TARGET DATE FUND COMMENTARY
3RD QUARTER, 2021

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Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.

FIDELITY FREEDOM FUNDS

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Fidelity is in the process of making changes to the fixed income portfolio of its target date fund strategies. These changes are the result of a strategic research review that was being conducted by the target date team and Global Asset Allocation research team. Through our regular quarter-end and annual deep dive meetings, we have tracked the progress of this review and were expecting changes to be made.

Fidelity is increasing the glidepath exposure to long-term U.S. Treasury bonds and inflation-protected bonds and adding a strategic allocation to international bonds. These changes are being funded by corresponding reductions to the U.S. core fixed income and short-term debt allocations. The changes began being implemented in July 2021 and will be completed by Q3 2022.

Long-Term U.S. Treasury Bonds:

- The allocation will be increased from 3% to 5% from the beginning of the glidepath to 10 years prior to retirement.
- At the point 10 years prior to retirement, the allocation will fall back to 3% and remain there until the landing point.
- Fidelity is increasing this allocation to protect younger investors from economic stress and equity market drawdowns. Long-term U.S. Treasury bonds have historically provided resiliency in times of stress and Fidelity believes this property will be durable into the future.
- The allocation comes down to 3% closer to retirement, because the composition of the fixed income portfolio becomes more diverse as the glidepath ages.

Inflation-Protected Bonds:

- Fidelity is splitting the TIPS allocation from the 1-10-year universe into a combination of 1–5-year TIPS and 5+ year TIPS.
- The 5+ year TIPS allocation will be introduced 10 years prior to retirement as a 2.5% position, growing to 9.1% at retirement, and gradually declining to a 0% position at the landing point.
- The 0–5-year TIPS allocation will be introduced at retirement as a 0.6% position and gradually grow to a 20% position at the landing point.
- By splitting the TIPS allocation, Fidelity can better match the duration of the portfolio with investors' time horizons. The 5+ year TIPS universe has a duration of about nine years, which aligns with its introduction to the glidepath 10 years prior to retirement. The 1–5-year TIPS have a duration of about two and half years. They also have a higher correlation to CPI, which helps hedge participants' investment exposures from potential increases in their expense.

International Bonds:

- Fidelity is adding a strategic allocation to international developed market sovereign bonds.
- The allocation will be introduced at the beginning of the glidepath as a 1% position and will gradually increase to a 5% position at retirement.
- Fidelity began increasing its international market exposure first within equities in 2018. By adding international bonds, they have extended this to the fixed income portfolio.
- The team is adding this allocation because it provides exposure to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby potentially increasing diversification and resiliency for the broader fixed income portfolio.

FIDELITY FREEDOM FUNDS

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Freedom Performance Update:
The Fidelity Freedom series had a difficult quarter as it underperformed peers and the benchmark.

- The primary driver for the series' struggles during the quarter was Fidelity's tactical positioning.
- Within equities, Fidelity is holding overweight positions in both emerging and developing markets. Both positions hurt performance as they each produced negative returns during the quarter.
- Within fixed income, the series has been underweight duration, and this weighed on results as longer duration debt outperformed in the third quarter.
- Fidelity's tilt towards more value and cyclical sectors within equities was also a slight drag on performance as markets rotated to lower beta stocks during the September drawdown.
- Somewhat offsetting these losses, was the performance of Freedom's underlying active managers, particularly within the equity portfolio.
- Fidelity Series Overseas, was a top contributor as its bias towards high quality companies was rewarded in the third quarter.
- Fidelity Series Commodity Strategy and Freedom's small-cap equity managers were also positive contributors during the period.

Positioning Update:
Fidelity has a neutral outlook as it relates to stocks versus bonds. This is driven by uncertainty around how markets will respond to changing Federal Reserve policy and more spending by the government. However, the team continues to implement over- and underweight positions at the sub-asset class level where they see opportunities.

- Supported by tight supply and high demand, Fidelity maintained its overweight to commodities, which should do well in an inflationary environment.
- In addition, the firm does not view inflation to be as transitory as most other market participants do as the firm expects higher services and housing prices to lead to stickier inflation.
- The team maintained but trimmed its overweight to emerging markets equities as Fidelity believes most emerging markets economies are on solid footing and they will be supported by elongated manufacturing cycles caused by the supply shortages brought on by the pandemic.
- In addition, the team believes that any clarity from the Chinese government on its regulatory policy could act as stimulus, simply by removing uncertainty.
- Fidelity added to its overweight position to international developed markets, specifically Europe, by redeploying assets trimmed from its emerging markets overweight.
- In Fidelity's view, the idiosyncratic and policy risks are fewer in Europe compared to emerging markets and valuations continue to be attractive.
- In addition, the team believes European markets, which are tilted towards to banks, materials, and energy, should respond well to higher cyclical economic growth.

Note: Benchmark relative performance refers to the series' performance compared to the S&P Target Date Indices.

FIDELITY ADVISOR FREEDOM FUNDS

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

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- At the point 10 years prior to retirement, the allocation will fall back to 3% and remain there until the landing point.
- Fidelity is increasing this allocation to protect younger investors from economic stress and equity market drawdowns. Long-term U.S. Treasury bonds have historically provided resiliency in times of stress and Fidelity believes this property will be durable into the future.
- The allocation comes down to 3% closer to retirement, because the composition of the fixed income portfolio becomes more diverse as the glidepath ages.

Inflation-Protected Bonds:

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- The 5+ year TIPS allocation will be introduced 10 years prior to retirement as a 2.5% position, growing to 9.1% at retirement, and gradually declining to a 0% position at the landing point.
- The 0–5-year TIPS allocation will be introduced at retirement as a 0.6% position and gradually grow to a 20% position at the landing point.
- By splitting the TIPS allocation, Fidelity can better match the duration of the portfolio with investors' time horizons. The 5+ year TIPS universe has a duration of about nine years, which aligns with its introduction to the glidepath 10 years prior to retirement. The 1–5-year TIPS have a duration of about two and half years. They also have a higher correlation to CPI, which helps hedge participants' investment exposures from potential increases in their expense.

International Bonds:

- Fidelity is adding a strategic allocation to international developed market sovereign bonds.
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- Fidelity began increasing its international market exposure first within equities in 2018. By adding international bonds, they have extended this to the fixed income portfolio.
- The team is adding this allocation because it provides exposure to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby potentially increasing diversification and resiliency for the broader fixed income portfolio.

FIDELITY ADVISOR FREEDOM FUNDS

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Advisor Freedom Performance Update:
The Fidelity Advisor Freedom series had a difficult quarter as it underperformed peers and the benchmark.

- The primary driver for the series' struggles during the quarter was Fidelity's tactical positioning.
- Within equities, Fidelity is holding overweight positions in both emerging and developing markets. Both positions hurt performance as they each produced negative returns during the quarter.
- Within fixed income, the series has been underweight duration, and this weighed on results as longer duration debt outperformed in the third quarter.
- Fidelity's tilt towards more value and cyclical sectors within equities was also a slight drag on performance as markets rotated to lower beta stocks during the September drawdown.
- Somewhat offsetting these losses, was the performance of Advisor Freedom's underlying active managers, particularly within the equity portfolio.
- Fidelity Series Overseas, was a top contributor as its bias towards high quality companies was rewarded in the third quarter.
- Fidelity Series Commodity Strategy and Advisor Freedom's small-cap equity managers were also positive contributors during the period.

Positioning Update:
Fidelity has a neutral outlook as it relates to stocks versus bonds. This is driven by uncertainty around how markets will respond to changing Federal Reserve policy and more spending by the government. However, the team continues to implement over- and underweight positions at the sub-asset class level where they see opportunities.

- Supported by tight supply and high demand, Fidelity maintained its overweight to commodities, which should do well in an inflationary environment.
- In addition, the firm does not view inflation to be as transitory as most other market participants do as the firm expects higher services and housing prices to lead to stickier inflation.
- The team maintained but trimmed its overweight to emerging markets equities as Fidelity believes most emerging markets economies are on solid footing and they will be supported by elongated manufacturing cycles caused by the supply shortages that were brought on by the pandemic.
- In addition, the team believes that any clarity from the Chinese government on its regulatory policy could act as stimulus, simply by removing uncertainty.
- Fidelity added to its overweight position to international developed markets, specifically Europe, by redeploying assets trimmed from its emerging markets overweight.
- In Fidelity's view the idiosyncratic and policy risks are fewer in Europe compared to emerging markets and valuations continue to be attractive.
- In addition, the team believes European markets, which are tilted towards to banks, materials, and energy, should respond well to higher cyclical economic growth.

Note: Benchmark relative performance refers to the series' performance compared to the S&P Target Date Indices.

FIAM BLEND TARGET DATE

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

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Long-Term U.S. Treasury Bonds:

- The allocation will be increased from 3% to 5% from the beginning of the glidepath to 10 years prior to retirement.
- At the point 10 years prior to retirement, the allocation will fall back to 3% and remain there until the landing point.
- Fidelity is increasing this allocation to protect younger investors from economic stress and equity market drawdowns. Long-term U.S. Treasury bonds have historically provided resiliency in times of stress and Fidelity believes this property will be durable into the future.
- The allocation comes down to 3% closer to retirement, because the composition of the fixed income portfolio becomes more diverse as the glidepath ages.

Inflation-Protected Bonds:

- Fidelity is splitting the TIPS allocation from the 1-10-year universe into a combination of 1–5-year TIPS and 5+ year TIPS.
- The 5+ year TIPS allocation will be introduced 10 years prior to retirement as a 2.5% position, growing to 9.1% at retirement, and gradually declining to a 0% position at the landing point.
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- By splitting the TIPS allocation, Fidelity can better match the duration of the portfolio with investors' time horizons. The 5+ year TIPS universe has a duration of about nine years, which aligns with its introduction to the glidepath 10 years prior to retirement. The 1–5-year TIPS have a duration of about two and half years. They also have a higher correlation to CPI, which helps hedge participants' investment exposures from potential increases in their expense.

International Bonds:

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FIAM BLEND TARGET DATE

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

FIAM Blend Target Date Performance Update:
The FIAM Blend series had mixed performance in the third quarter with some outperformance relative to peers, but underperformance relative to the benchmark.

- The series' peer-relative performance was mostly driven by the shape of Fidelity's glidepath.
- At the ends of the glidepath, where FIAM Blend generally have fewer equities than peers, those vintages outperformed as equities experienced elevated volatility in the third quarter.
- Conversely, in the middle of the glidepath, where the series has a larger allocation to equities, those vintages underperformed.
- Fidelity's tactical positioning also weighed on performance during the quarter.
- Within equities, Fidelity is holding overweight positions in both emerging and developing markets. Both of these positions hurt performance as they each produced negative returns during the quarter.
- Within fixed income, the series has been underweight duration, and this weighed on results as longer duration debt outperformed in the third quarter.
- Fidelity's tilt towards more value and cyclical sectors within equities was also a slight drag on performance as markets rotated to lower beta stocks during the September drawdown.
- Somewhat offsetting these losses was outperformance by FIAM Blend's non-U.S. developed markets equity managers.
- FIAM Overseas, in particular, was a strong performer as its bias towards high quality companies was rewarded during the quarter.

Positioning Update:
Fidelity has a neutral outlook as it relates to stocks versus bonds. This is driven by uncertainty around how markets will respond to changing Federal Reserve policy and more spending by the government. However, the team continues to implement over- and underweight positions at the sub-asset class level where they see opportunities.

- Supported by tight supply and high demand, Fidelity maintained its overweight to commodities, which should do well in an inflationary environment.
- In addition, the firm does not view inflation to be as transitory as most other market participants do as the firm expects higher services and housing prices to lead to stickier inflation.
- The team maintained but trimmed its overweight to emerging markets equities as Fidelity believes most emerging markets economies are on solid footing and they will be supported by elongated manufacturing cycles caused by the supply shortages that were brought on by the pandemic.
- In addition, the team believes that any clarity from the Chinese government on its regulatory policy could act as stimulus, simply by removing uncertainty.
- Fidelity added to its overweight position to international developed markets, specifically Europe, by redeploying assets trimmed from its emerging markets overweight.
- In Fidelity's view the idiosyncratic and policy risks are fewer in Europe compared to emerging markets and valuations continue to be attractive.
- In addition, the team believes European markets, which are tilted towards to banks, materials, and energy, should respond well to higher cyclical economic growth.

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FIDELITY FREEDOM INDEX

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

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FIDELITY FREEDOM INDEX

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Freedom Index Performance Update:
Fidelity Freedom Index struggled in the third quarter as most of its vintages underperformed peers and the benchmark.

- The third quarter was a mixed period for equity markets as stocks were positive in July and August, but were negative in September, and volatility was elevated.
- As a result, the underlying equity indices Freedom Index uses, the Dow Jones U.S. Total Stock Market and MSCI ACWI ex-U.S., posted negative returns for the quarter.
- Relative to peers, Freedom Index was hampered by its larger allocation to non-U.S. equities, which underperformed U.S. stocks.
- Meanwhile, core bond indices were relatively flat during the quarter, so passive series, such as Freedom Index, did not get as much return pick up as other actively managed series.
- The series' exclusion of high yield bonds also weighed on relative results as they continued to outperform investment grade bonds.
- Somewhat offsetting these losses were the Freedom Index's allocations to TIPS and long duration U.S. Treasury bonds as both fixed income sectors performed well during the quarter.

There were no changes made to the series' strategic asset allocation during the quarter.

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FIAM INDEX TARGET DATE

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- The series' exclusion of high yield bonds also weighed on relative results as they continued to outperform investment grade bonds.
- Somewhat offsetting these losses were the FIAM Index's allocations to TIPS and long duration U.S. Treasury bonds as both fixed income sectors performed well during the quarter.

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