



# Fidelity U.S. Small-Mid Cap Quality Focus Index

## Index Methodology Document

May 2020

# Table of Contents

<b>SECTION 1: INTRODUCTION.....</b>	<b>3</b>
Fidelity U.S. Small-Mid Cap Quality Focus Index .....	3
Index Methodology Summary.....	3
<b>SECTION 2: DEFINING INVESTMENT UNIVERSE .....</b>	<b>4</b>
Fidelity U.S. Extended Investable Market Index.....	4
<b>SECTION 3: CONSTRUCTING THE FIDELITY U.S. SMALL-MID CAP QUALITY FOCUS INDEX.....</b>	<b>5</b>
Calculating Composite Factor Score .....	5
Characteristics of Fidelity U.S. Small-Mid Cap Quality Focus Index .....	5
Computing the Composite Factor Score .....	5
Constructing the Index .....	5
<b>SECTION 4: MAINTAINING THE FIDELITY U.S. SMALL-MID CAP QUALITY FOCUS INDEX.....</b>	<b>6</b>
Frequency of Rebalance .....	6
Ongoing Maintenance .....	6
<b>SECTION 5: INDEX DATA CALCULATION AND DISTRIBUTION .....</b>	<b>7</b>
Data Calculation.....	7
Index Holiday Schedule .....	7
<b>DISCLAIMERS.....</b>	<b>8</b>

## Section 1: Introduction

Fidelity Factor Indices are designed to provide investors exposure to targeted strategic factors

### Fidelity U.S. Small-Mid Cap Quality Focus Index

The objective is to create a well-diversified portfolio that invests in companies based on quality metrics

### Index Methodology Summary

Parameter	Fidelity U.S. Small-Mid Cap Quality Focus Index
Universe	Fidelity U.S. Extended Investable Market Index
Portfolio Construction	<ul style="list-style-type: none"><li>• Calculate composite score based on targeted factors</li><li>• Using an optimizer, maximize exposure to the composite quality factor score</li><li>• Long only with constraints on active security weights set at a max upper bound of +3% in the universe. Minimum lower bound active security weight set at -3%</li></ul>
Rebalancing	Quarterly with a 10% constraint per rebalance

## Section 2: Defining Investment Universe

### Fidelity U.S. Extended Investable Market Index

The Fidelity U.S. Extended Investable Market Index is a float-adjusted market capitalization–weighted index designed to reflect the performance of U.S. mid- and small-cap stocks. This index is a subset of the Fidelity U.S. Total Investable Market Index, excluding the 500 largest companies.

## Section 3: Constructing the Fidelity U.S. Small-Mid Cap Quality Focus Index

### Calculating Composite Factor Score

To determine the level of exposure each stock has to the targeted quality factor, a composite score is calculated.

### Characteristics of Fidelity U.S. Small-Mid Cap Quality Focus Index

Target companies that have high and stable profitability and balance sheet quality:

Factor	Definition
Free Cash Flow Margin	Profitability measure that indicates how efficient a company is at converting sales to cash
Return on Invested Capital	Provides an important measure of profitability relative to the capital invested
Gross Profit Margin	Gross Profit over Revenue is a measure of profitability
Return on Equity	Net income over shareholder's equity
Earnings Growth Stability	Measures the consistency of earnings growth
ROA Stability	Indicates the stability of profits generated using total assets of a firm
Free Cash Flow Stability	Measures consistency of a company's ability to generate positive free cash flows
Accruals Stability	Metric of consistency of earnings quality of a firm
Leverage	Total debt divided by Shareholders' Equity
Accruals	Indicator of a company's earnings quality

### Computing the Composite Factor Score

Composite scores are calculated for each security in the Investment Universe.

### Constructing the Index

Index construction is designed as an optimized process to create a portfolio, which maximizes the composite factor scores each quarter subject to the constraints listed below:

- Long only (no short positions)
- Max/Min active sector exposure constrained relative to the Investment Universe
- Constraints on active security bets set at max upper bound of +3%; minimum lower bound active security weight set at -3%
- Quarterly turnover constraint of 10% per rebalance

## Section 4: Maintaining the Fidelity U.S. Small-Mid Cap Quality Focus Index

### Frequency of Rebalance

The index is rebalanced quarterly.

### 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
IWF Change	IWF increase/decrease has no impact on index shares as the 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 (mcap 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 company (at either the last traded price of a zero price).	Yes
Spin-off (Price Adjustment), add spinoff	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 multiply by the spinoff ratio, thus making it a mcap 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

# Section 5: Index Data Calculation and Distribution

## Data Calculation

Following data calculations will be generated

- a. Price Return
  - i. Index Name = **Fidelity U.S. Small-Mid Cap Quality Focus Index PR**
  - ii. Calculated Real Time = NYSE Trading hours (i.e. 9:30-4 EST)
  - iii. Ticker = FIDUSSQP
  
- b. Total Return
  - i. Index Name = **Fidelity U.S. Small-Mid Cap Quality Focus Index TR**
  - ii. Calculated as of EOD
  - iii. Ticker = FIDUSSQT

## Index Holiday Schedule

Index schedule will follow the NYSE holiday schedule

## Disclaimers

This document is provided by Fidelity Product Services LLC (FPS) solely in its capacity as a licensor of Fidelity Indices (the “Index” or “Indices”). The Indices are the property of FPS, a Fidelity Investments company. Neither the Indices nor any information related to the Indices presented in this document is investment advice nor a recommendation to buy or sell any security, strategy or investment product. FPS is not an investment adviser, broker-dealer, or issuer of securities and it does not have any fiduciary responsibility in respect of the Indices, licensee(s) of the Indices, or any product that may utilize the Indices.

FPS disclaims all warranties, express or implied, including all warranties of merchantability or fitness for a particular purpose or use. FPS does not guarantee the accuracy, completeness, or performance of any Index or the data included therein and shall have no liability in connection with any Index or Index calculation, errors, omissions or interruptions of any Fidelity Index or any data included therein. The Indices are unmanaged and are not available for direct investment. FPS uses an independent calculation agent to calculate each Index.

© 2020 FMR LLC. All rights reserved. The third-party trademarks and service marks are the property of their respective owners. All other trademarks and service marks are the property of FMR LLC or an affiliated company.

928223.1.0