/2018          |                         |   | .38%      | Open-End In<br>Why this ma       |
|   |   | CASH   | Cash                    |   | 3.76%     |                                  |
|   |   | UST 1.625 05/31/23                           | UNITED S                | STATES TREA                               | SU 3.22%  |                                  |
|   |   | UST 1.875 09/30/22                           | UNITED S                | STATES TREA                               | SU 2.58%  |                                  |
|   |   | BAC 2.625 04/19/21 M                         | TN BANK OF              | AMERICA CO                                | ORP 2.11% |                                  |
|   |   | JPM 2.550 03/01/21 '21                       | I JPMORG                | AN CHASE &                                | CO 1.43%  |                                  |
|   |   | CSGN 3.450 04/16/21                          | CREDIT S                | SUISSE GROU                               | JP 1.38%  |                                  |
|   |   | F 3.339 03/28/22 '22                         | FORD MO                 | TOR CREDIT                                | C 1.35%   |                                  |
|   |   | MS 2.625 11/17/21 MT                         | N MORGAN                | STANLEY                                   | 1.22%     |                                  |
|   |   | AXP 2.250 05/05/21 '21                       | I AMERICA               | N EXPRESS                                 | CR 1.18%  |                                  |
|   |   | GS 2.625 04/25/21 '21                        | GOLDMA                  | N SACHS GR                                | OU 1.15%  |                                  |
|   |   | View 277 holdings 🗹 ।                        | .ong 276   Sho          | t O                                       |           |                                  |

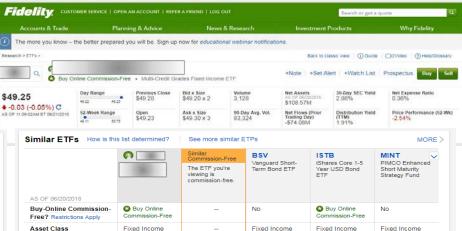
| How is it st                              | ructure                     | d?   |            |          | 40.05   | 0.00.004   |           |                    |  |
|---|-----------------------------|--|------------|----------|---|------------|-----------|--------------------|--|
| Sponsor<br>Fidelity Management & Research |                             |  |            |          | AS OF 06/20/2018 Buy-Online Commission-                     |            |           |                    |  |
| Inception Date                            |                             | Free? Restrictions Apply                                 |            |          |   |            |           |                    |  |
| 10/06/2014                                |                             | Asset Class<br>Investment Philosophy                     |            |          | F   |            |           |                    |  |
| Net Assets AS<br>\$108.6M                 |                             |  |            |          | A   |            |           |                    |  |
| Buy Online Co<br>Yes                      | mmissio                     | n-Free   |            |          | Price F   | erf. (52 V | Veeks)    | -2                 |  |
| ETF Structure<br>Open-End Inve            | Draw                        | Events   | Indicators | Com      | pare Tec  | nnical Ana | ilysis Se | ttings             |  |
| Why this matte                            | onosizo<br>Piluggili<br>Jul | 10 Ο 50.01<br>μ <sup>θη</sup> ρ <sup>μμ</sup> γόμ<br>Αυg | s H SO.06  | Oct 2017 | C 50.00 Voi<br>สไปไปปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิปฏิ | 18,227.00  | 2018      | (th)<br>the<br>the |  |
|   | -                           |  |            | 2017     |   |            | - NG      |                    |  |

| TODAY 2D 5D | 10D 1M 3M | 6M YTD 1Y 2Y 5Y | 10Y MAX | Frequency | DAILY - |
|-------------|-----------|-----------------|---------|-----------|---------|
|-------------|-----------|-----------------|---------|-----------|---------|

Actively Managed

<sup>, ո</sup>վկ<sup>ի</sup>վեր է ալկի<sub>տ</sub> մշխո<sub>վ</sub>վ իկիրու<sup>1</sup>։

-2.54% -----



Passively

Managed

-2.30%

----

50.70 50.55

50.40 60.25 50.10 49.95

49.60 49.65 49.50 40.25 49.25 3,128.00

ADVANCED CHART E

May

Apr

Passively

Managed

-2.53%

\$2.05B

0.06%

0.08

Actively Managed

-0.20%

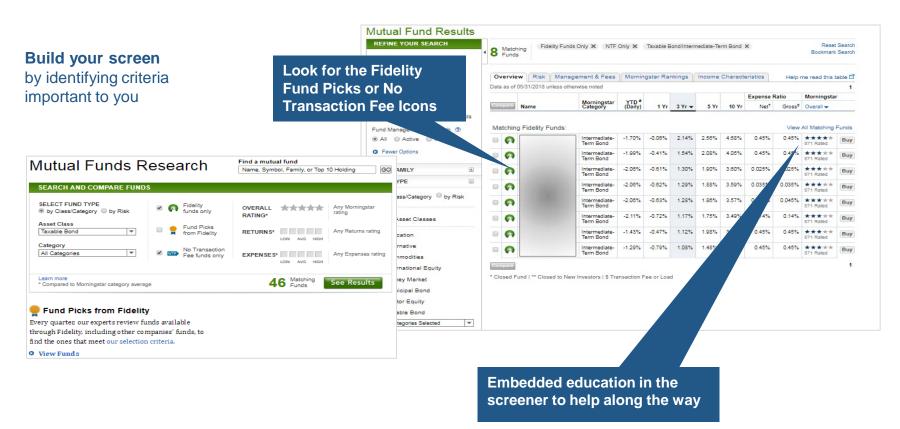
\$9.31B

0.35%

0.18

Images are for illustrative purposes only.

# **Mutual Fund Screener: Easy Search Tool**

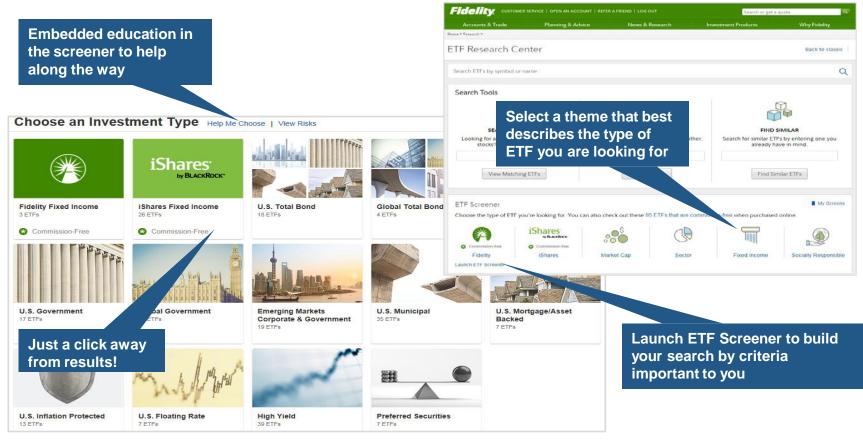


Images are for illustrative purposes only.

Certain FundsNetwork funds may be subject to separate and additional redemption fees imposed by the particular fund. Investors should refer to that fund's current prospectus for details.



# **ETF/ETP Screener: Two Ways to Get Started**



Free commission offer applies to online purchases of Fidelity ETFs and select iShares ETFs in a Fidelity brokerage account which may require 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). iShares ETFs and Fidelity ETFs are subject to a short-term trading fee by Fidelity if held less than 30 days.

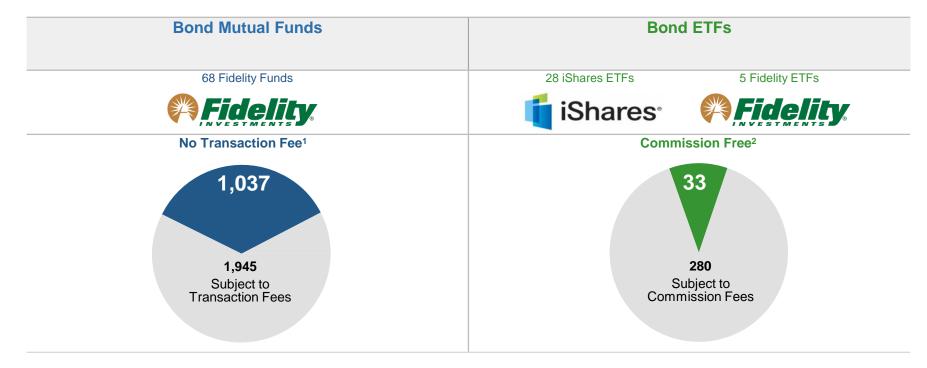


## **ETF/ETP Screener: Results**

| Criteria     Clear All |  |           | U.S. T    | otal Bon     | d Theme   |                              |                         |              | Showing 1 - 18 of 18 Results<br>AS OF 03:40 PM ET 04/07/2016 |                   |
|------------------------|--|-----------|-----------|--------------|-----------|------------------------------|-------------------------|--------------|--|-------------------|
| Then                   | ne: Fixed Income   | ×         | Search    |              | Basic Fac | ts Income<br>Characteristics | Performance &<br>Risk   | Technica     | is Analys  | t Opinions        |
| U.S.<br>back           | theme includes ETFs that may invest in a<br>Government, corporate and mortgage/ass<br>ed debt with an intermediate term maturity<br>tive or 50% or less exposure to short-terr | set-<br>V | Take acti | on on select | ed        | Go                           | 🛨 Add My ET             | Fs 🖨 Print R | esuits 🛛 Downio  | oad Results       |
| equa                   | rity debt. ETFs are excluded if high yield of<br>Is 30% or greater. Results are sorted by N<br>ts and exclude ETNs, Schedule K-1 Issue   | Vet       | Action    | Symbol       | Chos      | e specific Sear              | ch Criteria             |              | Net Assets +   | Theme<br>Criteria |
| lever                  | aged or inverse products.  |           |           | AGG          |           | ISHARES CORE US A            | AGGREGATE BOND          |              | \$34.9B  | (j)               |
|                        | MATCHES:   | 18        |           | BND          |           | VANGUARD TOTAL B             | OND MARKET              |              | \$29.2B  | 0                 |
| ADD                    | CRITERIA:  |           |           | BIV          |           | Print, Downl                 | oad or Save you         | ur results   | \$8.5B   | ٦                 |
| Sea                    | orch Criteria OR Vie   | ew All    |           | BOND         |           | PIMCO TOTAL RETUR            | RN ACTIVE EXCHANGETRA   |              | \$2.6B   | ١                 |
| +                      | Basic ETF / ETP Facts (14 Criteria)  |           |           | SCHZ         |           | SCHWAB US AGGRE              | GATE BOND               |              | \$2.5B   | 0                 |
| +                      | Objectives (12 Criteria)   |           |           | TOTL         |           | SPDR DOUBLELINE T            | TOTAL RETURN TACTICAL E | TF           | \$2.2B   | 1                 |
| +                      | Trading Characteristics (22 Criteria)  |           |           | GVI          | ⊗         | ISHARES INTERMED             | IATE GOVERNMENT CREDI   |              | \$2.0B   | ٩                 |
| +                      | Performance (16 Criteria)  |           |           | BNDS         |           | SPDR BARCLAYS AG             | GREGATE BOND            |              | \$1.2B   | 0                 |
| +                      | Volatility (10 Criteria)   | sion-fi   | ree ico   | n _          |           | VIDENT CORE US BC            | OND STRATEGY FUND       |              | \$409.0M   | 1                 |
| +                      | Fundamentals (12 Criteria)   |           |           | 51-          |           | ISHARES GOVERNM              | ENT CREDIT BOND         |              | \$362.0M   | 1                 |
| +                      | Technicals (4 Criteria)  |           |           | FBND         | ⊗ ¢       | FIDELITY TOTAL BON           | ND ETF                  |              | \$132.1M   | (j)               |



# **Bond Mutual Funds and ETFs on Fidelity.com**



1 Certain FundsNetwork funds may be subject to separate and additional redemption fees imposed by the particular fund. Investors should refer to that fund's current prospectus for details.

2 Free commission offer applies to online purchases of Fidelity ETFs and select iShares ETFs in a Fidelity brokerage account which may require 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). iShares ETFs and Fidelity ETFs are subject to a short-term trading fee by Fidelity if held less than 30 days.

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# **Fidelity Fixed Income ETFs**

| Fidelity Total<br>Bond ETF | Fidelity Limited Term<br>Bond ETF | Fidelity Corporate<br>Bond ETF | Fidelity Low Duration<br>Bond Factor ETF | Fidelity High Yield<br>Factor ETF |
|----------------------------|-----------------------------------|--------------------------------|--|-----------------------------------|
| FBND                       | FLTB                              | FCOR                           | FLDR                                     | FDHY                              |
|                            |                                   |                                |  |                                   |

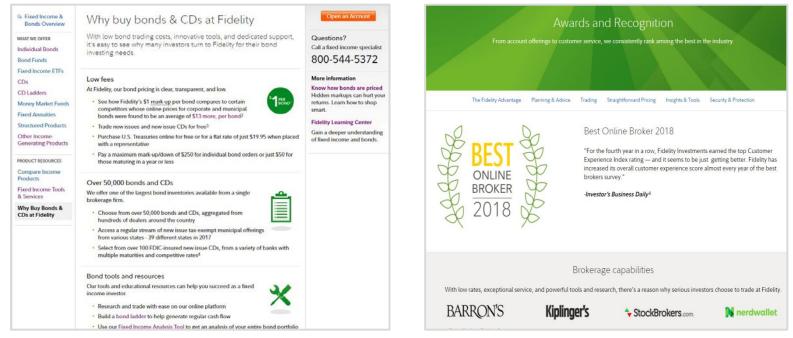




# **Summary and Next Steps**



# Why Buy Bonds at Fidelity?



Images are for illustrative purposes only.

A bond's mark-up is the difference (dollar and %) between a bond's Prevailing Market Price (PMP) and the trade price. The mark-up includes, but may not be limited to, Fidelity's \$1 per bond pricing. Details available on our <u>fee schedule</u>.

Further information about bond pricing and mark-ups may be found in this Fidelity Viewpoint.

1. Minimum mark-up or mark-down of \$19.95 applies if traded with a Fidelity representative. For U.S. Treasury purchases traded with a Fidelity representative, a flat charge of \$19.95 per trade applies. A \$250 maximum applies to all trades, reduced to a \$50 maximum for bonds maturing in one year or less. Rates are for U.S. dollar-denominated bonds; additional fees and minimums apply for non-dollar bond trades. Other conditions may apply; see Fidelity.com/commissions for details. Please note that mark-ups and mark-downs may affect the total cost of the transaction and the total, or "effective," yield of your investment. The offering broker, which may be our affiliate, National Financial Services LLC, may separately mark-up or mark-down the price of the security and may realize a trading profit or loss on the transaction.

# **Awards and Recognition: Fixed Income**

| MORNINGSTAR                                   |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
| Fund Awards                                   | Fund   |  |  |  |  |  |
| FIXED-INCOME<br>MANAGER<br>OF THE YEAR AWARDS | Ford O'Neil and Team, Fidelity Total Bond   Winner: 2016<br>Franco Castagliuolo and Bill Irving Nominees: 2011 and 2014<br>Fidelity Municipal Bond Team   Winner: 2003   Nominee: 2002,<br>2008, and 2011<br>John Carlson   Fidelity New Markets Income   Winner: 2011 |  |  |  |  |  |
| FANTASTIC 45 (2016)*<br>GREAT 38 (2017)*      | Fidelity Total Bond<br>Fidelity Total Bond<br>Fidelity Mortgage Securities   |  |  |  |  |  |
| MORNINGSTAR<br>4 & 5 STARS†                   | 26 Funds   |  |  |  |  |  |

### ANALYST RATINGS:<sup>†</sup> 13 GOLD | 14 SILVER | 10 BRONZE

- Fidelity California Municipal Income FA California Municipal Income GNMA Fidelity Intermediate Municipal Income • FA Intermediate Muni Income • Fidelity Limited Term Municipal Income • FA Limited Term Municipal Income • Fidelity Municipal Income • Fidelity New York Municipal Income • FA New York Municipal Income • Fidelity Tax-Free Bond • Fidelity Total Bond • FA Total Bond
- Fidelity Capital & Income FA Emerging Markets Income FA High Income Advantage Fidelity Investment Grade Bond • FA Investment Grade Bond • Fidelity Investment Grade Bond • FA Limited Term Bond • Fidelity Mortgage Securities • FA Mortgage Securities • FA Municipal Income • Fidelity New Markets Income • Fidelity Short-Term Bond • FA Short-Term Bond • Fidelity Strategic Income • FA Strategic Income
- Fidelity Conservative Income Bond Fidelity Floating Rate High Income FA Floating Rate High Income • Fidelity Government Income • FA Government Income • Fidelity Real Estate Income • FA Real Estate Income • Fidelity Strategic Dividend & Income • FA Strategic Dividend & Income • Fidelity U.S. Bond Index

|                       | LIPPER  |
|-----------------------|---|
| Fund Awards           | Fund  |
| 2016<br><b>3-Year</b> | Fidelity Capital & Income<br>Fidelity Intermediate Government Income<br>Fidelity Real Estate High Income<br>Fidelity Spartan Long-Term Treasury Bond Index**<br>Fidelity Spartan Short-Term Treasury Bond Index** |
| 5-Year                | Fidelity Intermediate Government Income<br>Fidelity Real Estate High Income<br>Fidelity Spartan Short-Term Treasury Bond Index**  |
| 10-Year               | Fidelity Intermediate Government Income   |
| 2017<br>5-Year        | Fidelity Real Estate High Income  |
| 10-Year               | Fidelity Intermediate Government Income   |
| 2018<br>5-Year        | Fidelity Capital & Income   |

\*\*Fidelity Advantage Class

| KIPLINGER                           |   |  |  |  |
|-------------------------------------|---|--|--|--|
| 25 Favorite No-load<br>Mutual Funds | Fund  |  |  |  |
| 2016                                | Fidelity Intermediate Muni Income<br>Fidelity New Markets Income                              |  |  |  |
| 2017                                | Fidelity Intermediate Muni Income<br>Fidelity New Markets Income                              |  |  |  |
| 2018                                | Fidelity Intermediate Muni Income<br>Fidelity New Markets Income<br>Fidelity Strategic Income |  |  |  |

<sup>†</sup> Source: Morningstar Direct. Analyst Ratings as of 5/31/18. See important information slide for more details.

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. Entities located in foreign countries can be affected by adverse political, regulatory, market, or economic developments in those countries. Although the fund normally tries to avoid generating income subject to the federal income tax or the federal alternative minimum tax, as market conditions vary, the fund may invest a portion of its assets in securities whose interest is subject to both taxes. A portion of the interest dividends you receive may also be subject to state income taxes. Income or fund distributions attributable to capital gains are usually subject to both state and federal income taxes.

<sup>34</sup> \*Each year, Morningstar's Director of Manager Research, Russ Kinnel, publishes his list of top funds that pass his rigorous screens. For 2017 "Great" and 2016 "Fantastic", out of a universe of more than 8,000 funds, only 38 funds and 45 funds passed all of his hurdles (cheapest quintile of category, portfolio managers with at least \$1 million invested, risk below "High" level, analyst rating of "Bronze" or higher, parent rating of "Positive," and life-of-manager returns above benchmark).

# **Your Next Steps**

### Locating the Products on Fidelity.com | More education and support services | How to buy

| Individual Bonds   | Bond Mutual Funds  | Bond ETFs   |  |  |
|--|--|---|--|--|
| <ol> <li>Fidelity.com &gt; Research &gt;<br/>Fixed Income</li> <li>https://fixedincome.fidelity.com/<br/>ftgw/fi/FILanding</li> </ol>  | <ul> <li>Fidelity.com &gt; Research &gt; Mutual Funds</li> <li>https://www.fidelity.com/fund-screener/research.shtml</li> </ul>  | <ul> <li>Fidelity.com &gt; Research &gt; Launch ETF Screener</li> <li>https://research2.fidelity.com/pi/etf-screener</li> </ul> |  |  |
| Fixed Income & Bonds         Market State       State State State         Image: State State       State State State         Image: State State       State State         Image: State State State       State State State         Image: State State State       State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State State         Image: State State State       State State | Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         SELECT FUND TYPE       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         SELECT FUND TYPE       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         SELECT FUND TYPE       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         Marcingsit Rome       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         Marcingsit Rome       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         Marcingsit Rome       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding       Image: Symbol Parity, or Too 10 Holding         Marcingsit Rome       Image: Symbol Parity, I | Start your ETF screen by applying filters to the left   |  |  |



For illustrative purposes only.

# **Important Information**

(from pages 16 and 33)

2. Fidelity commissioned Corporate Insight to study bond pricing, available online, for self-directed retail investors from five brokers that offer corporate and municipal bonds. The study compared online bond prices for over 40,000 municipal and corporate inventory matches between February 8th and February 14th, 2018. It compared municipal and corporate inventories offered online in varying quantities. The <u>Study</u> found on average that four competitors that bundled their mark-ups or fees into their online bond prices were asking an average of \$13.32 more per bond. Corporate Insight determined the average cost differential by calculating the difference between the costs of matching corporate and municipal bond inventory at Fidelity vs. firms in this study that do not disclose their mark-up before or at the time of trade, then averaging the differences across all of the competitor firms. For the table, the example competitors displayed in the table. For the 12 months ending February 2018, Fidelity's retail brokerage account holders who purchased individual municipal or corporate bonds purchased an average of 22 bonds per transaction.

3. Fidelity makes certain new issue products available without a separate transaction fee. Fidelity may receive compensation from issuers for participating in the offering as a selling group member and/or underwriter. For representative assisted treasury auction orders, a \$19.95 transaction fee applies.

4 (LEFT). For the purposes of FDIC insurance coverage limits, all depository assets of the account holder at the institution that issued the CD will generally be counted toward the aggregate limit (usually \$250,000) for each applicable category of account. FDIC insurance does not cover market losses. All of the new issue brokered CDs Fidelity offers are FDIC insured. In some cases, CDs may be purchased on the secondary market at a price that reflects a premium to their principal value. This premium is ineligible for FDIC insurance. For details on FDIC insurance limits, see <a href="http://www.fdic.gov">www.fdic.gov</a>.

4 (RIGHT) *Investor's Business Daily*<sup>®</sup> (IBD), January 2016, 2017, and 2018: Best Online Brokers Special Report. January 2016: Fidelity ranked in the top five in 10 out of 12 categories. Fidelity was named first in Trade Reliability, Research Tools, Investment Research, Portfolio Analysis and Reports, and Educational Resources. January 2017: Fidelity ranked in the top two in all 13 categories. Fidelity was named first in Research Tools, Portfolio Analysis and Reports, Investment Research, Educational Resources, and Planning Tools. January 2018: Fidelity ranked in the top five in 13 out of 14 categories. Fidelity was named first in Trade Reliability, Site Performance, Customer Service, Research Tools, Investment Research, Low-Cost/Free ETF Trading, Portfolio Analysis & Reports, Educational Resources, and Investment and Retirement Planning Tools. Results in 2017 and 2018 were based on having the highest Customer Experience Index within the categories composing the survey, as scored by 4,752 and 5,052 respondents, respectively, in the survey conducted by Investor's Business Daily's polling partner, TechnoMetrica Market Intelligence. © Investor's Business Daily, Inc. All rights reserved.



# **Important Information (Cont'd)**

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.

Interest income earned from tax-exempt municipal securities generally is exempt from federal income tax, and may also be exempt from state and local income taxes if the investor is a resident in the state of issuance. A portion of the income received may be subject to federal and state income taxes, including the federal alternative minimum tax. In addition, investors may be subject to tax on amounts recognized in connection with the sale of municipal bonds, including capital gains and "market discount" taxed at ordinary income rates. "Market discount" arises when a bond is purchased on the secondary market for a price that is less than its stated redemption price by more than a statutory amount. Before making any investment, investors should review the official statement for the relevant offering for additional tax and other considerations.

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

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References to individual securities are for illustrative purposes only, and should not be construed as investment advice.

Past performance is no guarantee of future results.

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, an offering circular, or, if available, a summary prospectus containing this information. Read it carefully.



# **Important Information (Cont'd)**

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Fidelity does not review the Morningstar data. For mutual fund performance information, you should check the fund's current prospectus for the most up-to-date information concerning applicable loads, fees, and expenses.

Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. To qualify for the award, managers' funds must have not only posted impressive returns for the year, but the managers also must have a record of delivering outstanding long-term risk-adjusted performance and of aligning their interests with shareholders'. Nominated funds must be Morningstar Medalists--a fund that has garnered a Morningstar Analyst Rating<sup>TM</sup> of Gold, Silver, or Bronze. The Fund Manager of the Year award winners are chosen based on research and in-depth qualitative evaluation by Morningstar's Manager Research Group. Morningstar's Manager Research Group consists of various wholly owned subsidiaries of Morningstar, Inc. including, but not limited to, Morningstar Research Services LLC. Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Analyst Ratings are based on Morningstar's Manager Research Group's current expectations about future events and therefore involve unknown risks and uncertainties that may cause such expectations not to occur or to differ significantly from what was expected. Analyst Ratings are not guarantees nor should they be viewed as an assessment of a fund's or the fund's underlying securities' creditworthiness. The Morningstar Analyst Rating is a subjective, forward-looking evaluation that considers a combination of qualitative and quantitative factors to rate funds on five key pillars: process, performance, people, parent, and price. Gold is the highest of four Analyst Rating categories. For the full rating methodology, go to corporate.Morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf.

Morningstar's 2016 U.S. Fixed-Income Fund Manager of the Year award recognizes Ford O'Neil and team (Jeff Moore, Matt Conti, and Michael Foggin) for Fidelity Total Bond Fund (FTBFX). Fidelity Advisor Total Bond Fund Classes A, C, M, I, and Z are classes of Fidelity Total Bond Fund and have different expense and performance characteristics as well as eligibility requirements. See prospectus for more details. • William Irving, Franco Castagliuolo, and Fidelity's Taxable Bond Management Team were nominated for the 2011 Morningstar Fixed-Income Manager of the Year for Fidelity GNMA (FGMNX). William Irving and Franco Castagliuolo were nominated for the 2014 Morningstar Fixed-Income Manager of the Year for Fidelity GNMA (FGMNX) and Fidelity Government Income (FGOVX). Effective 1/1/18, William Irving was appointed Managing Director of Research (MDR) in Fidelity's Global Asset Allocation (GAA) division. • The 2003 Morningstar Fixed-Income Manager of the Year award was won by Fidelity's Municipal Bond Fund Team, Fidelity Spartan Municipal Income. For the award, Morningstar evaluated 1,851 bond fund managers on long- and short-term returns, shareholder-friendly management style, and strength of conviction in investing decisions. The management team of Fidelity's municipal bond funds (all 16 funds) was nominated for the 2002 Morningstar Fixed-Income Manager of the Year. From Fidelity's muni fund lineup, Christine Thompson, Mark Sommer, and Jamie Pagliocco's team was nominated for the 2008 Morningstar Fixed-Income Manager of the Year. From Fidelity's muni fund lineup, Mark Sommer, Jamie Pagliocco, and Kevin Ramundo's team was nominated for the 2011 Morningstar Fixed-Income Manager of the Year. Effective 1/1/18, Christine Thompson was appointed Leader of Advanced Technologies for Investment Management for FMR Co. Effective 5/2/16, Jamie Pagliocco was appointed Head of Global Bond Trading for FMR Co. • As manager of Fidelity New Markets Income Fund, John Carlson was chosen from among five nominees as Morningstar's Fixed-Inco



# **Important Information (Cont'd)**

Lipper Fund Awards honor fund management firms and individual mutual funds that have outperformed peers based on risk-adjusted, consistent return. Lipper determined the award winners by calculating the highest Consistent Return over the 3-, 5-, and 10-year periods. Consistent Return is a quantitative metric that incorporates two characteristics: risk-adjusted return and the strength of the fund's performance trend. Fidelity Investments and Lipper are not affiliated. The third-party trademarks and service marks appearing herein are the property of their respective owners.

Kiplinger's magazine. Industry review of 25 no-load mutual funds. Each year, Kiplinger's Personal Finance compiles a list of their favorite no-load mutual funds. The list includes 25 funds with seasoned managers, a proven track record, and low fees.

The Morningstar RatingTM for funds, or "star rating," is calculated for funds with at least a three-year history. (Exchange-traded funds and open-end mutual funds are considered a single population for comparative purposes.) It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly excess performance (excluding the effect of sales charges, if any), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each fund category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

### Indices

All indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. Indexes are not illustrative of any particular investment, and it is not possible to invest directly in an index.

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

Bloomberg Barclays U.S. Corporate Investment Grade Index is a market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

Bloomberg Barclays Municipal Bond Index is an unmanaged index that includes investment-grade, tax-exempt, and fixed-rate bonds with maturities greater than two years selected from issues larger than \$75 million.

Bloomberg Barclays U.S. Aggregate Index is an unmanaged index that tracks domestic investment-grade bonds, including corporate, government, and mortgage-backed securities.

Bloomberg Barclays U.S. Treasury Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more.

IA SBBI U.S. Long-Term Corporate Bond Index is a market value-weighted index which measures the performance of long-term U.S. corporate bonds.

IA SBBI U.S. Intermediate-Term Government Bond Index is an unweighted index which measures the performance of five-year maturity U.S. Treasury Bonds. Each year a one-bond portfolio containing the shortest noncallable bond having a maturity of not less than five years is constructed. Bonds with impaired negotiability or special redemption privileges are omitted, as are partially or fully tax-exempt bonds starting in 1943. To measure holding period returns for the one-bond portfolio, the bond is priced (with accrued coupons) over the holding period and total returns are calculated.

The S&P 500® is an unmanaged market value-weighted index including 500 leading companies and captures approximately 80% coverage of available market capitalization

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