

Fidelity Connects

Live with the Honourable John R. Baird

Pamela Ritchie, Host

Voiceover: Hello and welcome to Fidelity Connects – a Fidelity Investments Canada podcast – connecting you to the world of investing and helping you stay ahead.

We're joined today by a special guest – the Honourable John Baird, former Canadian Foreign Affairs Minister serving under Prime Minister Harper.

The inflation story is continuing to move markets, and a major piece of the inflation story this year has been geopolitics including the Ukraine crisis and its consequences on energy and agriculture. Also, a rising China, and shifting supply chains, economic and military alliances across the globe.

John Baird shares his views today on the geopolitical climate to help make sense of what it all means for Canada. John has had a front seat in the world of diplomacy, trade negotiations, national security and decision making at the highest levels of government.

Some highlights from John's discussion with host Pamela Ritchie include a look at what are the most significant geopolitical factors right now, the impact of inflation in both Canada and globally, Canada's relationship with the U.S., infrastructure, housing, immigration, and more.

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Pamela Ritchie: Minister Baird, I'm going to try and get used to calling you John. Welcome.

[00:02:04]

John Baird: Great to be with you, Pamela.

[00:02:05]

Pamela Ritchie: Very glad to have you share your time with us. Thank you very much. John, we have the UN General Assembly kicking off today in New York. Might be an interesting time to look at shifting narratives; the overall shifting alliances. I wonder if you can talk a bit about what you see opening up going into the future here post-COVID.

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John Baird: Well, I think the two biggest issues confronting the world today in terms of geopolitical risk is obviously Russia's invasion of Ukraine and the domino effect that that's had. The West has really formed a strong alliance. Biden has struggled in many respects, but building up that alliance of Western democracies he's been remarkably successful at. Of course, the Ukrainian forces are performing demonstrably better than anyone could have possibly predicted, and the Russian forces have been quite weak. That, juxtaposed with the rising rise of a more confident, more assertive China, has really shaken up global politics.

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Pamela Ritchie: It really has. What do you make, actually, of the conference that's been going on for the last week or so, off and on, and President Xi kind of saying a few things. Are you surprised by some of the voices you saw there and what they said? President Xi... Also Narendra Modi... I mean, we're seeing some very interesting voices with powerful populations behind them on the world stage.

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John Baird: There was some suggestion that Russia should be kicked out of the G20. I went to make a counterargument, and someone said, "Why would you argue against that?". I said, "It's not that I'm arguing against it," but China wouldn't support that. Obviously, Russia wouldn't. India still has close ties with Russia. Even countries like Mexico and Brazil, who are notional democracies, have not brought in big sanctions against Russia. We've seen a shifting of alliances and power is much more diffused than it used to be. Used to be the United States could rule the world in a major way, but now there's so many more regional alliances and ad hoc alliances, whether it's in Asia, South America, Africa. China is very aggressive in diplomacy, particularly in Africa and South America and the Caribbean.

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Pamela Ritchie: What does Canada do with that assessment?

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John Baird: I think Canada should always have its own unique foreign policy, but obviously, we align ourselves with the same values and principles that the United States and the European Union do. Those are two strong, powerful alliances for us. At the same time, we can't count on the United States to always be there for us. They cancelled the Keystone pipeline within 6 hours of taking office; they won't settle softwood lumber and we just can't count on them either under President Obama or President Trump, let alone President Biden. We need to have our own bilateral relationship with China, with Association of Southeast Asian countries in Asia, and with the EU and the U.K.

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Pamela Ritchie: That's fascinating. There are lots of new security packs. We'll hear the Five Eyes reference; also AUKUS, which is not including Canada, but all of these sorts of different partnerships in some ways to offset China's rising power. Again, where does Canada belong within that story?

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John Baird: Well, it's funny, we've been left out of AUKUS, that military alliance between the United States, the United Kingdom and Australia. We're just missing in action. We weren't invited to participate, and we weren't even told when...

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Pamela Ritchie: We were surprised, right? Most people, I thought, were surprised. Maybe you would not be, I don't know.

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John Baird: I was surprised because we have such a close relationship with all three of those countries. But Canada was just missing in action, so that's unfortunate. Obviously, we align ourselves with open markets and with open societies. Canada is a pluralistic country, we embrace pluralism, so we've been able to avoid a lot of the problems that have gripped other countries.

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Pamela Ritchie: Fascinating. Let's go straight to military. There's lots of other discussions within this and we'll swing around to some of them. Do you think that in the sort of subject of security and military alliances that people are aware of the types of build-ups going on? We do hear a lot about Taiwan. It's a touchpoint and, obviously, we're watching what's going on in Ukraine with horror, but a lot has been built up on the security front around the world. Do you think that's known?

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John Baird: Canada, I think we've neglected our military, haven't done nearly enough historically. NATO has an aspirational goal for every country to spend 2% of its GDP on military spending. The United States spends 6, the United Kingdom spends 4, we spent 0.9, so we're often not taken seriously. We've done good work; the Liberal government not always done good work training forces in Latvia, training forces in Iraq to fight ISIS and providing some limited military assistance to the Ukraine. But we're kind of missing in action with respect. One of the big shocks, though, about the war in Ukraine is how weak the Russian forces -conventional forces- have been. They're poorly led, poorly trained, and it's very much aligned to Vietnam. The Vietnamese, they were defending their own country and they wanted the Americans out. It's the same with the Ukraine. The big story, the big takeaway is just how weak Russian forces are. I mean, basically, Russia is a big gas station with nuclear weapons. That's about it.

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Pamela Ritchie: Wow. I've not heard about it that way. What about China? China is certainly no slouch on the military and security side of things, but they have actually built up quite significantly.

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John Baird: Their naval forces have grown dramatically in the last 10 or 15 years. Their conventional forces on the mainland are very strong. I would give them a much higher grade than I would for the Russian capacity. It's just if you're seeing the challenge that Russia has had making a land incursion into Ukraine, imagine how difficult it would be to make a naval incursion into Taiwan. I'm not a believer that China is going to take Taiwan militarily; certainly not in the next 5 or 10 years. I think they're probably watching the amount of sanctions and amount of marginalization that Russia has faced from the West and would probably be giving it a second look. Having said that, for Xi, that would be a great victory. He wants to be known as a Mao or a Deng Xiaoping. He wants to be a great leader of China. That's something that neither of those two leaders could do by reuniting the whole China. I think it's certainly something that could happen, but I don't predict it happening anytime soon.

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Pamela Ritchie: So interesting. Canada sits in an interesting world stage with limited military power -as you're pointing to- and probably does count on the United States militarily anyway.

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John Baird: I mean, we've done some *[audio cuts out]* blanket statement. We certainly carried our load in Afghanistan. Not only did we do the heavy lifting there and, so while we have smaller forces, we did do more than our share in the war in Afghanistan and certainly our allies recognize that.

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Pamela Ritchie: How do you think Canada, ultimately, is viewed by the world? Back to the alliances, what we can provide? We're certainly seen as a commodity producer selling to the world and trade is very, very important because we're just such a small economy in comparison to others. What does Canada need to make sure it gets across in the coming years?

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John Baird: I'd like to see us be more present. Too often we're not at the table in recent years. When I was in government, we played a very active role in the Middle East and North Africa, whether that was in Iraq, Afghanistan; whether it was with the war in Libya. Our strong alliances with the Sunni Arab Gulf states and, obviously, our partnership with Israel was pretty powerful. Too often we're just not seen in that part of the world. We've had some challenges; we had the Trump challenge. Chrystia Freeland, who I think was a competent Trade Minister and foreign minister, she had to spend such a significant per cent of her time dealing with the renegotiation of NAFTA and dealing with a barrage of explosions coming from the West Wing and the White House that she didn't have as much time as she would have, I'm sure, like to have spent in other parts of the world.

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Pamela Ritchie: Right. Do you see that changing? There's more time, it's a different time. Going forward...?

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John Baird: I hope in a post-Trump and a post-pandemic world that the Foreign Minister can get out more. COVID and the lockdowns were just abysmal for diplomacy. We had two Foreign Ministers who barely travelled at all: Minister Champagne and Minister Garneau, because the government's policies were so restrictive. We actually had our Prime Minister and Minister had to go into lockdowns when they returned from a G20 meeting. Can you imagine the American President or the American Secretary of State doing that? I think that was a mistake; a little bit too politically correct in my judgement.

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Pamela Ritchie: Interesting.

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John Baird: Both of those ministers were competent and I think I want them at the G7 table, I want them at the NATO meeting, having our voice being heard.

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Pamela Ritchie: Do you think Canada looks like it can't get big infrastructure done, right now to the world?

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John Baird: This has plagued us for many, many years including the time that I was in government. It comes to big infrastructure projects, especially in the extractive sector; there's just a sense that it's just too difficult to get anything done. We've seen a lot of investment leave, particularly in Western Canada from the oil and gas space. It just takes us a long time to get things done. I'll give you an example. Even on a public infrastructure project, in 2009, when I was Minister of Transport, I announced the funding for the expansion and revitalization of Union Station in downtown Toronto.

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Pamela Ritchie: It's still going.

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John Baird: They proudly proclaimed they could get it done in six years and I thought, "oh my goodness, why would it take six years?" That was 13 years ago now and it's still under construction. Whereas I'd been to China the week before that announcement, and they were building a rail terminal that was four times the size of Union Station. They got it all done in 18 months, so they can be more transformational. We've got to cut... not just cut the red tape; we've got to eliminate the red tape. When we did the stimulus, we did 23,500 infrastructure projects back in 2008 to 2010. 23,500 all done in 30 months. We got rid of double environmental assessments and there wasn't a single problem anywhere in the country. We had a one-page application form and we just drove it to make sure...

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Pamela Ritchie: Sorry, can you repeat that? Did you say a one-page application form? I've never seen a one-page application form.

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John Baird: For the stimulus we had a one-page application form. You didn't have to go through the bureaucracy that the federal government puts most projects through. And it was a great success. We made the environmental changes permanent. You have one project, one environmental assessment. The whole notion that you're building a community centre and you need a federal environmental assessment was ridiculous. You want to build a four-lane highway through Banff National Park, sure, you need a federal [indecipherable], but we just really bulldozed through the regulation and there's a lot of good things happened.

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Pamela Ritchie: Fascinating. Speaking of getting things done, I was looking at the new prime minister of the U.K., Liz Truss. She announced today that basically the U.S.-U.K. proposed trade deal isn't really going to happen; not in the near future anyway. It was sort of hoped for. A lot of trade partnerships were signed, inked or started during the time you were in office. Do you think we'll get more on the trade front or are we kind of sewn up on that?

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John Baird: There's always room to reduce trade barriers. The one I'll give huge kudos to Stephen Harper -and also give kudos to Chrystia Freeland and Minister Champagne- we negotiated the Canada-EU Free Trade deal and negotiated the final days in office, Canada's participation in the Trans-Pacific Partnership. Those were great achievements. They both almost fell apart when the Liberals took power, but they were able to rescue both of them and to rescue NAFTA from Donald Trump. Those are strategic benefits for Canada. We can trade with the United States, with Mexico, with the Pacific Alliance countries and the two first observer countries in South America, all of the EU; in Asia we've got free trade deals with Korea, now, with the TPP, Japan, Vietnam, which is a huge emerging market, great potential there. We can also diversify from United States and China with those deals. I'm confident we'll get a deal with the U.K., but it's also going to be awfully hard for the U.S. to ever get a U.K. or, especially, a EU deal because, literally, Luxembourg can stop it or-

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Pamela Ritchie: I know, it's a lot of negotiating.

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John Baird: -one of the three parliaments in Belgium can throw a wrench into it. We're really fortunate. We just got to get the private sector in Canada to take advantage of these opportunities in these markets.

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Pamela Ritchie: It's fascinating. How do you think the provinces are doing right now? What would be your thoughts on the provinces? I mean, for instance, oil producing provinces have been able to whittle down their debt pretty significantly. They're looking pretty good due to the pandemic and the price of oil.

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John Baird: You look at what Jason Kenney has done in Alberta. He's had some political challenges, as everyone knows, but they have not just balanced their budget this year and last year, but Jason Kenney paid down \$15 billion worth of Alberta's debt. That's about 15 or 20% of their debt, which is a remarkable accomplishment. Where in Canada we've just wasted a lot of money during the pandemic. The assistance that we did during the global economic downturn the last time was to make it targeted, timely and temporary. But we just took a fire hose, gave tax breaks to profitable multinational corporations; just sent money to everyone. A lot of that was wasted. We have nothing to show for it. The government in Ottawa seems to just want to bring in more and more new entitlements. They can't even issue someone a passport or a Nexus card. Our airports are a mess but now they want to raise the nation's children with their national childcare program. They're moving forward on a dental program. Who's going to pay for all this? We still have significant structural debts, deficits, and the debt has doubled in the last two-and-a-half years. Historical debt of Canada has doubled. All the other prime ministers combined didn't go into as much debt as Justin Trudeau, this government; and that's why it's fuelling inflation.

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Pamela Ritchie: Does inflation help whittle away the debt?

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John Baird: Well, in a small respect it does, but it also causes a lot of misery for families and small businesses. I talked to a friend the other day, [he] has a two-bedroom condo in downtown Toronto. His mortgage is going up by \$600. For the average household, that's a body blow. My mother was very appreciative to get the \$500 check from Justin Trudeau in the middle of last year's election campaign, but now her cost of living has gone up by \$200 a month, so that one-time payment is long gone. We have the debt and now the inflation to boot.

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Pamela Ritchie: What do you think is the right balance? Just going back to trade for a second, of international trade with United States versus diversifying to others. I know there can't be an exact number, but what's roughly the right balance?

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John Baird: We're so blessed to be beside the world's biggest economy, and by and large the same regulatory structure. I think that's been easy for a lot of corporate Canada. Those markets are so close, it's English speaking, a strong rule of law. But we've really got to diversify our trade. There's so many other opportunities globally and we've got the instruments in place that give us market access to those economies. We'd be smart to diversify but it's almost like the easy way out. Even in my own business I do a lot of the stuff in the United States and very little outside of North America.

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Pamela Ritchie: So interesting. Well, they're our friends, it's closer.

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John Baird: It's easy. I think those companies who are going to be profitable are going to think globally. We're so blessed in Canada; we've got the two big political parties strongly support open markets and free trade around the world. In many countries they're becoming more protectionist, they're becoming insular; where we really embrace the global economy, which is a huge part of our prosperity.

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Pamela Ritchie: You wonder what that is worth to foreign investors. It shifts sometimes. A couple of questions here for you, Minister Baird, how can Canada become more innovative, also competitive with other countries?

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John Baird: This, I find, is one of the biggest challenges that we face; to be innovative and to be more competitive and more productive. The current government renamed the Department of Industry the Department of Innovation, and we hear a lot of great speeches and a lot of great policy papers, but not a lot of action. That's one of the huge challenges facing the global economy and facing particularly in Canada. There's a lot of exciting things going on, for example, on University Avenue here in Toronto, in the technology corridor around Waterloo, but we need, obviously, to put a lot more focus on there. Look what goes on in Israel with their innovation agenda; it's really extraordinary. I guess they don't have natural resources, so they wanted to be prosperous; they had to. They were forced into it.

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Pamela Ritchie: It's so interesting. We can perhaps roll back onto other parts of the economy. Speaking of other parts of the economy; the housing market. Obviously, we know the story. The housing market has made up a big part of the economy when commodity prices sort of tanked and after the financial crisis, so there was a thought that because we had commodities coming off, we had to make sure that the housing side of things held things up, propped things up. What do you think now?

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John Baird: Well, the housing sector is a huge part of our economic growth. Even if it slows down a little bit, that'll be quite consequential. I would be more bullish in the medium term. The amount of immigration we have to this country to the greater Toronto area, greater Vancouver area and other major centres will help fuel the construction of new housing. At the same time, Canada, I think, for the OECD has the lowest number of houses per capita, homes per capita, dwellings per capita. We've got to do a lot more to make it easier for those to take place. The amount of time it takes to get a project permitted is extraordinary. City of Toronto just increased their development charges by almost 50%, making it more expensive to build housing. We've got to take a much more proactive approach to make it as easy as possible for quality housing to be built. I [*indecipherable*] a supply and demand issue. I find it remarkable that governments, particularly at the local provincial level, do everything they can by putting red tape and regulation to slow it down and at the same time then they say we need more housing, so the government needs to build it, which is not, obviously, the way to go. Constantly changing rent controls and housing policy in that regard doesn't stimulate a lot of investment that we saw, particularly in the late '90s and early 2000s.

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Pamela Ritchie: Do you think immigration policy, as it is right now, is doing the trick? Do you think it needs to change significantly or is it roughly doing what it needs to? How do you view that?

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John Baird: I strongly support immigration. I support high immigration levels. I do think we need to better align it with the labour market, whether that be an agricultural worker working in Leamington picking tomatoes or be it a trained nurse coming to Canada. We need to cut the red tape so that people can practice their trade. And if someone comes, let's say, from the Philippines with a nursing degree and it doesn't quite match the skills needed in Canada, surely to goodness we can have a year-long program to bring them up to a Canadian regulatory standard. We really need to shake the tree and get these policies changed because there's far too many labour demands in this country that aren't being met. Obviously, we want young people. There's a social contract in Canada; you work hard, you pay your taxes, and you get Old Age Security, guaranteed income supplement when you're older, you get free health care, but you paid in for years. That's the challenge that governments of all stripes get pulled on family reunification, can I bring my 90-year-old grandmother to Canada?

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Pamela Ritchie: Right. So, around the margin but generally a strong immigration policy, as you say, [*crossstalk*].

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John Baird: I think we're blessed in Canada. We don't have the same debates that they do, particularly the United States or Europe. I think all political parties strongly support high immigration levels. Sure, we may argue around with sides, but it's got to be legal immigration. I hate to see what's going on in the southern United States when you have so many people waiting in a queue to get into the United States and people are just, you know, 2 million people will just walk across the border this year. In Canada, we've managed to do it much better. Now, we are blessed by having the United States as our neighbour and having three oceans on the other three sides, so that's a blessing.

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Pamela Ritchie: There's a question about sanctions towards Russia and essentially whether they've worked. Very curious to get your views.

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John Baird: Well, I mean, the estimates are that the Russian economy will contract by as much as 6 to 11%. So, I think there's no doubt they've had a significant effect. The longer they're in place, the more they're biting. Aeroflot is not going to be able to get parts for its fleet. It hasn't had the consequential effect, I think, that we had hoped to basically try to shut down the Russian economy because China is trading with them, India is trading with them, Mexico is trading with them, Brazil is trading with them. Even Western democracies are still buying their oil. How a country like Latvia, Lithuania or Estonia, who were occupied for the better part of 40-45 years, would allow themselves to become dependent on Russian energy just escapes me. That's why Canada's got to step up and do more liquefied natural gas to help fuel Europe.

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Pamela Ritchie: It sounds like a very good solution, is it realistic, to be honest?

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John Baird: Well, we haven't been able to get anything built, so that's a very fair criticism. That's why we've got to be consequential, and we've got to make major regulatory reforms to get these projects going. It'll help increase...

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Pamela Ritchie: Like up to Churchill, out through Hudson's Bay? Get it out, we've got all the icebreakers we need, or we know that technology anyway.

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John Baird: If we can get Trans Mountain completed for the West Coast, that will be huge for the oil sector. If we can get the LNG plant on the West Coast done, that will be hugely consequential. Those are both well underway. There's huge opportunities on our Atlantic coast as well for LNG, particularly in Newfoundland. This could create so much wealth in countries, so much revenue to governments to pay for important social programs like health care and education. We've just got to be more ambitious and focused on results, not process.

[00:24:15]

Pamela Ritchie: How do you think, ultimately, we need to go forward as a country on the world stage? If you were to say one or two either alliances or groups to make sure we kind of hunker down and make sure we're there, what would be some winning solutions going forward globally for Canada?

[00:24:33]

John Baird: We have shared values with Europe and the United States, and nothing will ever change. Those are a key part of our economic and security alliances. At the same time, we've got to diversify, and we've got to make priorities. Canada can't play everywhere in the world. We're a very small country [crosstalk]...

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Pamela Ritchie: And we have these trade deals already, so do we just sort of amp those up somehow?

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John Baird: I just see Canada at the foreign service level and at the political level in Ottawa with this government; they want to play everywhere. They want to be big players in sub-Saharan Africa. They want to be big players in the Middle East. When nothing is a priority, you don't get a lot done. When I was foreign minister we talked about our major alliances; we were very active in the Middle East and North Africa and very active in Southeast Asia and with China because that's where the world is going. Like Wayne Gretzky says, you go where the puck is going, not where it is. That's why it's important that we have a good relationship with China. It's a huge trade partner. Yeah, we may have honest differences of opinion, really differences of opinion with a few things that are going on, but for international peace and security, it's vital that we play on that ice. Not just in China but in Southeast Asia as well. The United States is now an ally of Vietnam. Who would have ever thought that? I would be sitting at a meeting in Southeast Asia and North Korea would be engaging in bellicose rhetoric against the United States and Japan and I look at John Kerry, he'd be leaning over talking in a friendly fashion with his Vietnamese counterpart. He got three Purple Hearts in Vietnam, so these alliances can shift pretty quickly.

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Pamela Ritchie: Former Foreign Affairs Minister for Canada, John Baird, it is such a pleasure to speak with you. Thank you for spending your time with us here today.

[00:26:20]

John Baird: Fantastic. Good to be with you, Pamela. Thanks for the opportunity.

Ending: [26:24]

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