

# Fidelity T-SWP<sup>®</sup>

## Providing tax-efficient monthly cash flow

Drawing cash flow from your non-registered investments can be challenging because of the tax implications. One service that can help is Fidelity's tax-efficient systematic withdrawal plan called T-SWP<sup>®</sup>.

The chart on the right shows that different forms of investment income are taxed at different rates. However, return of capital (ROC) from non-registered investments is not taxed at all. That's because it is invested as after-tax dollars.

It's clear to see that a tax efficient income strategy should include ROC, and that's what T-SWP does. Eventually, original capital runs out and future withdrawals will be taxed - but at the lower 50% inclusion rate applied to capital gains.

### The tax treatment of \$10,000 when it's:

DESCRIPTION	INTEREST	DIVIDEND INCOME	CAPITAL GAINS	RRSP OR RRIF WITHDRAWALS	RETURN OF CAPITAL
Marginal tax rate	46.41%	23.20%	23.20%	46.41%	0.00%
Dollars received	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Income tax	\$4,641	\$2,320	\$2,320	\$4,641	-
What you keep	<b>\$5,359</b>	<b>\$7,680</b>	<b>\$7,680</b>	<b>\$5,359</b>	<b>\$10,000</b>

Tax rate assumptions: 46.41% marginal tax rate.

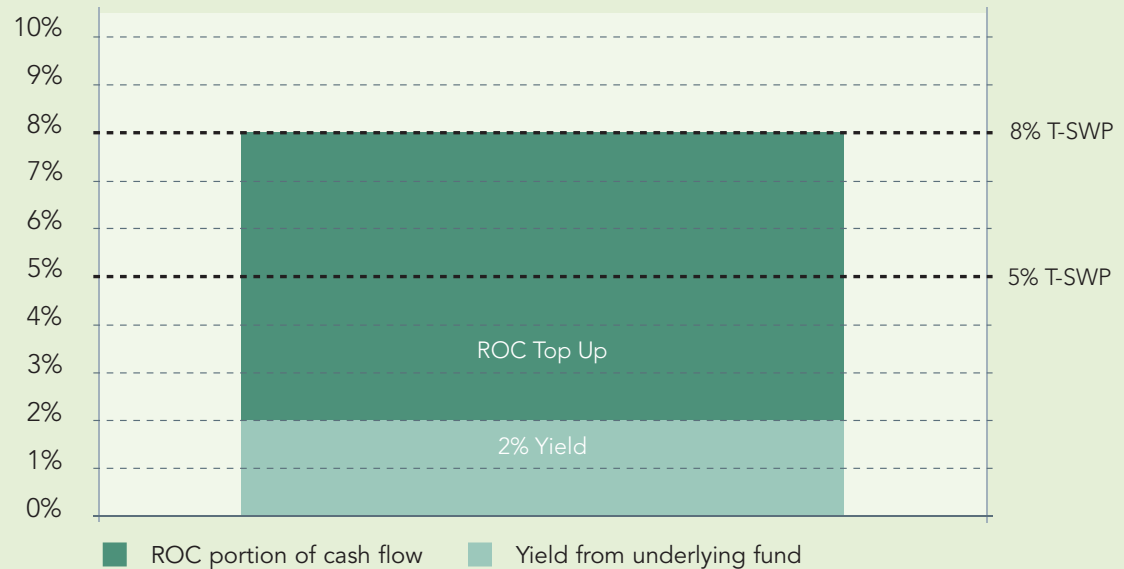
## How does T-SWP® use ROC?

T-SWP works by topping up yield with ROC. It provides a target level of monthly cash flow as a percentage of the fund's market value (5% or 8%).

Since a fund's yield will reduce the percentage of ROC in a monthly distribution, T-SWP provides the most tax-efficient cash flow from a fund with low or no yield. If tax is a major concern, T-SWP equity funds will typically be more tax efficient than balanced or income funds.

Non-registered investments always raise the question: How do you get good cash flow while managing tax? Fidelity T-SWP goes a long way toward answering that question.

T-SWP uses return of capital to "top up" cash flow to 5% or 8%. Cash flows are made up of yield the fund currently earns and return of capital.



Source: FMR Corp - hypothetical illustration

Read a fund's prospectus and consult your investment professional 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. Effective November 6, 2006 Fidelity introduced a 5% T-SWP and created Series T5 (DSC, LL, LL2) and S5 (ISC). The Series name for T-SWP 8% changed to T8 (DSC, LL, LL2) and S8 (ISC). 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 and S8 as well as 4.5% and 5.5% of the NAV on T5 and S5 balanced funds. For equity funds, we will aim to keep cash flow between 6% to 10% of the NAV each year on T8 and S8, between 4% to 6% of the NAV each year on T5 and S5. 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 and/or T5/S5 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.



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