



Fidelity Low Duration Investment Grade Factor Index

Index Methodology Document

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Section 1: Introduction

Fidelity Low Duration Investment Grade Factor Index: The index aims to optimize the balance of interest rate risk and credit risk such that returns and volatility characteristics are enhanced relative to traditional US investment grade floating rate note indices.

The index is designed to be a suitable benchmark for the creation of investable products such as exchange traded funds (ETFs).

Index Methodology

Parameter	Fidelity U.S. Low Duration Investment Grade Index
Investment Universe	<p>Components:</p> <ol style="list-style-type: none"> 1. U.S. Investment Grade Floating Rates Notes (FRN) < 5-Years (Component 1) <ul style="list-style-type: none"> ○ Industry types: Corporate issuers only (i.e. Industrial, Financial and Utility companies) ○ Amount outstanding: Minimum of USD 300mm par amount ○ Quality: Securities must be rated investment grade(Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. In cases where explicit bond level ratings may not be available, other sources may be used to classify securities by credit quality <ul style="list-style-type: none"> ● Expected ratings at issuance may be used to ensure timely index inclusion or to classify split-rated issuers properly. ● Unrated securities may use an issuer rating for index classification purposes if available. ○ Maturity: Minimum of 1 month to final maturity with an issue date of 1998 or later. Maximum of 4.9999 years to final maturity. Must have an original maturity of at least 18 months. ○ Taxability: Only fully taxable issues are eligible, including taxable municipal securities that are classified as corporates by the index calculation agent. ○ Currency: Principal and coupons must be denominated in USD ○ Market of Issue: <ul style="list-style-type: none"> ● SEC-registered securities, bonds exempt from registration at time of issuance, or SEC Rule 144A securities with or without registration rights are index eligible. A security with both SEC Regulation S (Reg-S) and SEC Rule 144A tranches is treated as one security in par value; to prevent double-counting, the 144A tranche is used to represent the issue and comprises the combined amount outstanding of the 144A and Reg-S tranches. ● Issues with global market of issue are included. ○ Permitted security types: <ul style="list-style-type: none"> ● FRNs with coupon step-ups ● 3-month LIBOR-based fixed-spread securities ● Corporate entities and funding agreements ● Bullet, putable and callable structures ○ Excluded security types: <ul style="list-style-type: none"> ● Fixed-rate bullet, putable, and callable bonds ● Fixed-rate and fixed-to-floating securities; securities not floating rate at issuance ● Bonds with equity-type features (e.g., warrants, convertibles, contingent capital securities) ● Inflation-linked corporate or government bonds ● Fixed-rate perpetuals ● Securitized bonds (e.g. MBS, ABS, CMBS, covered) ● Yankee CDs

- FDIC-guaranteed bank debt- e.g. CD's
- Illiquid securities with no available market quotes

2. U.S. Treasury Notes 7 to 10-Years (Component 2)

- Amount outstanding: Minimum of USD 300mm par amount
 - US Treasuries held in the Federal Reserve SOMA account (both purchases at issuance and net secondary market transactions) are deducted from the total amount outstanding. New issuance bought at auction by the Federal Reserve does not enter the index. Net secondary market purchases/sales are adjusted at each month-end with a one-month lag.
 - Quality: Securities must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. In cases where explicit bond level ratings may not be available, other sources may be used to classify securities by credit quality
- Maturity: Remaining maturity must be between 7 – 9.9999 Years
- Coupon: Fixed-rate coupon. Original zero coupon issues are included.
- Currency: Principal and interest must be denominated in USD
- Permitted security types:
 - Public obligations of the US Treasury
 - Bullet, putable, sinkable/ amortizing and callable bonds
 - Original issue zero coupons
- Excluded security types:
 - US Treasuries held in the Federal Reserve SOMA account
 - Inflation-linked bonds, floating-rate bonds
 - STRIPS, Treasury bills, bell-weather
 - State and local government series SLG bonds

Issuer Cap:	Corporate issuers capped at 3.5% of the index
Duration	Weights on the two components of the index are chosen to target an option-adjusted duration of 0.9 years.
Index Construction	<ol style="list-style-type: none"> 1. Component 1: Apply the inclusion criteria to the universe of US Investment Grade Floating rate notes < 5 Years to determine the securities included in the floating rate note component universe 2. Component 2: Apply the inclusion criteria to the universe of 7 – 10 year treasuries to determine the securities in the US treasury component universe 3. Calculate the option-adjusted durations for each component 4. Calculate the weights for each component required to achieve an option-adjusted duration of 0.9 years 5. Securities within Component 1 are reweighted according to market capitalization of each security, subject to an issuer cap of 3.5% for the combined, final index
Reconstitution	The index is rebalanced monthly. Qualifying securities issued, but not necessarily settled on or before the month-end rebalancing date qualify for inclusion in the following month's index if the required security reference information and pricing are readily available.

Section 2: Constituent Selection and Weighting

The performance index is a blend of two components: the U.S. Investment Grade Floating Rates Notes (FRN) < 5-Years and the U.S. Treasury Notes 7 to 10-Years. The proportion of these components is reset every month by a dynamic process which assigns weights based on the interest rate risk of the two components measured using option-adjusted duration (OAD). The weights are determined two business days prior to the month end (T-2) using the respective statistics universe (using the end of month maturity methodology) for each component. The OAD is calculated using the T-2 US Treasury curve. While the weights of the two components are to be determined on a T-2 basis, the final index constituents are taken from the respective statistics universe for each component as of the last day of the month. Between T-2 and T, we expect the final OAD to drift some due to unforeseen changes in the final universe composition, changes in the US Treasury yield curve, and price changes in the constituent bonds.

The blending weights for the two components are determined as follows:

$$Weight_{UST710} = \frac{(0.9 - Duration_{FRN5})}{(Duration_{UST710} - Duration_{FRN5})}$$
$$Weight_{FRN5} = \frac{(Duration_{UST710} - 0.9)}{(Duration_{UST710} - Duration_{FRN5})}$$

Once these weights are determined, we calculate the corporate issuer cap as $Cap = \frac{3.5\%}{Weight_{FRN5}}$. This cap will then be applied iteratively to all issuers in the U.S. Investment Grade Floating Rates Notes (FRN) < 5-Years component of the blended index in this manner:

1. Scale the Percent Market Values (PMVs) of all securities for each issuer exceeding the cap by $\frac{Cap}{Sum(PMV \text{ of securities for issuer})}$.
2. Add up the new PMVs of all securities in the index. This will be less than or equal to 100%. If it is 100%, the process is finished. Otherwise, the shortfall relative to 100% will be redistributed pro-rata to all remaining securities belonging to the issuers that do not violate the cap.
3. This may result in one or more issuers that did not originally violate the cap now violating the cap. Return to step 1.

Section 3: Index Maintenance

Frequency of Rebalance

The Index will rebalance monthly.

The blend of the two components – U.S. Investment Grade Floating Rates Notes (FRN) < 5-Years and U.S. Treasury Notes 7 to 10-Years – is reset every month by a dynamic process, which assigns weights based on the interest rate risk, or option-adjusted duration (OAD) of these 2 components. The weights should be determined on the “Analytics Date”, which is 2 business days prior (t-2) to the month end (t). The universe of the components mentioned here is the “statistics” (or the forward) universe, utilizing end of month maturity.

Even though the weights and duration (OAD) of the components are determined on t-2, the final constituents of the components are incorporated from the month end, and not t-2. Some drift in OAD is expected from:

1. Unforeseen changes to the statistics universe
2. Changes to the term structure of interest rates (US Treasury curve)
3. Price movement of the bonds in the stated components

Index Holiday Schedule

The index follows the US bond market holiday schedule.

Section 4: Index Governance

Index Sponsor and Index Calculation Agent

The index sponsor is Fidelity Investments. Fidelity Investments has appointed Bloomberg 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.

Pricing and Related Issues

Sources & Frequency

All index-eligible bonds are priced on a daily basis by Bloomberg's evaluated pricing service, BVAL

Pricing Quotes

Prices are quoted as a percentage of par.

Timing

- 3pm (New York time) each day.
- On early market closes, prices are taken as of 1pm (New York time) unless otherwise noted.
- If the last day of the month is a US holiday, prices from the previous business day are used

Bid or Offer Side

Bonds in the index are priced on the bid side.

Settlement Assumptions

- T+1 calendar day settlement basis.
- At month-end, settlement is assumed to be the first calendar day of the following month, even if the last business day is not the last day of the month, to allow for one full month of accrued interest to be calculated.

Verification

Daily price moves for each security are analyzed by the calculation agent's pricing team to identify outliers. Index users may also challenge price levels, which are then reviewed and updated as needed

Calendar

The Low Duration Investment Grade Factor Index follows the US bond market holiday schedule.

Index Committee

The index is maintained by Fidelity Investments 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 Investments 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 www.fidelity.com.

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 the index's primary pricing source which is Bloomberg's evaluated pricing service, BVAL , or
- (2) If no closing price is available the index will use the prior day's closing prices . If the market 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 markets fail to open or in other extreme circumstances, the Index Calculation Agent may determine not to publish the indexes for that day.

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