



# Fidelity Small-Mid 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 Small-Mid Factor Index** is designed to reflect the performance of stocks of mid- and small-capitalization U.S. companies with attractive valuations, high quality profiles, positive momentum signals, and lower volatility than the broader market
  - **Rationale:** Smaller size stocks have historically outperformed the market over time

## Index Methodology Summary

Parameter	Fidelity Small-Mid Factor Index
Investment Universe	The Fidelity U.S. Extended Investable Market Index: Top 3000 U.S. companies, excluding the largest 500 companies, based on float adjusted market cap*
Sector Weights	Sector weights reset to be sector-neutral at each reconstitution
Portfolio Construction	<ol style="list-style-type: none"><li>1. Calculate composite score based on targeted factors</li><li>2. Select highest-ranked stocks within each sector</li><li>3. Assign equal active weights (i.e., all stocks overweighted by the same amount)</li></ol>
Rebalancing	Semi-annual

\* Based on full list of U.S. stocks that meets 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

### 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: Index Construction

### Fidelity Small-Mid Factor Index

#### Calculating Composite Factor Score

To determine the level of exposure each stock has to the targeted value, quality, momentum, and low volatility factors, a composite score is calculated. The composite score is a weighted-average score based on multiple measures of the four factors. 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 Small-Mid Factor Index

The Fidelity Small-Mid Factor Index provides investors with exposure to smaller size companies using the following factors:

Factor	Weight	Definition
<b>VALUE</b>		
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
<b>QUALITY</b>		
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
<b>MOMENTUM</b>		
12-month Return Minus 1-month Return	50%	Cumulative twelve month total return minus last month's total return
Volatility-adjusted 12-month Return Minus 1-month Return	50%	Cumulative twelve month total return divided by monthly volatility minus last total month's return
<b>LOW VOLATILITY</b>		
5-yr Standard Deviation of Price Returns	33%	Accounts explicitly for the trailing long-term price volatility of each stock, putting more weight on companies with more stable returns (favor stocks with lower standard deviation of returns)
5-yr Beta	33%	Measures a stock's sensitivity to market movements, placing more emphasis on stocks that perform better when the market declines (favor stocks with lower beta)
5-yr Standard Deviation of EPS	33%	Adds a measure of financial stability by accounting for the volatility of a company's earnings, instead of evaluating only price volatility (favor stocks with lower standard deviation of EPS)

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

Factor	Weight	Definition
<b>VALUE</b>		
<b>Tangible Book Value to Price</b>	<b>50%</b>	Company's total book value less the value of any intangible assets per share over share price
<b>Earnings Over Next Twelve Months to Price</b>	<b>50%</b>	Based on consensus estimates of earnings per share over share price
<b>QUALITY</b>		
<b>Return on Equity</b>	<b>50%</b>	Net income over shareholder's equity
<b>Debt to Assets</b>	<b>50%</b>	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 four super factors (Value, Quality, Momentum, and Low Volatility) are weighted equally.

## Constructing the Index

Index construction is an iterative process of combining the composite factor score, security selection and security weighting.

The process targets the selection of 600 stocks, but the final constituent count of the index may be more or less than 600 due to corporate actions.

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 intersection group. 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%.

## Section 4: Index Maintenance

### Frequency of Rebalance

The Fidelity Small-Mid 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 spinoff 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

## 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 Small-Mid Factor Index PR (FIDUSSMP)
  - Fidelity Small-Mid Factor Index TR (FIDUSSMT)
- Morningstar

# Section 6: Index Governance

## Index Sponsor and Index Calculation Agent

The index sponsor is Fidelity Investments. Fidelity Investments 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 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](http://www.fidelity.com)

**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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