

# Fidelity AIM<sup>SM</sup> Dividend Index

## Index overview

September 2019

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# Dividend Investing at Fidelity

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# Fidelity Investments

Diverse investment capabilities across a multi-asset class platform



<sup>1</sup> Fidelity Management & Research Company and Fidelity Institutional Asset Management, as of 6/30/19. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company, a U.S. company, and its subsidiaries. Research professionals include both analysts and associates.

Fidelity Corporate Finance, as of 6/30/19.

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# Fidelity's Long Legacy of Dividend Investing

More than \$30 billion in equity income assets are supported by deep fundamental and quantitative research capabilities<sup>1</sup>



## Dividend Investing Expertise

Fidelity has been managing income strategies for over 50 years and offers **nine distinct Equity Income Strategies** across the yield/growth spectrum



## Large Asset Base

Fidelity manages **\$30B in Equity Income assets** in a number of different product structures and management styles



## Fundamental Research

Fidelity boasts one of the largest research teams in the industry, with more than 350 global equity, fixed income, and asset allocation research professionals<sup>2</sup>



## Quantitative Research

**Nearly 100 investment professionals** across equity, fixed income, and asset allocation supporting strategies for retail, intermediary, and institutional clients<sup>2</sup>

<sup>1</sup> Fidelity Investments, as of 6/30/19. Data is unaudited.

<sup>2</sup> Fidelity Management & Research Company and Fidelity Institutional Asset Management, as of 6/30/19. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company, a U.S. company, and its subsidiaries. Research professionals include both analysts and associates.

For illustrative purposes only.

Source: Fidelity Plan Sponsor Attitudes 2018 Survey.

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# Fidelity AIM Dividend Index

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## Index details

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### **IMPORTANT INFORMATION REGARDING HYPOTHETICAL PRE-INCEPTION RETURNS**

The inception date for the Fidelity AIM Dividend Index was 7/31/19. Returns prior to this date are considered pre-inception index performance (PIP). PIP information contained within the presentation is for use with institutions only and not to be used under any circumstances with retail investors. Any performance prior to the date of the index's inception is hypothetical and provided to help illustrate how the index may have performed had it been in existence over the stated time frames. The PIP data results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for all financial risk that may affect the actual performance of the Fixed Index Annuity (FIA). For instance, transaction costs, liquidity, or other market factors could have affected PIP performance. The level of the Fidelity AIM Dividend Index is calculated on an excess return basis (net of a notional financing cost) and reflects the daily deduction of a fee of 0.50% per annum. The fee is not related to the annuity. There are inherent limitations in PIP or back-tested performance. It does not represent actual trading or the impact certain material economic or market factors might have on FIA performance. The actual performance of the FIA may vary significantly from the PIP data. A description of the underlying index methodology can be made available upon request via email. The PIP data is calculated by the index calculation agent, S&P Dow Jones Indices.

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# Why Fidelity AIM Dividend Index?

 <b>Dividends</b>	 <b>Return Contribution in Various Environments</b>	 <b>Steadier Ride</b>
<p>Without the benefit of dividends, cumulative market returns would have been nearly 50% lower over the last 30 years.</p>	<p>High dividend strategies have the potential to contribute to returns in low or declining interest rate environments, and after long bull markets.</p>	<p>The Fidelity AIM Dividend Index employs a dynamic approach that may reduce volatility and deliver a steadier investment ride.</p>

# Fidelity AIM Dividend Index

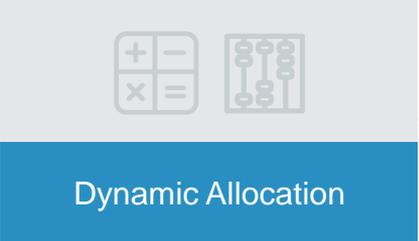
## Advanced Index Methodology (AIM)

### The Fidelity AIM Dividend Index

is a rules-based index that employs a dynamic asset allocation approach that blends the characteristics of high dividend stocks with U.S. treasuries, which may reduce volatility and deliver a steadier ride over time.



A combination of high dividend paying stocks, fixed income, and cash components



Dynamic allocation that reacts to changing market conditions



Exposure to high dividend stocks with treasury overlay, which may steady the investment over time

See additional information including risks involved on Important Information slide.

# Fidelity AIM Dividend Index: 3-Step Process

STEP  
1



## Selecting the Starting Universe

Approximately 125 stocks selected based on four metrics which measure their potential to pay and sustain dividends over time.

Various fixed income components seek to ensure a steadier ride is delivered.

Domestic Equity Component	Targeted Weights at Rebalance	Fixed Income Component
<b>Dividend Yield</b> targets companies with higher dividend yields	63%	2-Year Treasury Futures
<b>Payout Ratio</b> avoids firms with payouts that are too high and might be cut in the future	13.5%	5-Year Treasury Futures
<b>Dividend Growth</b> increases exposure to stocks with dividends that are growing	13.5%	10-Year Treasury Futures
<b>Correlation to 10-Year Treasury Yields</b> potentially reduce interest rate sensitivity	10%	30-Year Treasury Futures

STEP  
2



## Monthly Optimization

Calculate the historical volatilities of the equity and fixed income components to determine a combination with the highest estimated return potential, given a target volatility level of 5%

STEP  
3



## Daily Scaling

Analyze daily volatility levels of the combined portfolio and adjust components accordingly with a goal to meet a 5% volatility target

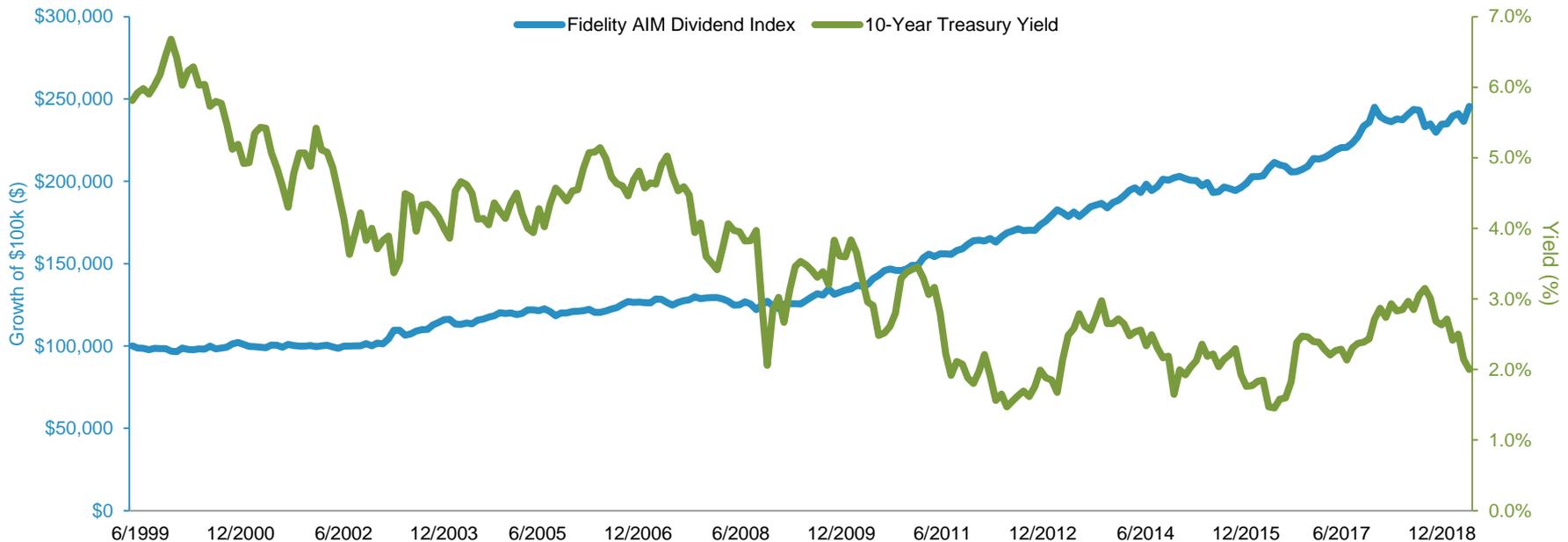
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# 3-Step Process Designed to Provide a Steady Ride

## Hypothetical pre-inception performance of the Fidelity AIM Dividend Index

**The dynamic allocation between equities and U.S. treasuries** seeks to help provide a steady ride in various market cycles and interest rate environments.



Source: Fidelity, FactSet, and Morningstar Direct, for the period 6/1/1999 to 6/30/19. **Past performance is no guarantee of future results.**

Index inception was 7/31/19. Returns of the Fidelity AIM Dividend Index prior to inception represent hypothetical pre-inception index performance (PIP), and returns for time frames after this date reflect actual index performance. PIP is based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected performance. Actual performance of the index may vary significantly from PIP data. The level of the Fidelity AIM Dividend Index is calculated on an excess return basis (net of a notional financing cost) and reflects the daily deduction of a fee of 0.50% per annum. The fee is not related to the annuity. The hypothetical performance information presented herein does not reflect fees and expenses that an investor would pay in a Fixed Income Annuity.

It is not possible to invest directly in an index. All market indices are unmanaged. Not intended to represent the performance of any fixed income annually.

# Appendix

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# Fidelity AIM Dividend Index: Equity Component Methodology

The equity component of the Fidelity AIM Dividend Index is designed to provide exposure to companies that have distributed high and sustainable dividends, while aiming to minimize sector, size, and single security risks versus the broader market

	Fidelity Dividend Index
<b>Investment Universe</b> Starting universe is based on market cap	Top 1,000 U.S. stocks based on market cap and up to 10% allocation to top 1,000 developed international stocks
<b>Security Selection</b> Within each sector, calculate composite score based on targeted factors	Select approximately top 125 stocks
<b>Portfolio Construction</b> Each stock is weighted based on its market cap weight plus an overweight that is equal for all constituents within that sector	Maintain sector-neutral portfolio with weights consistent with those of investment universe
<b>Rebalancing Frequency</b>	Annually

Source: Fidelity Investments.

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# Fidelity AIM Dividend Index Methodology

The Fidelity AIM Dividend Index is a rules-based index that employs a dynamic asset allocation approach that blends the characteristics of high dividend stocks with U.S. treasuries, which may reduce volatility and deliver a steadier ride over time.

## Starting Universe



### Equity

#### Fidelity Dividend Index for Rising Rates

Designed to reflect the performance of stocks of large and mid-capitalization dividend-paying companies that are expected to continue to pay and grow their dividends and have a positive correlation of returns to increasing 10-year U.S. Treasury yields.

The equity component level returns are computed net of the financing costs which are set at ICE LIBOR USD 1 Month rate.

### Fixed Income

#### Barclays U.S. 2-, 5-, 10-, and 30-Year Treasury Futures Indexes and cash

When the performance trend of the equally weighted Treasury basket is positive, then it is utilized as the fixed income component for the Index. However, when it is negative, the two worst performing Treasury futures indices are removed from the basket and replaced with cash.

## Monthly Optimization



### Monthly calculation and optimization

Calculate historical returns and volatility scores for the equity and fixed income components in the investment universe.

On a monthly basis, weight the investment universe components of the Index using an optimization algorithm to determine the base Index.

## Daily Scaling



### Daily Volatility Assessment

Assess volatility levels of the Index Components in the Base Index and adjust the exposure level to maintain the targeted annualized volatility of 5%.

### Scaling

The index may scale up or down exposure to the base index, up to 150%.

If the recent volatility of the Base Index exceeds 5%, the index will allocate less than 100% exposure to the Base Index and leave the residual weight in cash, and if the recent volatility of the Base Index is below 5%, the exposure allocated to the Base Index may increase but not exceed 150%.

**Fidelity AIM Dividend Index is calculated on an excess return basis (net of a notional financing cost) and reflects the daily deduction of a fee of 0.50% per annum.**

Source: Fidelity Investments.

# Hypothetical Pre-Inception Performance of the Fidelity AIM Dividend Index

Average Annual Total Returns (%) as of 6/30/19	1-Year	3-Year	5-Year	10-Year
Fidelity AIM Dividend Index	3.40	5.66	4.59	6.94

Source: Morningstar Direct, as of 6/30/19. **Past performance is no guarantee of future results.**

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# Glossary

Term	Definition
<b>Correlation to 10-Year Treasury</b>	A measure of the correlation of weekly changes in the 10-year Treasury yield with weekly stock returns.
<b>Dividend Growth</b>	A measure of growth in dividends per share over the last year.
<b>Dividend Yield</b>	A measure of trailing dividends over last 12 months divided by price per share.
<b>Market Capitalization</b>	The total dollar market value of all of a company's outstanding shares.
<b>Max Drawdown</b>	The maximum loss from a peak to a trough of a portfolio, before a new peak is attained.
<b>Payout Ratio</b>	A measure of trailing dividends per share over the past 12 months divided by earnings per share.
<b>Sharpe Ratio</b>	The Sharpe ratio is a measure of historical risk-adjusted performance. The higher the ratio, the better the fund's return per unit of risk.
<b>Standard Deviation</b>	A measure of dispersion of a set of data from its mean.

# Important Information



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Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies. In general the bond market, especially foreign markets, are volatile, and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. 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. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.

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