Questions about Fidelity Tax-Smart Withdrawal Program® (T-SWP®)

What happens when my adjusted cost base (ACB) hits zero?

Through T-SWP®, Fidelity offers investors tax-efficient monthly cash flow from non-registered investments. The tax efficiency comes mainly from a high proportion of return of capital included in the monthly distribution. Return of capital is not taxable to an investor because the non-registered investment was originally purchased with after-tax dollars. It does, however, reduce the adjusted cost base (ACB) of the investment.

The ACB is a measure that tracks the cost of an investment over time. It is used to determine an investor's capital gain at the time of sale.

Can an investor's ACB reach zero?

Yes. Return of capital paid to an investor is subtracted from the ACB. When an investor receives return of capital payments for an extended period, the ACB will eventually decline to zero.

What are the tax consequences of reaching zero ACB?

When the ACB reaches zero, and another return of capital payment causes it to fall below zero, the amount of the negative balance is automatically deemed to be a capital gain realized by the investor in the current tax year. One half of this capital gain is taxable. The ACB is then increased by this deemed capital gain to bring the ACB back to zero, where it remains until another return of capital payment is made, and the cycle repeats.

What is ACB?

ACB represents the cost of an investment that can be *adjusted* over time for various actions, such as

- additional investments, including switched in from other funds (+)
- reinvested distributions (+)
- sales charges (+)
- management fee rebates (+)
- return of capital through cash distributions (-)
- redemptions and switches-out to other funds (-)

How will deemed capital gains be reported to investors?

Fidelity will notify investors annually by letter about all return of capital payments that caused their ACB in a particular fund to fall below zero. This letter will be based on information Fidelity has on record, and should be reviewed with a tax professional to determine the appropriate course of action.

My ACB has reached zero. What are my options?

1. **Do nothing.** You can continue to enjoy regular monthly cash flow from the investment. All that has changed is the tax status of the monthly payment, from return of capital (tax-free) to a capital gain, which is still advantageous from a tax perspective, because only 50% of the gain is taxable.
2. **Switch to a non-T-SWP series of the same fund on a tax-deferred basis.** If you can do without the regular monthly cash flow, the investment can be switched to a different (non-T-SWP) series of the same fund without triggering a capital gain.
3. **Switch to a different fund.** A change can be made for any reason that suits your financial strategy. However, this decision will trigger a capital gain for tax purposes.

Issues about taxation of investments can be complex, and Fidelity recommends that you consult your financial advisor before making any decisions.

Example

Note: The example below has been simplified for informational purposes and should not be relied upon for any other purpose.

Investor A invested $5,000 for 250 units of a Series 8% T-SWP fund on January 1, 2006. Annual T-SWP payments are estimated to be $5,000 x 8% = $400 ($33.33 monthly). No additional purchases or redemptions are made subsequently, aside from the annual reinvestment of year-end distributions. **The following summarizes the activity from January 1, 2006, until October 31, 2018:**

DATES	ACTIVITY ($CDN)		UNITS
January 1, 2006	Initial investment	$5,000	250
2005	Total return of capital	($400)	–
December 2006	Year-end distribution – reinvested	$10	1
2006	Total return of capital	($400)	–
December 2007	Year-end distribution – reinvested	$10	1
2007	Total return of capital	($400)	–
December 2008	Year-end distribution – reinvested	$10	1
2008	Total return of capital	($400)	–
December 2009	Year-end distribution – reinvested	$0	–
2009	Total return of capital	($400)	–
December 2010	Year-end distribution – reinvested	$0	–
2010	Total return of capital	($400)	–
December 2011	Year-end distribution – reinvested	$20	2
2011	Total return of capital	($400)	–
December 2012	Year-end distribution – reinvested	$10	1
2012	Total return of capital	($400)	–
December 2013	Year-end distribution – reinvested	$10	1
2013	Total return of capital	($400)	–
December 2014	Year-end distribution – reinvested	$0	–
2014	Total return of capital	($400)	–
December 2015	Year-end distribution – reinvested	$0	–
2015	Total return of capital	($400)	–
December 2016	Year-end distribution – reinvested	$10	1
2017	Total return of capital	($400)	–
December 2017	Year-end distribution – reinvested	$10	1
December 31, 2017	**Investor A's ACB**	**$290**	**259**

During 2018, Investor A continues to receive $33.33 of return of capital each month as follows:

DATES	ACTIVITY ($CDN)		ACB $CDN	UNITS
December 31, 2017	Investor A's ACB	$290	$290.00	259
January 31, 2018	Monthly return of capital	($33.33)	$256.67	–
February 28, 2018	Monthly return of capital	($33.33)	$223.34	–
March 31, 2018	Monthly return of capital	($33.33)	$190.01	–
April 30, 2018	Monthly return of capital	($33.33)	$156.68	–
May 31, 2018	Monthly return of capital	($33.33)	$123.35	–
June 30, 2018	Monthly return of capital	($33.33)	$90.02	–
July 31, 2018	Monthly return of capital	($33.33)	$56.69	–
August 31, 2018	Monthly return of capital	($33.33)	$23.36	–
September 30, 2018	Monthly return of capital	($33.33)	($9.97)	
September 30, 2018	**Deemed capital gain**	**$9.97**	**–**	**259**

On September 30, 2018, the ACB of Investor A falls below zero as a result of the monthly T-SWP payment. Immediately, there is a deemed disposition for tax purposes, and the negative ACB is treated as a capital gain. This capital gain is added to the ACB of Investor A to bring the ACB back to zero.

Following this, the October distribution will trigger an additional capital gain of $33.33, and the ACB will remain at zero.

For more information, contact your advisor.

Mutual funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There is no assurance that either Fidelity Canadian Money Market Fund or Fidelity U.S. Money Market Fund will be able to maintain its net asset value at a constant amount or that your investment will be returned to you.

The monthly cash flow distributions on Fidelity T-SWP are not guaranteed will be adjusted from time to time and may include income. We will aim to keep cash flow between 7.5% and 9% of the NAV each year on T-SWP balanced funds on T8/S8/F8, as well as 4.5% and 5.5% of the NAV on T5/S5/F5 balanced funds. For equity funds, we will aim to keep cash flow between 6% to 10% of the NAV each year on T8/S8/F8, and between 4% to 6% of the NAV each year on T5/S5/F5.

A return of capital reduces an investor's adjusted cost base. Capital gains taxes are deferred until units are sold or until the ACB goes below zero. Investors should not confuse this cash flow distribution with a fund's rate of return or yield. While investors in Series T8/S8/F8 and/or T5/S5/F5 will be able to defer some personal capital gains, they must still pay tax on capital gains distributions that arise from the sale of individual holdings by fund managers, and on interest and dividend distributions. T-SWP will also pay a distribution that must be reinvested in December, consisting of income and capital gains. Once per quarter, T-SWP balanced funds distributions may include income subject to current taxation for non-registered accounts.

Read a fund's prospectus and consult your financial advisor before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions, and may experience a gain or loss.

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