



Fidelity Canada Systematic Canadian Bond Index

Index Methodology Document

August 2019

FIDELITY CANADA SYSTEMATIC CANADIAN BOND INDEX	1
SECTION 1: INTRODUCTION	3
Index Methodology	3
SECTION 2: CONSTITUENT SELECTION AND WEIGHTING	6
SECTION 3: INDEX MAINTENANCE	7
Frequency of Rebalance	7
Index Holiday Schedule	7
SECTION 4: INDEX GOVERNANCE	8
Index Sponsor and Index Calculation Agent	8
Pricing and Related Issues	8
Index Committee	8
Index Policy	9
DISCLAIMERS	10

Section 1: Introduction

The Fidelity Canada Systematic Canadian Bond Index (“the Index”) aims to optimize the balance of interest rate risk and credit risk such that return characteristics are enhanced and risk profiles remain similar to the traditional Canadian investment grade fixed-income market. The universe of bonds for consideration in the Index consists of investment grade bonds denominated in Canadian Dollars.

Index Methodology

Parameter	Fidelity Canada Systematic Canadian Bond Index (“the Index”)
	<p>The Index tracks the performance of CAD denominated investment grade debt publicly issued in the Canadian domestic market, including sovereign, quasi-government, corporate, securitized and collateralized securities.</p> <p>With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating based on an average of Moody’s, S&P and Fitch.</p> <p>Qualifying securities must have at least one month remaining term to final maturity, at least 18 months to final maturity at point of issuance and a fixed coupon schedule.</p> <p>Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security.</p>
Investment Universe	<p>Qualifying Canadian sovereign securities must have a minimum amount outstanding of CAD 1 billion. Bills, inflation linked debt and strips are excluded from the Index; however, original issue zero coupon bonds are included in the Index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.</p> <p>Qualifying non-sovereign securities must have a minimum amount outstanding of CAD 100 million. Original issue zero coupon bonds and pay-in-kind securities, including toggle notes, also qualify for inclusion. Contingent capital securities (“cocos”) are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the Index.</p> <p>Equity-linked and legally defaulted securities are excluded from the Index.</p> <p>See Section 2 (below) for constituent selection and weighting</p>
Issuer Cap:	Corporate issuers are limited to a maximum exposure of 5% within the Index
Duration	The Index aims to maintain a duration equal to the duration of the Canadian Broad Market Bond Universe (M ¹ , defined below) +/- 0.2 years

Parameter	Canadian Broad Market Bond Universe (M ¹)
Investment Universe	<p>M¹ tracks the performance of CAD denominated investment grade debt publicly issued in the Canadian domestic market, including sovereign, quasi-government, corporate, securitized and collateralized securities.</p> <p>With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating based on an average of Moody's, S&P and Fitch.</p> <p>Qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at point of issuance and a fixed coupon schedule.</p> <p>Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security.</p> <p>Qualifying Canadian sovereign securities must have a minimum amount outstanding of CAD 1 billion. Bills, inflation linked debt and strips are excluded from M¹; however, original issue zero coupon bonds are included in M¹ and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.</p> <p>Qualifying non-sovereign securities must have a minimum amount outstanding of CAD 100 million. Original issue zero coupon bonds and pay-in-kind securities, including toggle notes, also qualify for inclusion. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in M¹.</p> <p>Equity-linked and legally defaulted securities are excluded from M¹.</p> <p>Securities are market capitalization weighted. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during the month are retained in the universe until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in M¹.</p>

Parameter	Canadian Broad Market Bond Universe Modified (M ²)
Investment Universe	<p>M² tracks the performance of CAD denominated investment grade debt publicly issued in the Canadian domestic market, including sovereign, quasi-government, corporate, securitized and collateralized securities. With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one month remaining term to final maturity, at least 18 months to final maturity at point of issuance, and a fixed coupon schedule. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security.</p> <p>Qualifying Canadian sovereign securities must have a minimum amount outstanding of CAD 1 billion. Bills, inflation linked debt and strips are excluded from M²; however, original issue zero coupon bonds are included in M² and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.</p> <p>Qualifying non-sovereign securities must have a minimum amount outstanding of CAD 100 million. Original issue zero coupon bonds and pay-in-kind securities, including toggle notes, also qualify for inclusion. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in M². Equity-linked securities and securities in legal default are excluded from M².</p> <p>"Index constituents are market capitalization weighted. Accrued interest is calculated assuming next-day settlement.</p> <p>Cash flows from bond payments that are received during the month are retained in M² until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in M².</p>

Section 2: Constituent Selection and Weighting

The Index is created by applying a systematic set of rules that optimize the exposure to macroeconomic factors, specifically nominal interest rates and credit, in order to improve risk-adjusted performance, while also closely mimicking the interest rate duration of M¹.

For bonds with effective maturity under 10 years, the Index construction rules reduce exposure to Government of Canada (GoC) bonds and increase the exposure to Corporate (Corp) bonds of similar maturity, which generally yield more. The reverse approach is applied to bonds with maturity longer than 10 years, where Corp exposure is reduced. Overall exposure to Corp is limited to control credit risk.

M¹ is first created to determine key characteristics used for construction of the Index. For this purpose, M¹ securities are grouped by term, sector, and rating (Term: Based on years to effective maturity, 1 month-5 years (<5), 1-5 years (>=1; <5.0), 5-10 years (>=5; <10.0), 10-20 years (>= 10.0; <20.0) and 20+ years (>=20.0). Sector: Government of Canada (GoC), Provincials, and Corporates. Rating: Corporates segregated by composite rating (AA, A and BBB). Composite is median of NRSRO; M¹ is a 1 year + maturity universe, whereas the Index inclusion rules additionally permit securities with remaining maturity between 1 month and 1 year, as long as other inclusion criteria of M¹ are met, hence creating a larger universe, called M². The intention of expanding the universe from M¹ to M² for the Index is to avoid selling securities because of the maturity cutoff of M¹. The weights of security groups within the Index are outlined below.

Index component weights:

1. <5 GoC = weight 0%; securities from M²
2. <5 Provincial = same as 1-5 Provincial group in M¹; however securities from M²
3. <5 Corp AA = same as 1-5 Corp AA group in M¹; however securities from M²
4. <5 Corp A = same as 1-5 Corp A group in M¹; however securities from M²
5. <5 Corp BBB = TOTAL 1-5 exposure of M¹ MINUS (1 + 2 + 3 + 4); however securities from M²

6. 5-10 GoC = weight 0%
7. 5-10 Provincial = same as the corresponding group in the M¹
8. 5-10 Corp A = same as the corresponding group in the M¹
9. 5-10 Corp BBB = TOTAL 5-10 exposure of the M¹ MINUS (6 + 7 + 8)

10. 10-20 GoC = TOTAL 10-20 exposure of the M¹ MINUS (11 + 12 + 13)
11. 10-20 Provincial = same as the corresponding group in the M¹
12. 10-20 Corp A = corresponding group in the M¹ scaled by the variable long_scale
13. 10-20 Corp BBB = corresponding group in the M¹ scaled by the variable long_scale

14. 20+ GoC = TOTAL 20+ exposure of the M¹ MINUS (15 + 16 + 17)
15. 20+ Provincial = same as the corresponding group in the M¹
16. 20+ Corp A = corresponding group in the M¹ scaled by the variable long_scale
17. 20+ Corp BBB = corresponding group in the M¹ scaled by the variable long_scale

(Initial long_scale value is set to 40%; Provincials do NOT include Municipal issuance of provinces. Municipal issuances are part of the M¹, but EXCLUDED from the Index. In addition, corporate securities with effective maturity longer than 5 years and rated AA or above are also excluded from the Index.)

Once the weight for each component is set as above, eligible securities within each component of the Index are weighted proportional to their market capitalization. Note that the security weights are proportional to their market capitalization within components, but since component weights itself are not market capitalization weighted, the resulting weights of securities, at Index level, are not expected to match their market capitalization weight.

The allocation is further modified as follows, in the order below.

1. Cap CTD of Corp to 40% of overall duration and floor at 30% of overall duration:

The contribution to duration (CTD) of Corp in the Index is capped at higher of 40% of total duration of M^1 , or CTD of Corp in M^1 . If necessary SOLVE for lower, non-negative long_scale until the condition is met. If condition cannot be met even at long_scale =0, then set long_scale to 0 and prorata reduce <5 and 5-10 Corp BBB exposure of the Index and offset that exposure into respective <5 and 5-10 GoC components until the condition is met.

Floor Corp CTD of the Index at 30% and if necessary increase long_scale to stay above the floor. The resulting is offset is made from respective 10-20 and 20+ GoC Component.

2. Preserve Corp exposure as long as CTD of Corp < 45% of overall duration:

At rebalance, Corp component weights should not decrease from their respective ending weights in the Index at rebalancing, unless CTD of Corp > 45% (the offset is made from GoC first, followed by PROV of same maturity band).

3. Duration overlay process:

To preserve duration similar to M^1 , a simple adjustment is made at the time of monthly rebalance.

If the duration of the blend created so far is shorter than the M^1 , then the weights of all bonds with duration less than the M^1 are pro rata decreased, while the weights of all bonds with duration greater than the M^1 are pro rata increased until the duration of the Index equals that of the M^1 .

Similarly, if the duration of the blend created so far is longer than the M^1 by at least 0.2 years, then the weights of all bonds with duration less than the M^1 are pro rata increased, while the weights of all bonds with duration greater than the M^1 are pro rata decreased until the duration of the Index is equal to that of the M^1 plus 0.2 years. Duration limits cannot be breached and if necessary, this process may be reiterated until condition is met.

4. 5% Issuer Cap:

For Corp issuers (as recognized by Ticker) with exposure > 5%, redistribute exposure pro rata to other Corp issuers until issuer cap is met. Preserve overall Corp weight as determined by algorithm. Issuer Cap is the final step and cannot be breached.

Section 3: Index Maintenance

Frequency of Rebalance

The index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month.

New issues must settle on or before the calendar month end rebalancing date in order to qualify for the coming month. No changes are made to constituent holdings other than on month end rebalancing dates.

Index Holiday Schedule

Index schedule will follow the Investment Industry Association of Canada's (IIAC) Debt Markets Committee schedule.

Section 4: Index Governance

Index Sponsor and Index Calculation Agent

The Index sponsor is Fidelity Investments. Fidelity Investments has appointed ICE as Index Calculation Agent to calculate and publish the Index 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 ICE

Pricing Quotes

Prices are quoted as a percentage of par.

Timing

- The Canadian bond market close of business

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.

Calendar

The Index schedule will follow the Investment Industry Association of Canada's (IIAC) Debt Markets Committee schedule.

Index Committee

The Index is maintained by Fidelity Investments Index Committee (the "Committee"). The Committee is responsible for reviewing the design and composition of the Index. 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 the Index and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements: Announcements regarding changes to the Index 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>.

Data Distribution: Additionally, data related to the Index will be made available to the following investment data providers:

- Bloomberg
 - Fidelity Canada Systematic Canadian Bond Index (FCSI)
- Morningstar
- RIMES
- State Street Bank
- Markit Digital
- Fidelity Investments Canada

Market Disruption: In situations where calculation of the 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 Index based on:

- (1) The closing prices published by the Index's primary pricing source, which is ICE's evaluated pricing service, 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 Index for that day.

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.

895520.2.0