

Fidelity Stocks for Inflation Factor Index

Index Methodology Document

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Section 1: Introduction

Fidelity Factor Indexes are designed to provide investors exposure to strategic factors.

Index Definitions and Rationale

1. **Fidelity Stocks for Inflation Factor Index** is designed to reflect the performance of stocks of large- and mid-capitalization U.S. companies with attractive valuations, high quality profiles, and positive momentum signals, with structural tilts to sectors that tend to outperform in inflationary environments
 - **Rationale:** Provides multi-factor exposure with tilts toward inflation-sensitive sectors and industries

Index Methodology Summary

Parameter	Fidelity Stocks for Inflation Factor Index
Investment Universe	Top 1000 U.S. companies based on float adjusted market cap*
Sector Weights	25% overweight to inflation-sensitive sectors & industries
Portfolio Construction	<ol style="list-style-type: none">1. Calculate composite score based on value, quality and momentum factors while targeting smaller market capitalization than the benchmark2. Select highest-ranked stocks within each sector3. Assign equal active weights (i.e., all stocks overweighted by the same amount)4. Assign overweight to sectors that tend to outperform in inflationary environments
Rebalancing	Semi-annual

* Based on full list of U.S. stocks that meet liquidity and investability constraints; process detailed in Section 2.

There is no guarantee that a factor-based investing strategy will enhance performance or reduce risk. Before investing, investors should 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.

Section 2: Investment Universe

U.S. Investment Universe

Constructing the Fidelity Stocks for Inflation Index begins with selecting the largest 1,000 U.S. stocks based on market cap and certain liquidity and investability requirements. These largest 1,000 securities are the eligible investment universe for Fidelity Stocks for Inflation Index and are utilized to determine the weights of the broader U.S. equity market (U.S. Equity market).

Securities Excluded:

1. Remove any stocks whose country is not defined as the United States
2. Remove any stocks whose security type is not set to common stock. Also remove any stocks that are not the parent entity where there is a parent entity listed in the country/region of domicile. Should there be no parent entity, but multiple child entities listed in the country/region of domicile, the child entity with the highest ADV will be included.
3. Remove any remaining securities that are:
 - a. Limited Partnerships
 - b. BDCs
 - c. ADRs
 - d. Closed End Funds
 - e. UITs
 - f. Mutual Funds

Data Availability Screens:

1. Include only stocks with prices, market caps, and trading volumes greater than zero
2. Exclude any stock without pricing six months prior

Liquidity / Investability Screens:

1. Exclude all stocks in the bottom quintile of securities based on days to trade \$10 million
2. Exclude all stocks with less than 15% free float market cap

Sanctions

1. Fidelity Product Services LLC will exclude, as necessary, any security currently under sanction/with broad based government-imposed trading restrictions. These securities will be evaluated on a case-by-case basis by the Index Committee.

Top 1000 Selection: Sort the remaining stocks by free-float market cap. The market cap of all share classes is combined into a single value for the stock. The largest 1000 stocks comprise the eligible starting universe. Weights for constituents and sectors in the U.S. Equity market are also determined using combined free-float market cap.

Section 3: Index Construction

Fidelity Stocks for Inflation Factor Index

To determine the level of exposure each stock has to the targeted value, quality, and momentum factors, a composite score is calculated. The composite score is a weighted-average score based on multiple measures of the three factors. All stocks are reclassified into the new Sector Framework outlined in the Constructing the Index section below. Composite scores are calculated separately within each sector. Stocks are identified for inclusion in the index based on their composite factor score.

Characteristics of Fidelity Stocks for Inflation Factor Index

Factor	Weight	Definition
VALUE		
Free Cash Flow Yield*	25%	Free cash flow per share divided by the share price
EBITDA to Enterprise Value*	25%	Earnings before interest, tax, depreciation, and amortization divided by enterprise value
Tangible Book Value to Price*	25%	Company's total book value less the value of any intangible assets per share over share price
Earnings Over Next Twelve Months to Price*	25%	Based on consensus estimates of earnings per share over share price
QUALITY		
Free Cash Flow Margin*	33%	Profitability measure that indicates how efficient a company is at converting sales to cash, gauging whether or not the company has higher earnings quality
Return on Invested Capital*	33%	Provides an important measure of profitability relative to the capital invested, capturing how much profit a company generates with the assets equity and debtholders have committed, and therefore accounting for leverage
Free Cash Flow Stability*	33%	Measures consistency of a company's ability to generate positive free cash flow
MOMENTUM		
12-month Return Minus 1-month Return	35%	Cumulative twelve month total return minus last month's total return
Volatility-adjusted 12-month Return Minus 1-month Return	35%	Cumulative twelve month total return divided by monthly volatility minus last total month's return
12-month Earnings Surprise	15%	Comparison of EPS estimate from twelve months ago to actual EPS
12-month Average Short Interest	15%	Monthly average number of shares shorted / monthly average of shares traded may indicate the stock is overbought and momentum has run its course (favor stocks with lower short interest)

*Composite factor score for stocks in the Banks industry group determined using alternative weighting for the value and quality factors:

Factor	Weight	Definition
VALUE		
Tangible Book Value to Price	50%	Company's total book value less the value of any intangible assets per share over share price
Earnings Over Next Twelve Months to Price	50%	Based on consensus estimates of earnings per share over share price
QUALITY		
Return on Equity	50%	Net income over shareholder's equity
Debt to Assets	50%	Total debt divided by total assets; Metric uses -2 for its Z-score for the highest quintile of securities based on Debt to Assets and 0 for all other securities (favor stocks with lower Debt to Assets)

Each of the three factors (Value, Quality, and Momentum) is weighted equally.

Calculating Composite Factor Score

A z-score (i.e., ranked list accounting for the distribution of the security compared to the mean within the universe) for each factor is determined for each security. Z-scores are calculated for each security in the investment universe.

The z-scores are weighted using weights in the table above and then summed to compute a weighted-average factor score for each security. The z-score of these weighted-average factor scores is calculated to determine a final composite factor score for each security in the investment universe.

Constructing the Index

Index construction is an iterative process of selecting stocks with the highest composite factor scores within each sector, targeting a smaller market capitalization than the benchmark and tilting towards sectors that tend to outperform in inflationary environments.

The smaller market capitalization is achieved by adding the size Z-score to the portfolio's composite factor score until the size exposure of the index equals -0.5.

The process targets the selection of 100 stocks, but the final constituent count of the index may be more or less than 100 due to corporate actions.

The number of stocks selected in each sector is determined by the aggregate weight of each sector. Within each sector, each stock is weighted based on its market cap weight in the broader investment universe plus an overweight adjustment. The overweight adjustment applied is equal for all constituents within that sector. The purpose of this "equal active" weighting approach is to reduce the potential for concentration in certain stocks based solely on market cap. If necessary, rescale the final portfolio to 100%.

Sector Framework:

Pillar	Sector	Relative Weight
Commodities	Energy	+5%
	Materials	+5%
Pricing Power	Consumer Staples	+5%
	Health Care	+5%
Real Assets & Infrastructure	<ul style="list-style-type: none"> • Real Estate • Utilities • Airport Services (Industrials) • Highways & Railtracks (Industrials) • Railroads (Industrials) • Alternative Carriers (Communication Services) • Cable & Satellite (Communication Services) • Integrated Telecom Services (Communication Services) 	+5%
Other	Communication Services (remove industries listed above)	-5%
	Consumer Discretionary	-5%
	Financials	-5%
	Industrials (remove industries listed above)	-5%
	Information Technology	-5%

In order to emphasize inflation-sensitive sectors and industries, the sectors are weighted relative to the broader U.S. Equity Market depending on the inflation characteristics of the sector. The sectors and industries listed in the Commodities, Pricing Power, and Real Assets & Inflation pillars are overweighted by 5% at the expense of the other sectors. The purpose is to accommodate only moderate differences in sector exposure between the index and the broad market, while emphasizing sectors that have exhibited pricing power during inflationary periods.

Add 25% weight to the three pillars listed in the table above by taking weight from the remaining sectors in the “Other” pillar. For the sectors listed in the Other pillar, begin by subtracting an equal amount of weight from each sector. This other sector underweight (OSU) is 25% divided by number of sectors not included in the top 3 pillars. If the OSU is more than the market weight of any remaining sector, its weight is reduced to zero. Thus, weight will either be sector weight less OSU or zero.

For sectors and industries in the Commodities, Pricing Power, and Real Assets & Infrastructure pillars, add an equal amount of weight to each sector/pillar as detailed in the Sector Framework table above. Within each sector/pillar, the additional weight should be added equally to each stock within that sector/pillar. As an example, if 500bps is to be added to a sector that has ten stocks, then each stock will have its portfolio weight increase by 50bps.

Section 4: Index Maintenance

Frequency of Rebalance

The Fidelity Stocks for Inflation Factor Index is rebalanced semi-annually on the 3rd Friday of February and August.

Proformas will be generated starting 8 days prior to the rebalance date, based on data from 10 business days prior to the scheduled rebalance.

REBALANCE SCHEDULE DETAILS	
Fundamental Data Captured	10 days prior to the rebalance date
Pro Forma Begins	8 days prior to the rebalance date
Rebalance Effective Date	Third Friday of the rebalance month effective at next day market open

Ongoing Maintenance

The index is also reviewed on an ongoing basis to account for corporate events such as mergers, takeovers, delistings, group changes, suspensions, spin-offs/demergers or bankruptcies. Changes to index composition and related weight adjustments are made as soon as they are effective. Corporate actions will be treated as follows:

STOCK EVENT TYPE	SPDJI CORPORATE ACTION TREATMENT	DIVISOR CHANGE
Stock Forward/Reverse Split	Market cap neutral event. Shares change offset by price adjustment in the morning.	No
Investible Weight Factor (IWF) Change	IWF increase/decrease has no impact on index shares as the Additional Weight Factor (AWF) will adjust to offset the IWF change.	No
Share Issuance	Shares outstanding increase/decrease has no impact on index shares as the AWF will adjust to offset the shares outstanding change.	No
Standard rights treatment (market cap neutral) - default	If the rights are in the money, the spot price of the underlying security will be adjusted after market close of the day prior to the exDate and the index shares of the underlying security will adjust to offset the price adjustment thus making the event a market cap neutral event.	No
Special cash dividend (standard treatment)	The spot price of the underlying security will be adjusted after market close of the day prior to the exDate.	Yes
Delisting (due to bankruptcy or cancellation of listing)	The delisted security will be deleted from the index (at either the last traded price or a zero price).	Yes
Spin-off (Price Adjustment)	In the event that SPDJI applies the event as a non-ZPSO event, the spun-off company is added to the index with respect to spinoff ratio. The spot price of the underlying security is adjusted after market close of the day prior to the exDate by the closing spot price of the spunoff company multiplied by the spinoff ratio, thus making it a market cap neutral event. The divisor will not be adjusted.	No
M&A (Cash acquisition)	The acquired company is deleted from the index.	Yes
M&A (Stock acquisition, cash and/or stock acquisition)	The acquired company is deleted from the index. The index shares of the acquirer will not be adjusted.	Yes
Sanctions	S&P DJI reviews sanctions on a case-by-case basis. The sanctioned company will be removed as necessary from the index with approval from the Fidelity Product Services LLC Index Committee	Yes

Section 5: Index Calculations

The index is calculated by means of the divisor methodology. The index value is simply the index market value divided by the index divisor:

$$\text{Index Value} = \frac{\text{Index Market Value}}{\text{Index Divisor}}$$

$$\text{Index Market Value} = \sum_{i=1}^N (\text{Index Shares})_i * (\text{Price})_i$$

In order to maintain basket series continuity, it is also necessary to adjust the divisor at the rebalancing.

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}}$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}}$$

Index History

Index history will be calculated for daily values and month end holdings going back to 12/31/1995. Base value will be 100.00 starting as of 12/31/1995.

Data Distribution

Index data is supplied by S&P Dow Jones Custom Indices and index levels are made available through custom hosted websites.

- <http://www.customindices.spindices.com/custom-index-calculations/fidelity/all>

Index levels and holdings are also being made available to the following investment data providers:

- Bloomberg
 - Fidelity Stocks for Inflation Factor Index PR (FIDUSSIP)
 - Fidelity Stocks for Inflation Factor Index TR (FIDUSSIT)
- Morningstar

Section 6: Index Governance

Index Sponsor and Index Calculation Agent

The index sponsor is Fidelity Product Services LLC (FPS). FPS has appointed S&P Dow Jones as Index Calculation Agent to calculate and publish the indexes in accordance with this methodology document. The index sponsor may appoint an alternative Index Calculation Agent at any time.

Index Committee

The index is maintained by Fidelity Product Services LLC Index Committee. The Index Committee is responsible for reviewing the design and composition of the indexes. The Committee meets periodically to review market conditions and index performance, or on an as-needed basis to address major market developments. In addition, the Committee reserves the right to exercise its discretion in making decisions with respect to Index Policies or actions.

Fidelity Product Services LLC considers information about changes to its indexes and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements: Announcements regarding changes to any of the indexes will be made publicly available prior to the effective date of the change. All announcements will be published on <https://research2.fidelity.com/pi/FidelityIndex/RebalanceSchedules>

Index Holiday Schedule: Index schedule will follow the NYSE holiday schedule

Market Disruption: In situations where calculation of an index may not be possible under certain circumstances, including market disruptions, systems failures, weather conditions, acts of terrorism or any other event that is beyond the reasonable control of the Index Sponsor and/or Index Calculation Agent, the Index Calculation Agent will calculate the closing price of the indexes based on:

- (1) The closing prices published by the exchange, or
- (2) If no closing price is available, the last regular trade reported for each security before the exchange closed

If an exchange fails to open due to unforeseen circumstances, the Index Calculation Agent will treat the closures as a standard market holiday. The index will use the prior day's closing prices and shift any corporate actions to the following business day. If all exchanges fail to open or in other extreme circumstances, the Index Calculation Agent may determine not to publish the indexes for that day.

Disclaimers

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