TARGET DATE FUND COMMENTARY
2ND QUARTER, 2021

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ANALYST, MANAGER RESEARCH

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: JULY 21, 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, the most recent of which was conducted on June 9, 2021, 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 provide younger investors more protection 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 of it provides exposures to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby provides a potential increase in diversification and resiliency for the broader fixed income portfolio.

FIDELITY FREEDOM FUNDS

MEETING DATE: JULY 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Freedom Performance Update:
The Fidelity Freedom series posted another solid quarter of performance with returns that exceeded the peer group average and outperformed the benchmark. The only vintages that trailed peers were the 2005 and Income vintages due to their more conservative equity allocation relative to peers.

- Fidelity's underlying active managers continue to be a key driver of Freedom's outperformance, illustrating an important strength of the series.
- Contributions were widespread with managers in U.S. equity, international equity, and core fixed income outperforming their benchmarks and peers.
- Fidelity Series Investment Grade Bond was a top performer on the back of good security selection within financials and an underweight to mortgage bonds, which underperformed the broader market.
- Fidelity Series Overseas also added value as its quality-driven approach was in favor for most of the second quarter, despite some gains being pared back at the end of June.
- Freedom's tactical positioning also added positively to performance in the second quarter.
- Fidelity continues to be positioned for strong economic growth and higher inflation, and the team maintained an overweight in commodities as a result.
- This positioning helped performance as commodities were a top performing asset class during the quarter.
- The team moved the series from an underweight to a neutral position in long-term bonds, and this added to performance as long-term bonds rallied in the second quarter.
- Also helping performance was an underweight to investment grade bonds as high yield outperformed.
- An overweight to international equities versus U.S. equities offset some of the tactical gains as the U.S. continue to outperform the rest of the world.

Positioning Update:
Fidelity has a fairly positive outlook on global economic growth. While the spread of the delta variant of COVID-19, most large countries have avoided shutdowns so far. In addition, corporate earnings data has been strong, and along with fiscal and monetary stimulus, should be supportive of equities as well as inflationary assets.

- 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 also maintained an overweight to emerging markets equities despite the risk that lower vaccination rates presents.
- However, 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.
- Fidelity initiated an overweight position to international developed markets in the second quarter, pulling from the series' cash allocation.
- This position is driven by attractive valuations as well as better coordinated monetary stimulus in Europe with the European Recovery Fund and fiscal stimulus in large economies, such as Germany and Italy.

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

FIDELITY ADVISOR FREEDOM FUNDS

MEETING DATE: JULY 21, 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, the most recent of which was conducted on June 9, 2021, 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 provide younger investors more protection 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 of it provides exposures to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby provides a potential increase in diversification and resiliency for the broader fixed income portfolio.

FIDELITY ADVISOR FREEDOM FUNDS

MEETING DATE: JULY 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Advisor Freedom Performance Update:
The Fidelity Advisor Freedom series posted another solid quarter of performance with returns that exceeded the peer group average and outperformed the benchmark. The only vintages that trailed peers were the 2005 and Income vintages due to their more conservative equity allocation relative to peers.

- Fidelity's underlying active managers continue to be a key driver of Advisor Freedom's outperformance, illustrating an important strength of the series.
- Contributions were widespread with managers in U.S. equity, international equity, and core fixed income outperforming their benchmarks and peers.
- Fidelity Series Investment Grade Bond was a top performer on the back of good security selection within financials and an underweight to mortgage bonds, which underperformed the broader market.
- Fidelity Series Overseas also added value as its quality-driven approach was in favor for most of the second quarter, despite some gains being pared back at the end of June.
- Advisor Freedom's tactical positioning also added positively to performance in the second quarter.
- Fidelity continues to be positioned for strong economic growth and higher inflation, and the team maintained an overweight in commodities as a result.
- This positioning helped performance as commodities were a top performing asset class during the quarter.
- The team moved the series from an underweight to a neutral position in long-term bonds, and this added to performance as long-term bonds rallied in the second quarter.
- Also helping performance was an underweight to investment grade bonds as high yield outperformed.
- An overweight to international equities versus U.S. equities offset some of the tactical gains as the U.S. continue to outperform the rest of the world.

Positioning Update:
Fidelity has a fairly positive outlook on global economic growth. While the spread of the delta variant of COVID-19, most large countries have avoided shutdowns so far. In addition, corporate earnings data has been strong, and along with fiscal and monetary stimulus, should be supportive of equities as well as inflationary assets.

- 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 also maintained an overweight to emerging markets equities despite the risk that lower vaccination rates presents.
- However, 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.
- Fidelity initiated an overweight position to international developed markets in the second quarter, pulling from the series' cash allocation.
- This position is driven by attractive valuations as well as better coordinated monetary stimulus in Europe with the European Recovery Fund and fiscal stimulus in large economies, such as Germany and Italy.

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

FIAM BLEND TARGET DATE

MEETING DATE: JULY 21, 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, the most recent of which was conducted on June 9, 2021, 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 provide younger investors more protection 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 of it provides exposures to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby provides a potential increase in diversification and resiliency for the broader fixed income portfolio.

FIAM BLEND TARGET DATE

MEETING DATE: JULY 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

FIAM Blend Target Date Performance Update:
The FIAM Blend series posted another solid quarter of performance with returns that exceeded the peer group average and outperformed the benchmark. The only vintages that trailed peers were the 2005 and Income vintages due to their more conservative equity allocation relative to peers.

- Fidelity's underlying active managers continue to be a key driver of FIAM Blend's outperformance, illustrating an important strength of the series.
- Contributions were widespread with managers in U.S. equity, international equity, and core fixed income outperforming their benchmarks and peers.
- FIAM Series Investment Grade Bond was a top performer on the back of good security selection within financials and an underweight to mortgage bonds, which underperformed the broader market.
- FIAM Series Overseas also added value as its quality-driven approach was in favor for most of the second quarter, despite some gains being pared back at the end of June.
- FIAM Blend's tactical positioning also added positively to performance in the second quarter.
- Fidelity continues to be positioned for strong economic growth and higher inflation, and the team maintained an overweight in commodities as a result.
- This positioning helped performance as commodities were a top performing asset class during the quarter.
- The team moved the series from an underweight to a neutral position in long-term bonds, and this added to performance as long-term bonds rallied in the second quarter.
- Also helping performance was an underweight to investment grade bonds as high yield outperformed.
- An overweight to international equities versus U.S. equities offset some of the tactical gains as the U.S. continue to outperform the rest of the world.

Positioning Update:
Fidelity has a fairly positive outlook on global economic growth. While the spread of the delta variant of COVID-19, most large countries have avoided shutdowns so far. In addition, corporate earnings data has been strong, and along with fiscal and monetary stimulus, should be supportive of equities as well as inflationary assets.

- 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 also maintained an overweight to emerging markets equities despite the risk that lower vaccination rates presents.
- However, 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.
- Fidelity initiated an overweight position to international developed markets in the second quarter, pulling from the series' cash allocation.
- This position is driven by attractive valuations as well as better coordinated monetary stimulus in Europe with the European Recovery Fund and fiscal stimulus in large economies, such as Germany and Italy.

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

FIDELITY FREEDOM INDEX

MEETING DATE: JULY 21, 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 provide younger investors more protection 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 of it provides exposures to different interest rate regimes, fiscal and monetary policies, and economic growth cycles, and thereby provides a potential increase in diversification and resiliency for the broader fixed income portfolio.

FIDELITY FREEDOM INDEX

MEETING DATE: JULY 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Fidelity Freedom Index Performance Update:
Fidelity Freedom Index rebounded from a disappointing first quarter and outperformed underperformed peers and the benchmark in the second quarter. The only vintages that trailed peers were the 2005 and Income vintages due to their more conservative equity allocation relative to peers.

- Freedom Index's glidepath was the main driver of the series' outperformance relative to the benchmark and peers.
- Fidelity carries a slightly larger equity allocation compared to the peer group median for most of the glidepath and this benefited performance as equity markets moved higher in the second quarter.
- In addition, the turnaround in large-cap and growth stocks, especially in the U.S., helped performance as these sectors make up larger portions of the index that Freedom Index uses.
- The series' inclusion of long-term U.S. Treasury bonds was also beneficial as they rallied in the second quarter.
- Somewhat hurting performance was Freedom Index's exclusion of high yield bonds as they continued to outperform investment grade bonds.

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

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

FIAM INDEX TARGET DATE

MEETING DATE: JULY 21, 2021

FOCUS AREA

Organizational Update

COMMENTARY

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FIAM INDEX TARGET DATE

MEETING DATE: JULY 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

FIAM Index Target Date Performance Update:
FIAM Index rebounded from a disappointing first quarter and outperformed underperformed peers and the benchmark in the second quarter. The only vintages that trailed peers were the 2005 and Income vintages due to their more conservative equity allocation relative to peers.

- FIAM Index's glidepath was the main driver of the series' outperformance relative to the benchmark and peers.
- Fidelity carries a slightly larger equity allocation compared to the peer group median for most of the glidepath and this benefited performance as equity markets moved higher in the second quarter.
- In addition, the turnaround in large-cap and growth stocks, especially in the U.S., helped performance as these sectors make up larger portions of the index that FIAM Index uses.
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