Investing for a lifetime: Considerations for a five-generation workforce
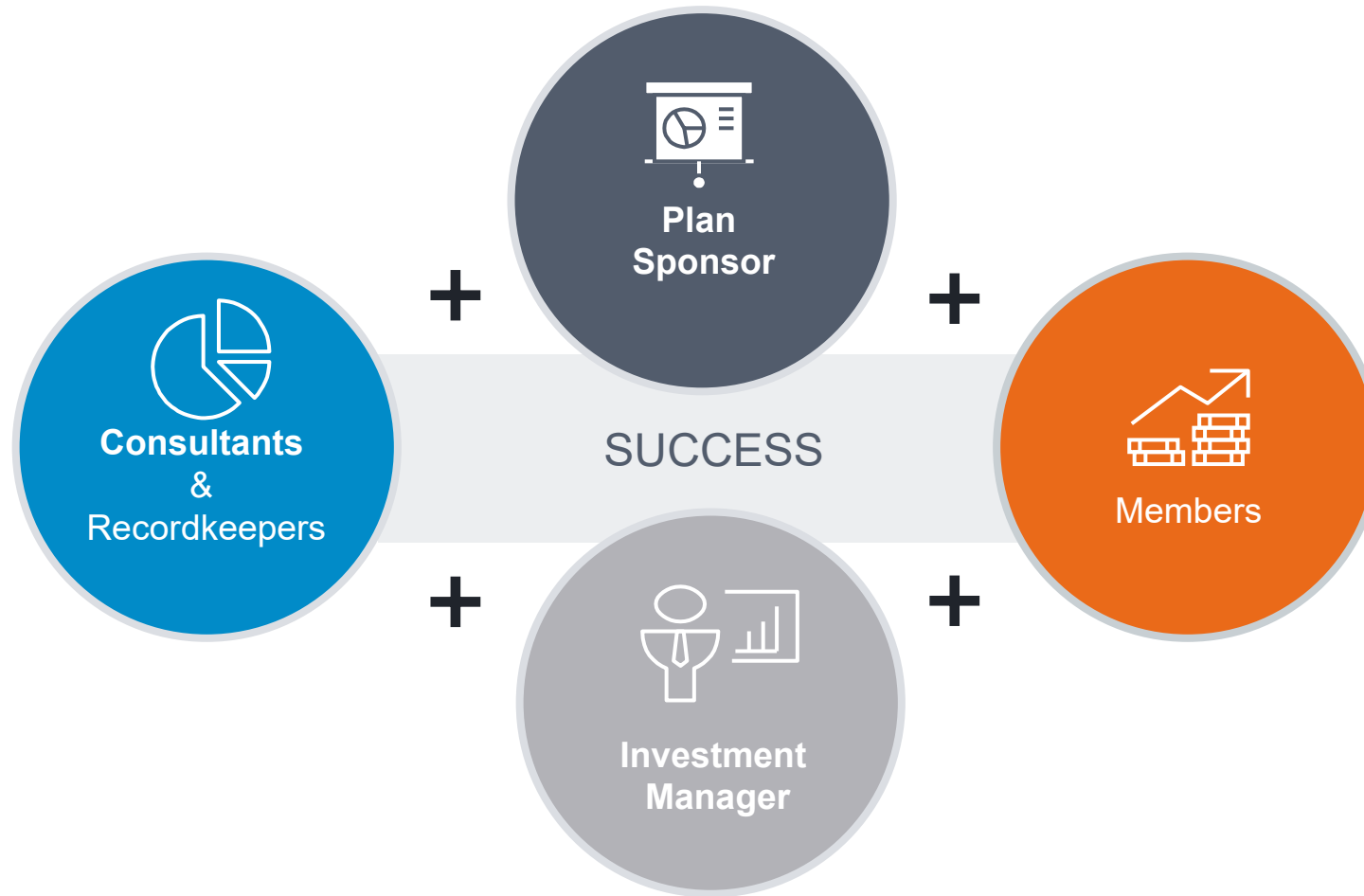
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May 2022
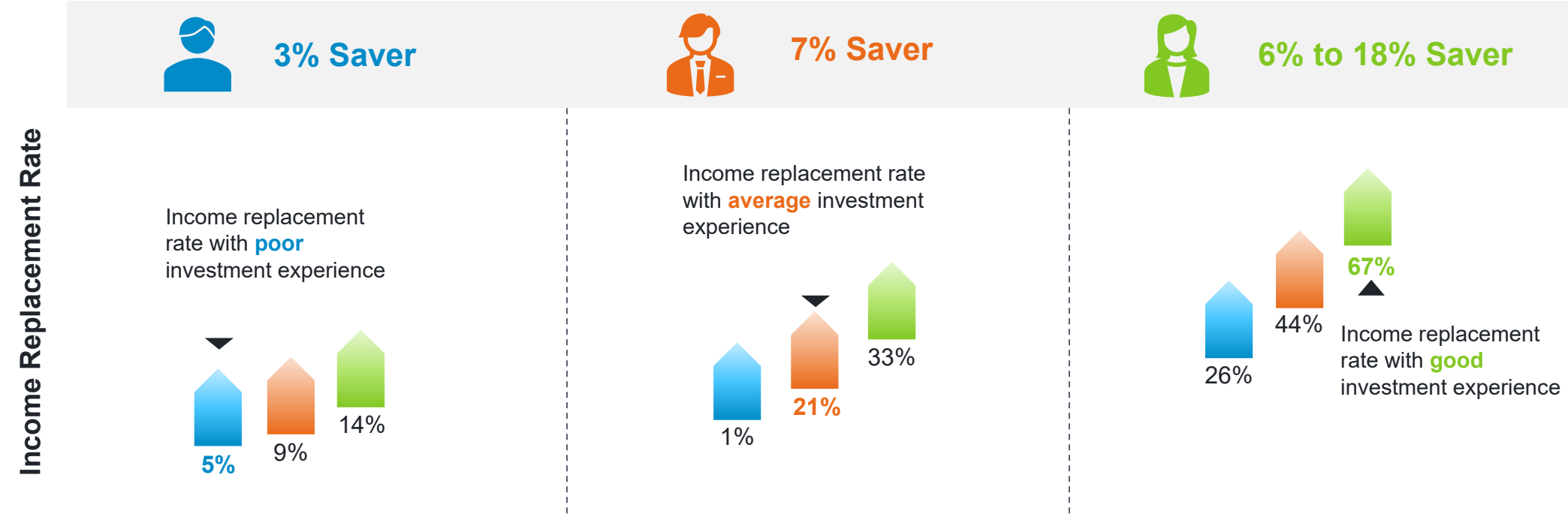
Achieving retirement readiness for members

Plan design, active participation, and a disciplined investment strategy
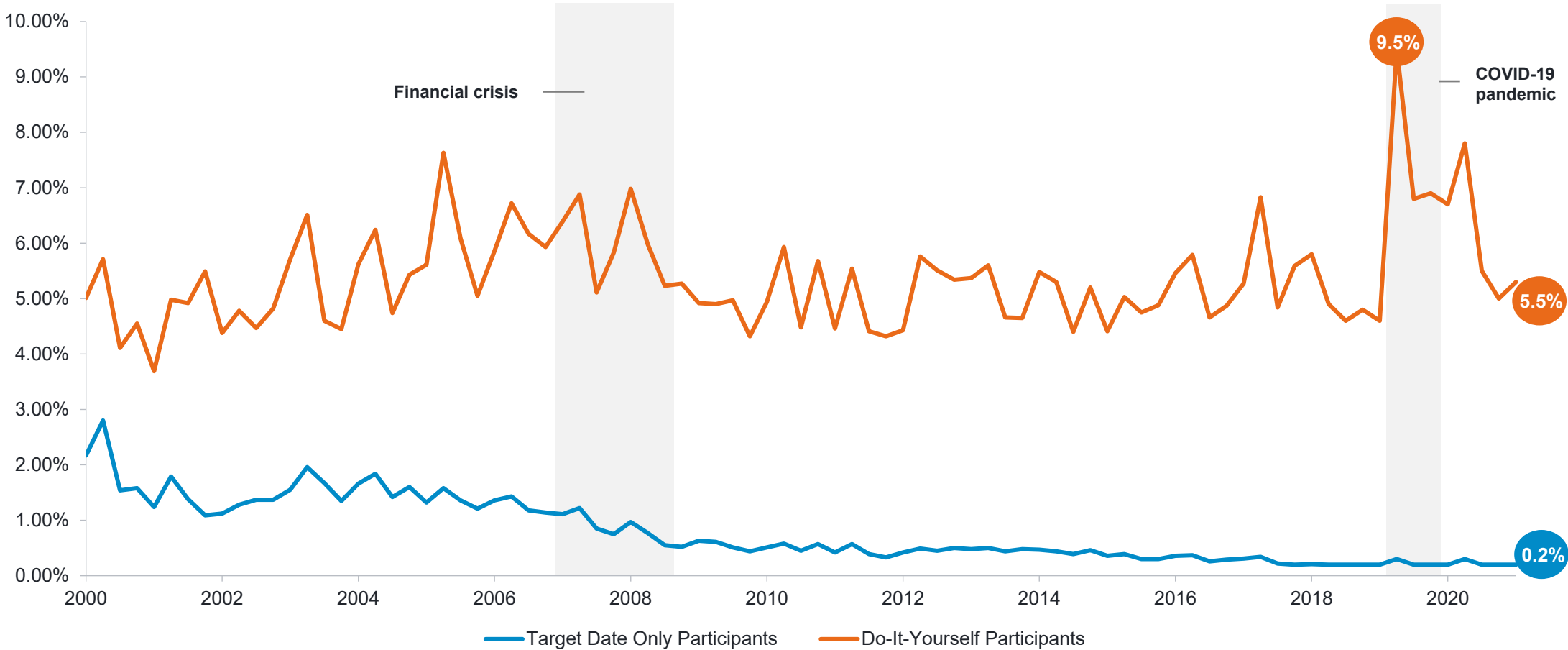

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Investment performance matters

Understanding the combined impact of capital market performance and savings rates

Income Replacement Rate

| 3% Saver | 7% Saver | 6% to 18% Saver |

3% Saver

Income replacement rate with **poor** investment experience

5%   9%   14%

7% Saver

Income replacement rate with **average** investment experience

1%   **21%**   33%

6% to 18% Saver

26%   44%   **67%**

Income replacement rate with **good** investment experience

"Return environment" is defined as "Favorable," "Typical," or "Poor" within the range of simulated annualized returns that a hypothetical investor may experience. 100,000 different annualized return scenarios were generated using stochastic, or randomly generated, simulations. The participant assumptions used in the simulated analysis include: Start age–25; Retirement age–65; Retirement planning age–93; Asset allocation strategy: Fidelity's Target Date Strategy glide path. "Favorable" represents the top third of simulated return scenarios, "Typical" represents the middle third of simulated return scenarios, and "Poor" represents the bottom third of simulated return scenarios. Each bar represents the minimum level of attainable real income replacement given an investor's hypothetical return experience, with 90% confidence. For example, in 90% of the simulated scenarios, the "6%–18% Saver" investing through a "Typical" return environment would realize an income replacement rate of 44% or greater, of their final pre-retirement salary. The asset classes include Canadian equities, U.S. equities, International equities, Emerging markets equities, Canadian investment-grade bonds, Canadian long-term treasuries, Global developed market sovereign bonds, Canadian real return bonds, Global Inflation-linked bonds, Canadian short-term credit and money market. The results do not include the impact of taxes and fees. IMPORTANT: The projections regarding the likelihood of various outcomes are hypothetical in nature, do not reflect actual investment results, and are in no way guarantees of future results. Source: Fidelity Investments.

Participants making an exchange

10.00%

9.00%

8.00%

7.00%

6.00%

5.00%

4.00%

3.00%

2.00%

1.00%

0.00%

2000   2002   2004   2006   2008   2010   2012   2014   2016   2018   2020

Financial crisis

COVID-19 pandemic

9.5%

5.5%

0.2%

— Target Date Only Participants   — Do-It-Yourself Participants

Source: Fidelity Investments. Percentage of participants making an exchange includes participant-driven exchanges only as of 3/31/21. Source: Fidelity's corporate defined contribution and tax-exempt recordkeeping data. Quarterly exchange data shown. "100% Target Date" investors represent participants who hold their entire balance in a target date strategy. "Do-It-Yourself" (DIY) Investors represent participants who hold less than 100% of their balance in a target date strategy or managed account (3/1/01–12/31/21).

# Diversifying investors' risk across their planning horizon

Balancing distinct risks at each stage in the life cycle

Risk	Concerns and sensitivities	Younger investors	Investors near retirement	Investors in retirement
Inflation	Loss of purchasing power	Lower	Higher	Higher
Market drawdown	Loss of savings	Lower	Medium	Higher
Deflation	Volatility and low investment returns	Higher	Medium	Medium
Longevity	Need for returns to fund a lifetime	Higher	Medium	Lower

For illustrative purposes only.

Long-term averages

Average Index Returns

Canadian Equity Average: 8.5%

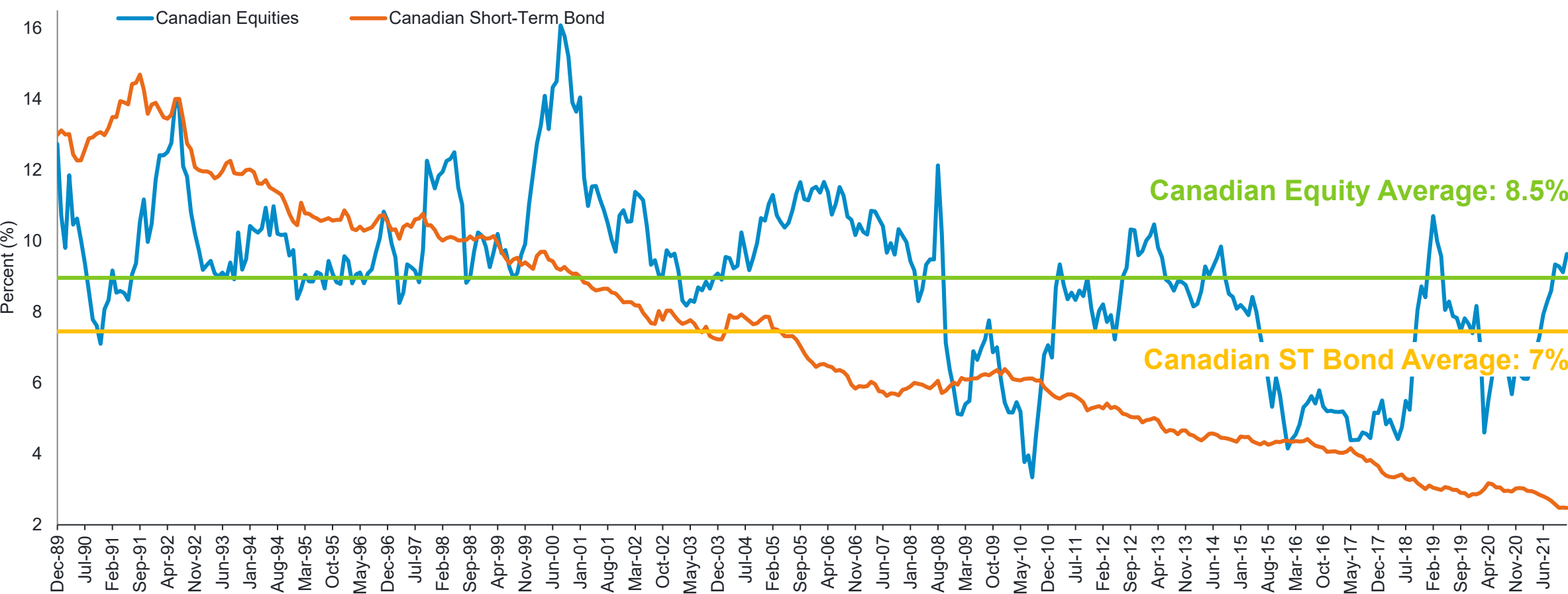**Canadian ST Bond Average: 7%**

6

Long-term averages

Rolling 10 Year Returns
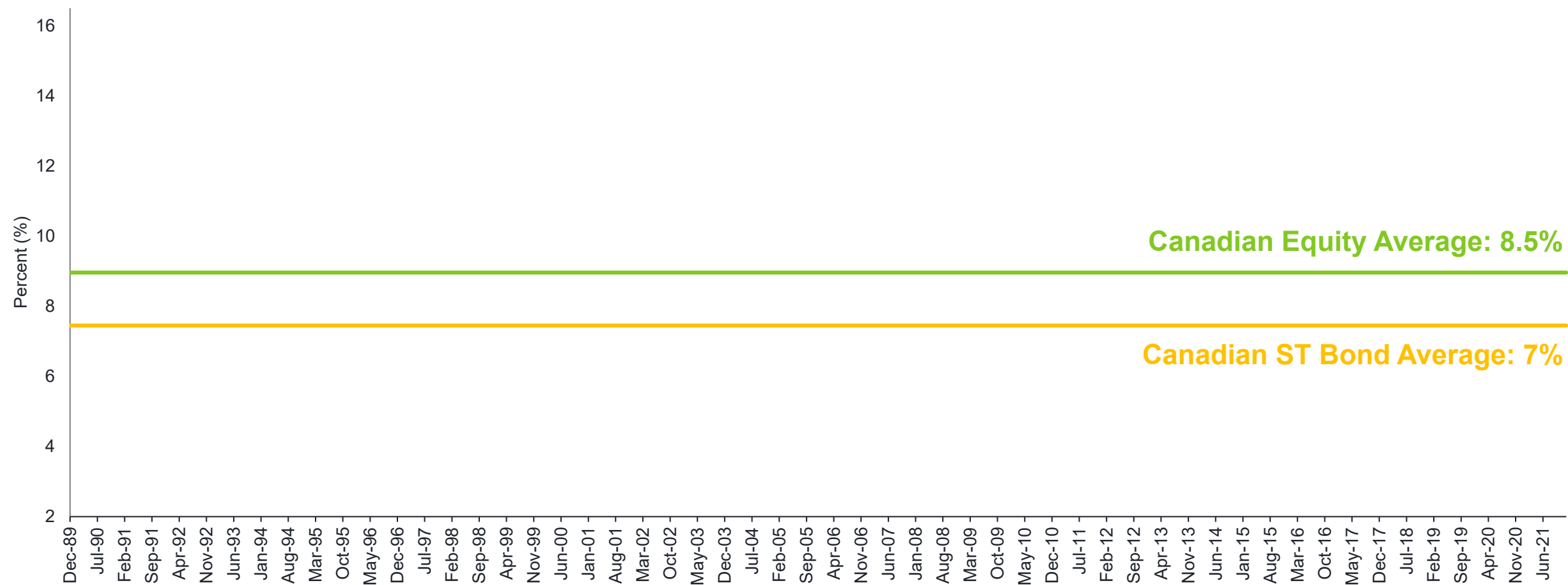
Source: Fidelity Investments, Datastream, Morningstar. S&P/TSX Capped Composite TR used for Canadian Equity, FTSE Canada ST Bond Index used for Canadian ST Bond. Data shown is the ten-year rolling annualized return for each index to the end of December 31, 2021. Average index returns represent the average total return experienced over from December 1979 to December 2021.
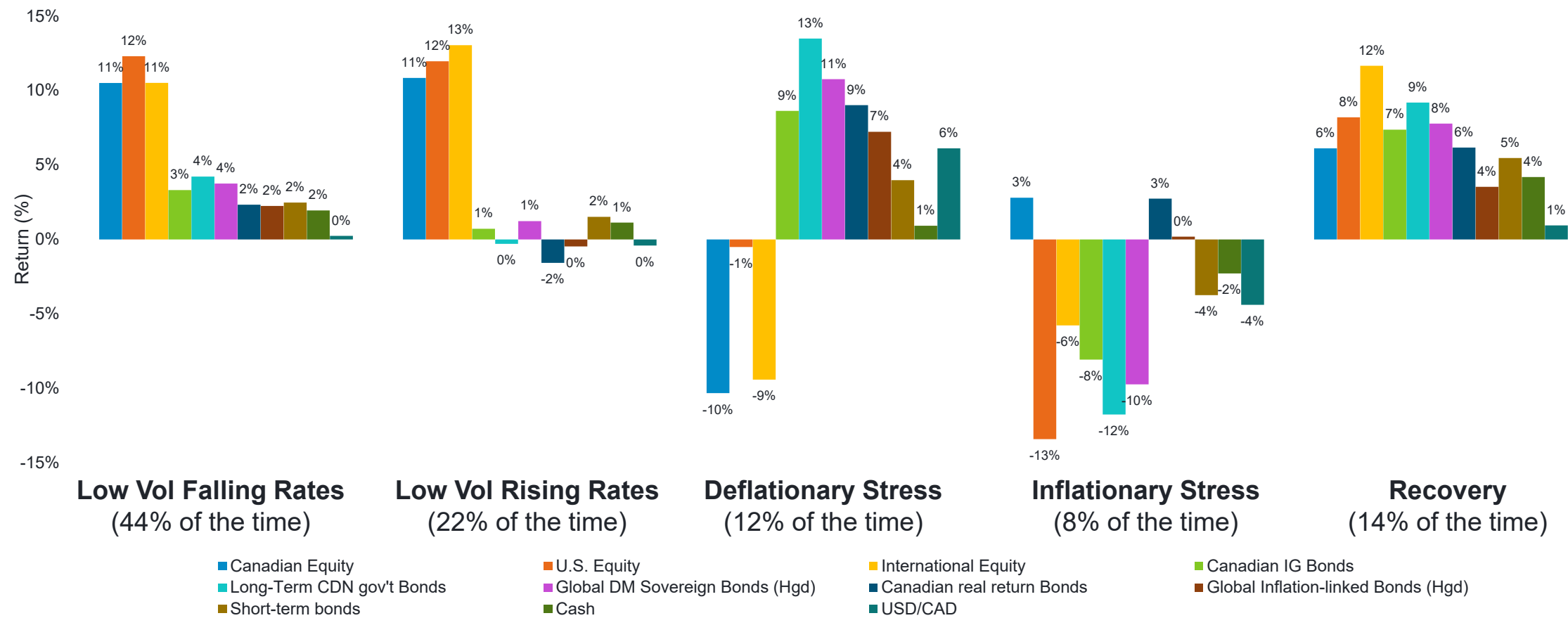For Illustrative purposes only.

Distinct market regimes

Asset class performance in different market environments[1]

Defining and Selecting Strategic Asset Exposures for Target Date Investors

[Download]

Low Vol Falling Rates
(44% of the time)

Low Vol Rising Rates
(22% of the time)

Deflationary Stress
(12% of the time)

Inflationary Stress
(8% of the time)

Recovery
(14% of the time)

Legend:
- Canadian Equity
- U.S. Equity
- International Equity
- Canadian IG Bonds
- Long-Term CDN gov't Bonds
- Global DM Sovereign Bonds (Hgd)
- Canadian real return Bonds
- Global Inflation-linked Bonds (Hgd)
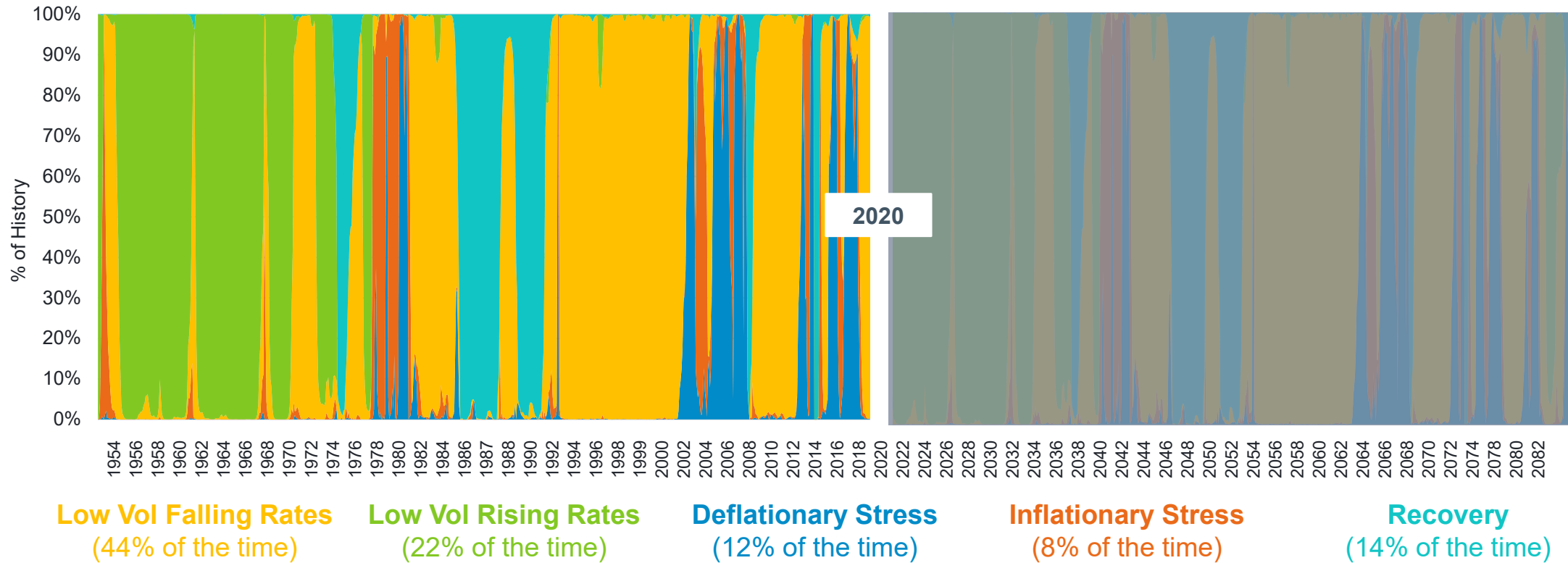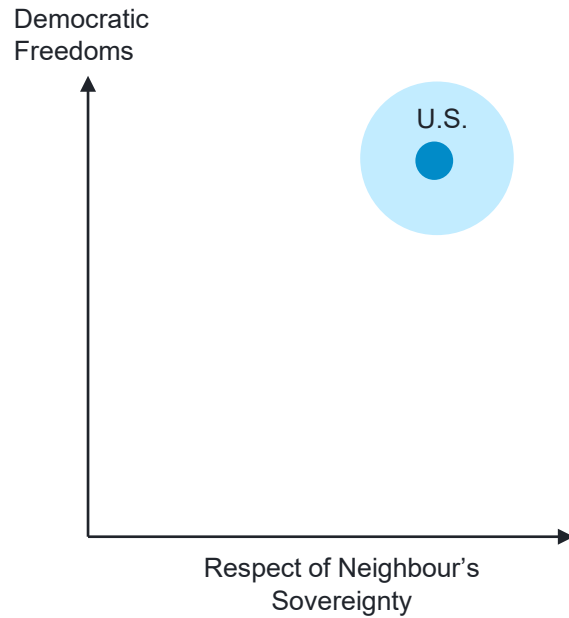- Short-term bonds
- Cash
- USD/CAD

Past performance is no guarantee of future results. Index performance is not meant to represent that of any Fidelity fund. You can not invest directly in an index.

[1]Duration percentages have been rounded to the nearest percentage and are through August 31, 2019. Research utilizes a Hidden Markov Model (HMM) with Gaussian Mixtures framework (part of Fidelity's proprietary artificial intelligence and machine learning methodology for identification of data-driven market regimes), which assumes there are five structural states or market environments, that are more consistent given historical realized asset class returns data. Returns represent real returns. Please see Important Information for methodology. Source: Fidelity Management and Research Company.

Regimes – Past and future

History represents only one path

Low Vol Falling Rates
(44% of the time)

Low Vol Rising Rates
(22% of the time)

Deflationary Stress
(12% of the time)

Inflationary Stress
(8% of the time)

Recovery
(14% of the time)

Geopolitical risk: More great powers, less stability

UNIPOLAR	BIPOLAR	MULTI-POLAR

Very Stable
1990s-early 21st C.

Pretty Stable
1960s-1980s
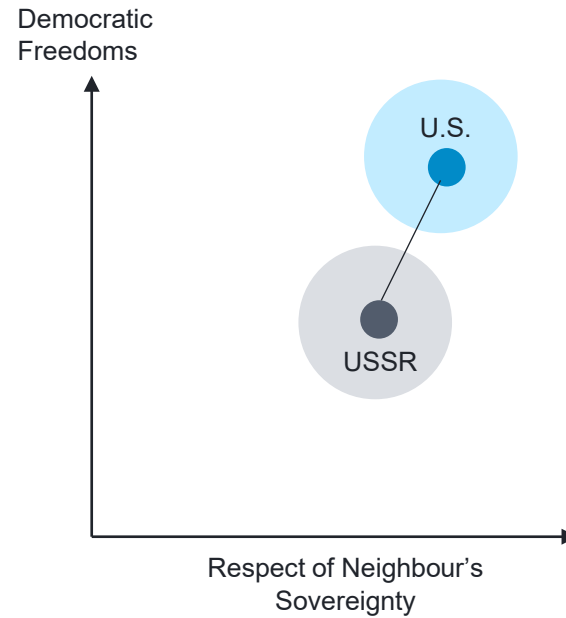
Unstable
Today
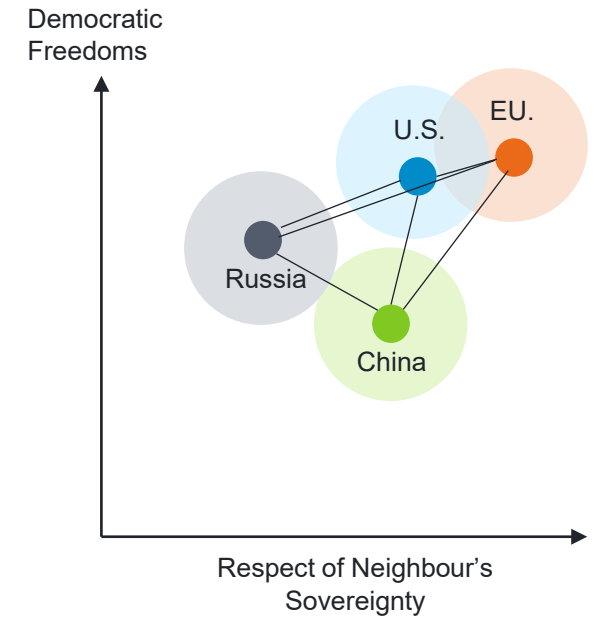
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Challenging secular trends turbo-charged by pandemic

Broad Secular Changes	Secular Factors	Pre-pandemic Trends	Pandemic Impact		RESULTS
Unprecedented Accumulation of Debt	Debt	Record high levels	Even higher		Inflation Risk
Rising Populist Demands	Monetary policy	Financial repression Tolerance for higher inflation	Even more extreme		Policy Risk
	Fiscal policy	Large deficits	More public spending, higher multiplier		Financial Fragility
Geopolitical Instability	De-globalization pressures	Goods/labor disinflation ending	Even greater: Supply-chain shocks, self-sufficiency motivation		Profit-margin Pressures
Anti-Globalization Pressure	Inequality	Record high levels	Wages/labor share rising		Higher Nominal Growth
Widespread Aging Demographics	Aging demographics	Elderly people spend less (reducing demand) and work less (reducing supply)	Older workers leave labor force		**Shows Need for Diversification**

Driving successful retirement outcomes for all members

➢ Strong plan design supporting all generations

➢ Communications and education targeted to each generation

➢ Use of auto-enrollment

➢ Default investments designed for a lifetime

➢ Partnering with Investment Managers who:

  ▪ Account for risks across all ages

  ▪ Focus on resiliency and diversification as a foundation

  ▪ Have flexibility to navigate turbulent markets

Important information

Issued by Fidelity Investments Canada ULC ("FIC"). Read this important information carefully before making any investment. Speak with your relationship manager if you have any questions.

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Risks
Past performance is no guarantee of future results. An investment may be risky and may not be suitable for an investor's goals, objectives and risk tolerance. Investors should be aware that an investment's value may be volatile and any investment involves the risk that you may lose money.

The value of a strategy's investments will vary day to day in response to many factors, including in response to adverse issuer, political, regulatory, market or economic developments. The value of an individual security or a particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

Structural state/market environment analysis: Financial market behavior can change abruptly. Although some changes may be transitory, the new behavior often persists for several periods after a change. Such structural shifts lead to adjustments in asset pricing via changes in means, volatilities, and serial correlations over time that may remain stable within that structural state until markets transition to a different state. We have lived through only "one sample" of realized history. Embedded within this one window of history is a mix of different structural states (as well as state-conditional financial market regimes). The structural "states" could be thought of as referring to "secular" phenomena. However, within any such structural state, financial markets could transition between different "regimes," which could be considered as "cyclical" trends that are reflected in asset pricing conditioned on the secular state. Markov chains (and models) have increasingly become a useful way of capturing the stochastic nature of many time series (the sequence of the five structural "states" as depicted, could be thought of as representing a five-state Markov chain). Markov models are used to train and recognize sequential data, such as speech utterances, temperature variations, biological sequences and, more recently, financial time-series data. In a Markov model, each observation in the data sequence depends on previous elements in the sequence. A Hidden Markov Model (HMM) not only accommodates a Markov chain, but also considers the uncertainty in which state the system may be in at any given time. The word "hidden" in Hidden Markov Models means that market members do not know with certainty which structural state the financial system may be in at any point in time, and have only some probabilistic insight on where it could be along the continuum of state transitions, given the observed behavior of (multi-class) asset returns. Hidden Markov processes have been widely employed in many engineering applications, and their effectiveness has been well-recognized in modeling financial data. In an HMM, one does not know anything about what generates the observation sequence. The number of states, the state transition probabilities, and from which state an observation is generated are all unknown and all simultaneously estimated from data. Five states as described provided a robust (statistically significant) mathematical expression of the asset returns data.