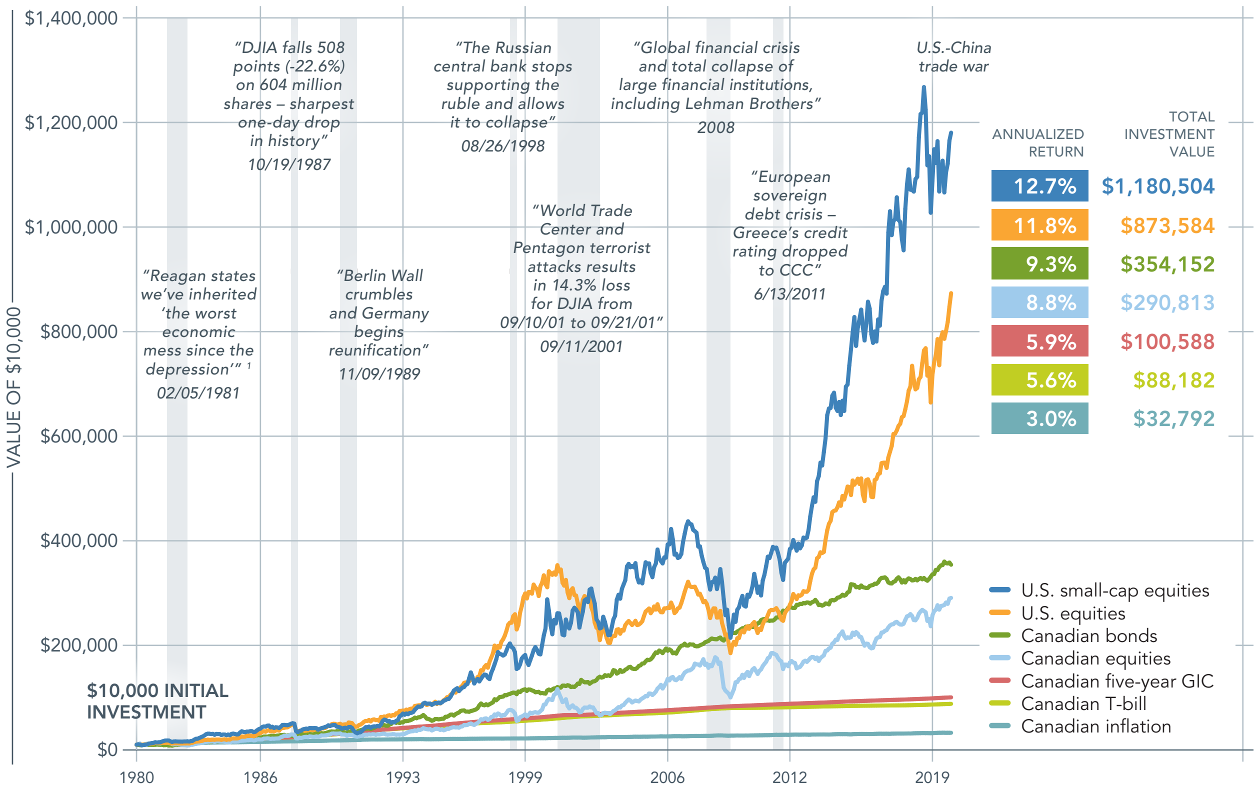
INVESTING FOR SUCCESS

Perspective on market behaviour over the short and long term

Focus on the big picture – 40 years of returns examined

Many events have affected markets in the past; however, over the long term, markets have historically bounced back. Investors who stayed the course increased their wealth – and as you can see, the longer they stayed invested, the better.



January 1, 1980, to December 31, 2019, inclusive.

[1] Address to the Nation on the Economy, February 5, 1981.

The graph represents an investment of $10,000 in stocks, bonds and cash (as indicated above), and accounts for inflation from January 1, 1980, through December 31, 2019. The mathematical table is used to illustrate the effects of the compound growth rate and is not intended to reflect future values of the fund or returns on investment in any fund. All indicated returns are total returns in Canadian dollars as at December 31, 2019. It is not possible to invest directly in an index. Indexes are not managed and do not have management fees and expenses.

Sources: Ibbotson Associates, Refinitiv, TSX Group, Bank of Canada, Department of Monetary and Financial Analysis and Fidelity Investments Canada ULC. Indexes used: U.S. small-cap equities: Ibbotson U.S. Small Stock Index; U.S. equities: S&P 500 Index; Canadian equities: S&P/TSX Composite Index; Canadian bonds: FTSE Canada Universe Bond Index; Canadian five-year GIC: chartered bank-administered rates; Canadian T-bills: FTSE Canada 91-Day T-Bill Index; inflation: Canadian consumer price index.

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Time is money.

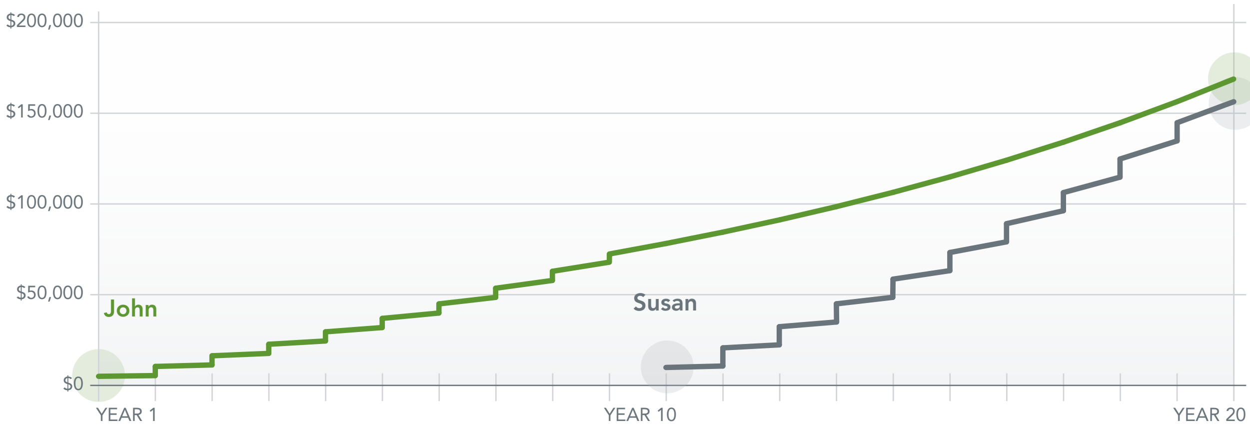
It's easy to put off investing. The common perception is that if you don't have enough money to invest now, it's better to contribute more later. But in fact, one of the best ways to build wealth is to start early – even if it's only a small amount.

John makes ten annual contributions of $5,000 and receives an 8% annual return. He stops investing after ten years, and holds on to the investment for a further ten years, at an 8% annual return.

Susan makes ten annual contributions of $10,000 at an 8% annual return. She ends up with less than John, even though she invested twice as much money, because she started later.

So the sooner you invest, the more time your money has to grow and benefit from the power of compounding.

The power of compounding



	John	Susan
Years contributed	10	10
Years invested	20	10
Total amount contributed	$50,000	$100,000
Total amount at the end of the period	**$168,887**	**$156,455**

This example assumes an 8% annual return during years invested. The rate of return shown is used to illustrate the effects of the compound growth rate and is not intended to reflect future values of the fund or returns on investment in any fund.
Source: Fidelity Investments Canada ULC.

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The risks of "safe" investments

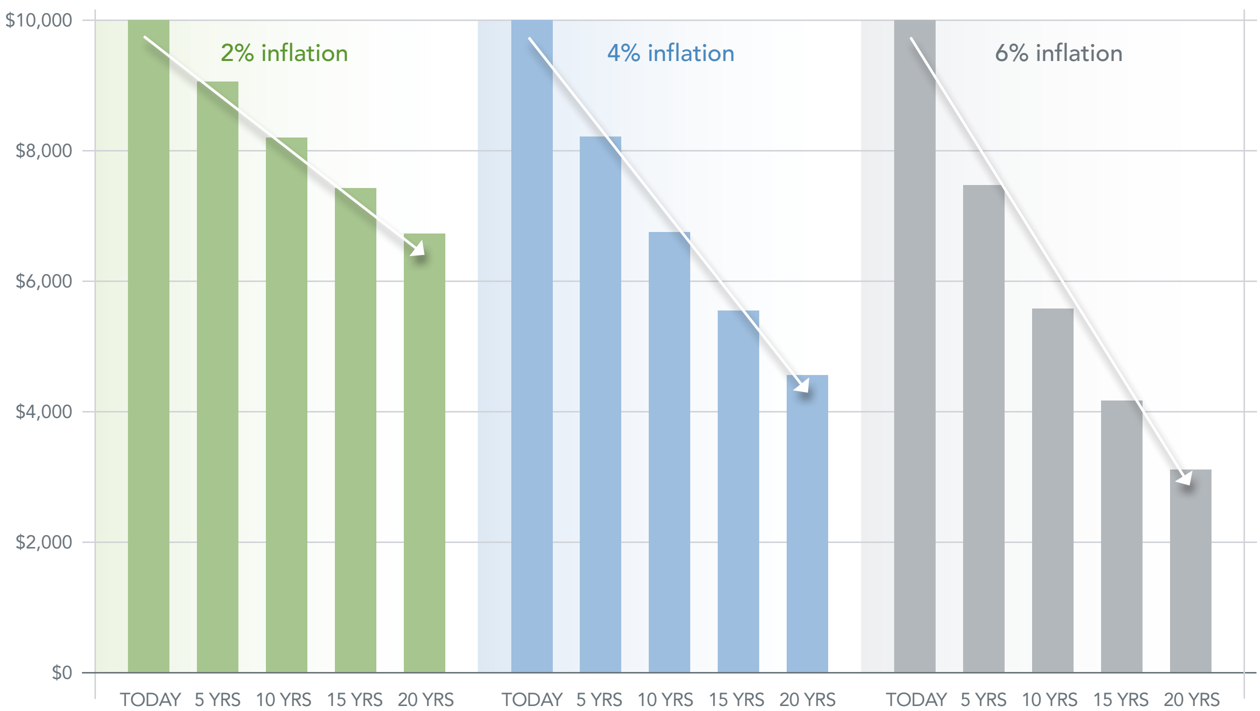
When calculating your investment goals, you should always factor in inflation. Although inflation is currently low, the future holds no guarantees – and even low rates can eat away at your savings.

The risk of inflation is one reason so-called "safe" investments such as GICs may not be so safe after all. Often they have low returns, so on their own they may not generate enough to meet your goals, once the increased cost of living is factored in.

Consider diversifying your portfolio with equities for better growth potential, to offset the impact of inflation.

Erosion of purchasing power

The chart illustrates the effect of inflation on $10,000. Even at the relatively low rate of 2%, $10,000 shrinks to $6,729 of purchasing power in 20 years.



Source: Fidelity Investments Canada ULC.

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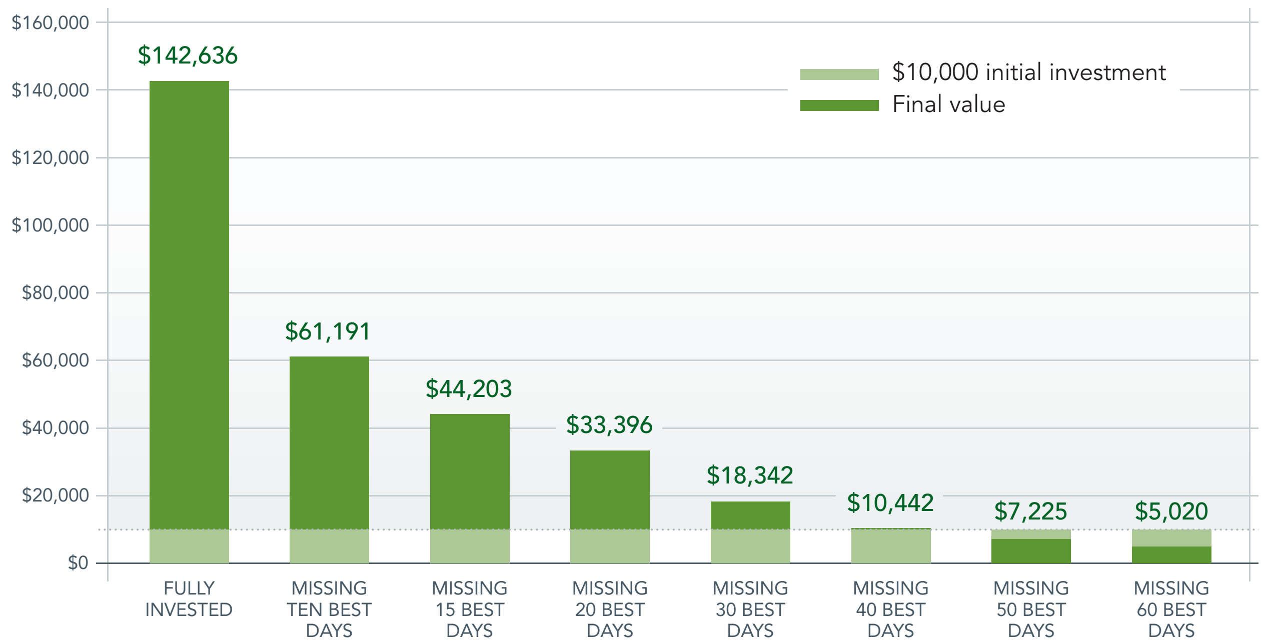
Don’t miss out.

“Buy low. Sell high.” It’s the ideal long-term investment strategy. Except without a crystal ball, it’s impossible. And the costs of getting it wrong are high. Every time you buy and sell, you incur additional costs, and worse still, you risk missing out on the market’s best days. A better strategy is to stay fully invested.

Annualized returns in the S&P/TSX Composite Index

$10,000 invested from January 1, 1986 to December 31, 2019



Source: Refinitiv. S&P/TSX Composite Index total returns from January 1, 1986 to December 31, 2019. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

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Diversification = less risk

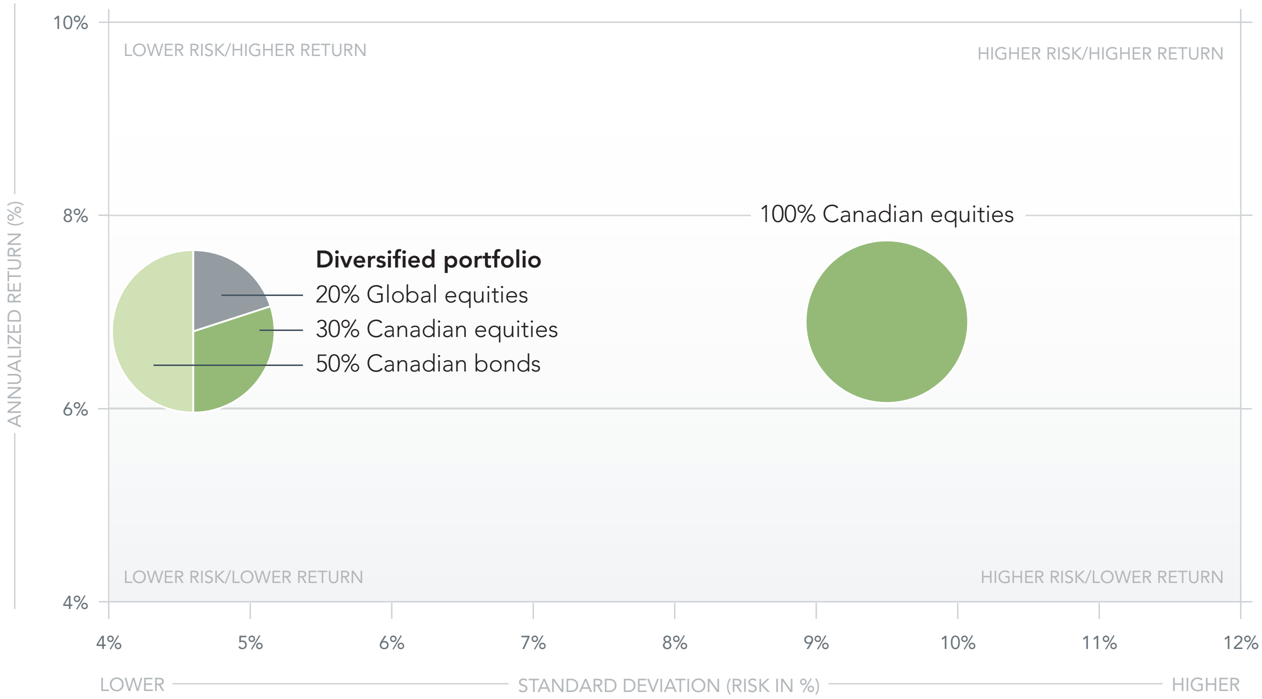
Which is riskier, stocks or bonds? The right answer is "both": either one can be risky if it's the only type of investment you have. That's why it's important to diversify – to put your money into different types of investments.

Stock market investments – also known as equities – tend to produce a higher average annual return. But they also have a greater "standard deviation" or risk – their value can swing widely.

Bonds tend to have lower returns, but they are also less volatile.

As the chart shows, by combining stocks and bonds in your portfolio, you can lower your risk while still adding enough growth to help reach your investment goals.

Ten-year risk and return for the period ending Dec. 31, 2019



Source: Refinitiv. Ten years ending December 31, 2019. Canadian equities represented by the S&P/TSX Composite Index. Annualized return: 6.9%; standard deviation: 9.5%. Diversified portfolio represented by 20% MSCI World Index (global equities), 30% S&P/TSX Composite Index (Canadian equities) and 50% FTSE Canada Universe Bond Index. Annualized return: 6.8%; standard deviation: 4.6%. All indexes are based on total return. It is not possible to invest directly in an index. All returns are in Canadian dollars.

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Time heals all.

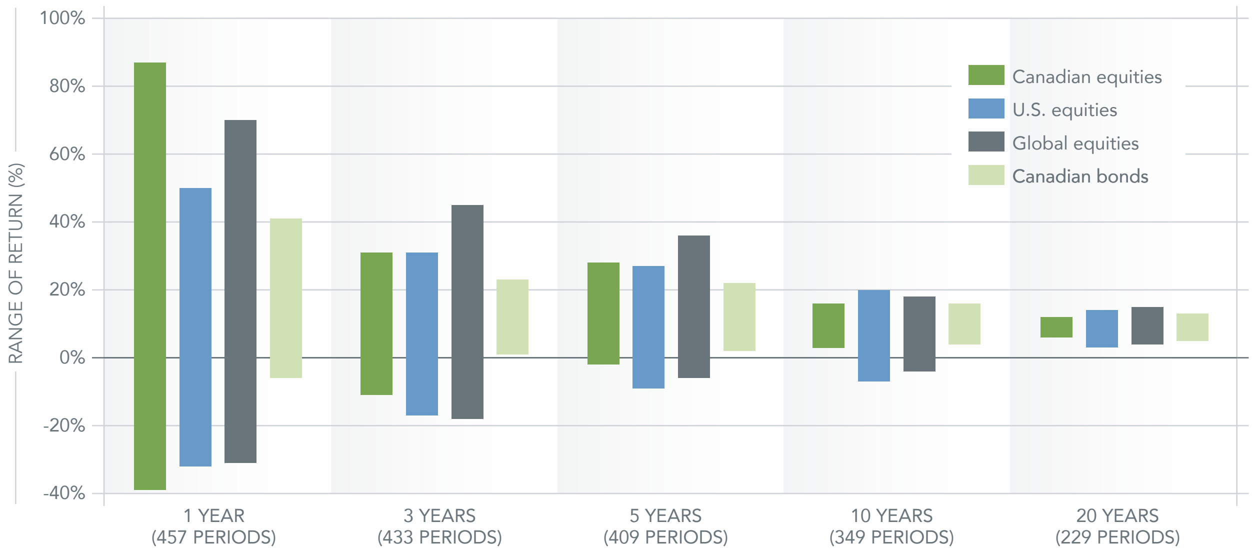
Many investors shy away from equity investments, fearing volatility. It's true that over the short term, equity returns can fluctuate substantially. But historically, equities tend to become less volatile the longer you hold on to them, while continuing to provide the potential for growth.

While it's important to be aware of risk, being too conservative can also be risky. Interest-bearing investments alone may not generate the growth you need to build retirement savings – especially when inflation is factored in.

Putting at least some of your money in equities may give you a better chance of reaching your savings goals. And the longer you have to invest, the less of a concern volatility should be.

Time reduces volatility of return

A comparison of the highest and lowest returns for various investment time frames from December 1980 to December 2019*



*For example, the results for the one-year investment time frame are based on 457 sample one-year periods: Dec. '80 to Dec. '81…Dec. '18 to Dec '19.

Sources: Refinitiv. Indexes used: Canadian equities, S&P/TSX Composite Index; U.S. equities, S&P 500 Index; global equities, MSCI World Index; Canadian bonds, FTSE Canada Universe Bond Index. Based on monthly total returns (CDN$), except S&P500 Index. Past performance is no guarantee of future results. The index returns presented are calculated monthly total returns in CDN$ (includes reinvested dividends) from December 1980 to December 2019. The three-, five-, ten- and 20-year periods reflect annualized returns. It is not possible to invest directly in an index. Returns are in CDN$ and include reinvested dividends. As at December 31, 2019.

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Understanding your investment return

Two ways to calculate a rate of return are **time-weighted return** and **dollar-weighted return**.

Both are valid methods with different applications. A time-weighted rate of return helps in evaluating the performance of a fund or how a portfolio manager has performed.

A dollar-weighted rate of return helps in evaluating the overall performance of an account after your personal account activities, such as contributions and withdrawals have been factored in.

As an investment fund manager, Fidelity uses the time-weighted methodology when reporting returns of the funds we manage.

Comparison: Time-weighted vs. dollar-weighted return

RETURN TYPE	WHAT IT MEASURES	BEST FOR EVALUATING	ANSWERS THE QUESTION(S)
Time-weighted (investment return)	▪ Investment return for a specific period.	▪ The performance of the **specific investment or portfolio manager**. ▪ Comparing two different investments.	▪ How did the investment perform during a specific period? ▪ How did the portfolio manager perform?
Dollar-weighted (personal rate of return)	▪ Account return, including: 1. changes in the account value and 2. the impact of the amount and timing of contributions and withdrawals.	▪ Personal return factoring in the impact of contributions and withdrawals.	▪ What was **my personal return**, factoring in the contributions/withdrawals that I made during a specific period?

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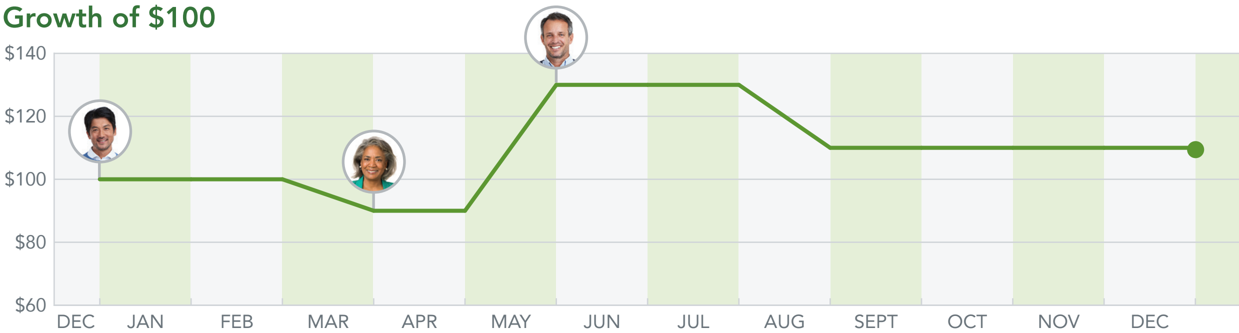
Case study: Same investment, three different dollar-weighted return experiences

Let's consider the following hypothetical example of three investors. Tom, Jill and Adam all purchased shares of a mutual fund (Fund A).

Fund A started the year at a price of $10 per unit. It then moved down and up before closing the year at $11 per unit. The fund's investment return for the year is 10%.

Growth of $100



As shown in the table below, the time-weighted return is identical for all three investors. However, the dollar-weighted rate of return varies for each investor according to the size and timing of their contributions and withdrawals.



	TOM	JILL	ADAM
STARTING INVESTMENT	**$100**	**$50**	**$20**
ADDITIONAL PURCHASES DURING THE YEAR	$0	$50 (March 31)	$80 (May 31)
TOTAL AMOUNT INVESTED	**$100**	**$100**	**$100**
TIME-WEIGHTED (INVESTMENT RETURN)	10%	10%	10%
DOLLAR-WEIGHTED (PERSONAL RATE OF RETURN)	10%	19%	-15%
ENDING ACCOUNT VALUE (INVESTMENT RETURN +/– CASH FLOWS)	$110	$116	$90

Time-weighted return and dollar-weighted return are two different ways to measure the return experience of an investment. If you want to know what return your account realized when you factor in the timing and magnitude of cash flows, the dollar weighed return method is the right one to use. If you want to evaluate the performance of your investment or investment manager, independent of your own activities, a time-weighted return is more appropriate.

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Understanding mutual fund sales charges

When you buy a mutual fund, you may pay a fee (or commission) to the investment professional selling you the fund. This commission is also known as a sales charge or load. There are two basic types of sales charges, but both are calculated as a percentage of your original purchase amount:

- **An initial sales charge (ISC)** is paid by you when you invest in a mutual fund.
- **A deferred sales charge (DSC)** is paid only when you sell your mutual fund investment – the percentage generally declines the longer you hold your investment. If you hold your mutual fund investment long enough, this charge will be reduced to zero.

An ISC is payable at time of purchase.

- You and your investment professional negotiate the amount you pay.
- The charge is typically between 0% and 5% of your initial investment amount.
- Front-end loads reduce the amount of your initial investment. The fund company deducts the sales charge from the amount you invest and pays it to your dealer (who pays the advisor) as a commission.

Here's how it works:

Original client investment **$10,000**	–	Based on a **1% ISC**, the advisor earns a **$100 fee**	=	From the original amount, **$9,900 is** invested in the fund

A DSC is paid by the fund company.

With a DSC, 100% of your money is invested in the mutual fund, and the fund company pays the dealer (who pays the advisor) a commission at the time of purchase. So in this case, you don't pay any fee out of your own money *as long as you hold your mutual fund investment for a pre-determined number of years*. If you redeem your investment before the end of that time, you will pay an early redemption fee based on the original cost of your investment and how long you held it. This fee will be deducted from your withdrawal amount.

The following table shows you a typical example of how this works:

A Typical Deferred Sales Charge Schedule

IF YOU REDEEM A DSC MUTUAL FUND	YOU'LL PAY A CHARGE OF
During the first year	6.0%
During the second year	5.5%
During the third year	5.0%
During the fourth year	4.5%
During the fifth year	3.0%
During the sixth year	1.5%
After six years	zero

Some DSCs, often referred to as "low load," have shorter schedules and lower early redemption fees. For example:

A Typical Low Load Deferred Sales Charge Schedule

IF YOU REDEEM LOW LOAD	YOU'LL PAY A CHARGE OF
During the first year	2.0%
During the second year	2.0%
During the third year	zero

Regardless of any change in the value of the account, the DSC redemption is based on your original investment amount.

For illustrative purposes only we will use the following, an original investment of $10,000, a 3% DSC and a current account value of $11,000

$11,000 − **$300** = **$10,700** which will paid out to the client.

As you can see, the fees charged on mutual funds and when those fees are paid vary. In addition to these commissions, you will pay fees to the investment manager for managing the fund's assets, as well as for paying the fund's operating costs known, as the management expense ratio or MER. It's important that you understand the fees and the payment process before you commit to a mutual fund investment, to ensure it meets with your investment time horizon.

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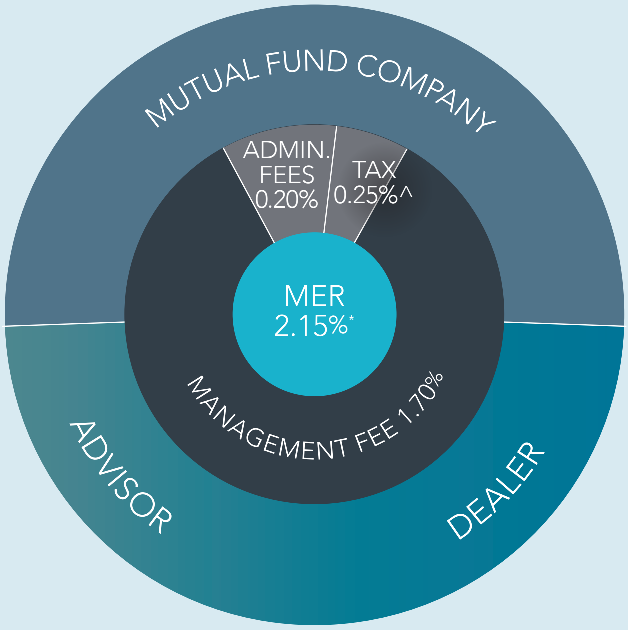
Management expense ratio explained

When you invest in a mutual fund, you and everyone else invested help pay for the expertise and administration to manage that fund. This fee is known as the management expense ratio (MER). The MER is collected at the fund level, meaning it is deducted from the fund's assets before returns are calculated. Below are some examples of the services and expenses that may be covered by the MER.

Your mutual fund company

- Ongoing professional portfolio management
- Research and analytic support
- Administrative costs
- Distribution costs, including trailing commissions[1]
- Legal, audit, custodial fees
- Filings with the provincial securities commissions
- Regulatory costs: Financial reporting, simplified prospectus, Funds Facts
- Pricing and bookkeeping
- Employee salaries
- Marketing costs

A typical balanced fund



^Includes other operating expenses and tax (GST/HST)

You can generally find the MERs on a fund company's website, in Fund Facts documents and in management reports of fund performance.

Your financial advisor can provide you with a variety of services and professional guidance to meet your financial objectives.

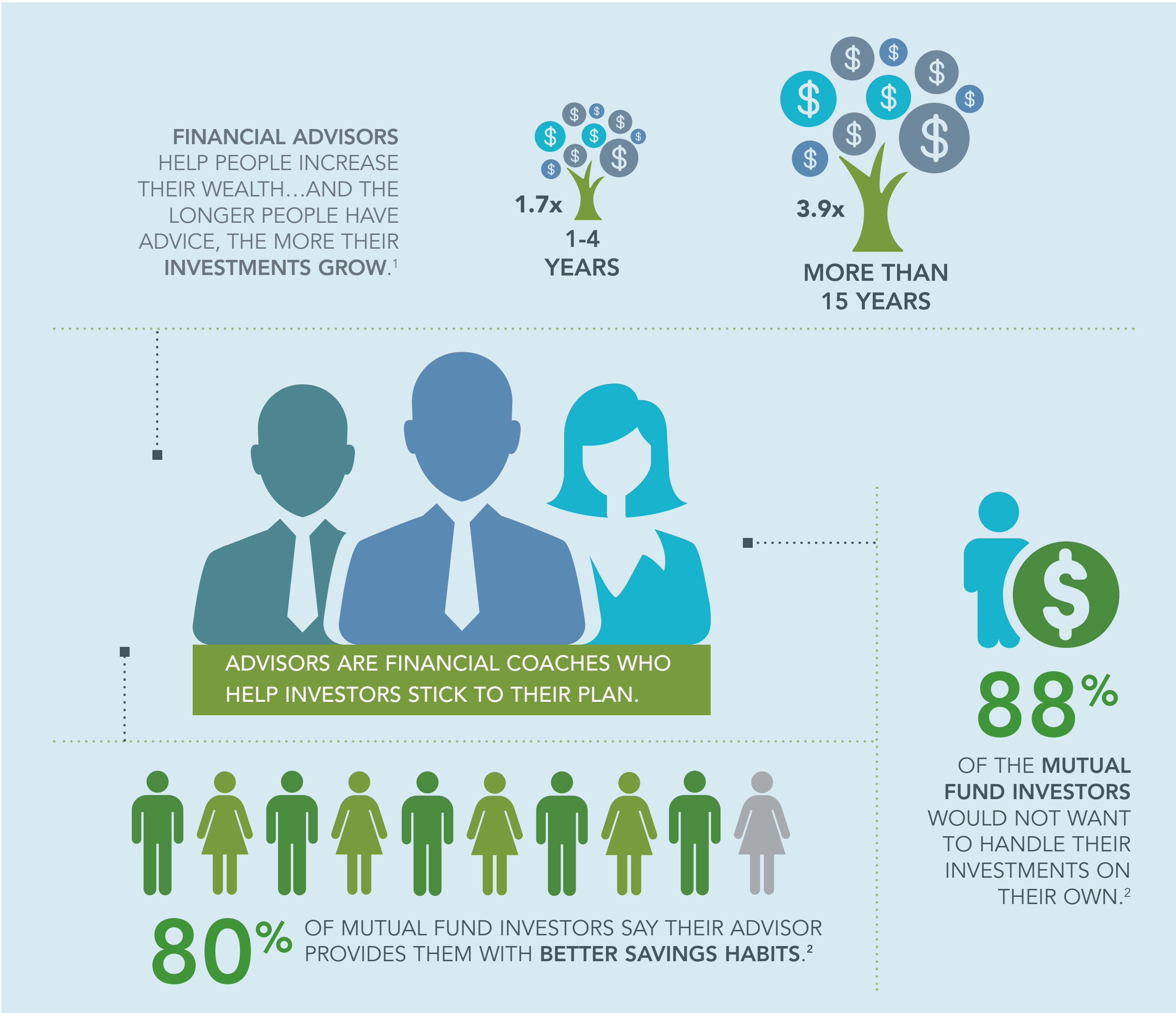
*The MER is annualized and is the total of the Fund's management fee, fixed administration fees (if applicable), other operating expenses and HST.

[1] The investment fund manager pays a portion of the management fee to your dealer firm for the services and advice that the dealer provides to you on an ongoing basis. The portion of the management fee that the dealer receives is called "trailing commission" and is paid regularly by the fund company for as long as you own the fund. Commissions and trailing commissions are not paid on Series F and P.

Each series will have its own MER. Fees are calculated as a percentage of the net assets of each series of the Fund and are accrued daily and paid monthly. The management and advisory fee is subject to HST and other applicable taxes. In some cases, the MER is one aspect an investor should consider when contemplating purchasing a mutual fund. It is important to determine how well suited the investments are to your objectives and risk profile and if the fund will satisfy your long-term financial goals.

Good advice is a great idea

According to research, working with a financial advisor has a significant positive impact on your wealth. Whether it's being better prepared for retirement or developing a successful savings discipline, having a good relationship with your financial advisor can have a meaningful impact on your ability to reach your financial goals.



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[1] Center for Interuniversity Research and Analysis of Organizations, 2016.

[2] Pollara Research, *Canadian Mutual Fund & Exchange-Traded Fund Investor Survey*, 2019.

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