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Market Summary
Q1 2012 Market Summary

Global monetary policy actions and stabilizing economic data combined to ease systemic risk, improve investor sentiment, and boost stocks and riskier asset categories. The U.S. enjoys an increasingly self-sustaining mid-cycle expansion bolstered by solid corporate fundamentals, though global risks and monetary and fiscal policy challenges remain significant.

TRENDS

- Broad rally in risk assets
- Global monetary easing boosted liquidity
- Incremental economic improvement, stability
- Macro concerns eased, asset correlations fell, volatility dropped
- U.S. in self-sustaining mid-cycle expansion
  - Labor market improvement
  - Some early-cycle arriving late
- Rest of world weak but data beat expectations
  - Subdued growth in China
  - Europe weak but less distressed
- Inflation moderated, but oil pressures rose
- Long-term yields rose, curve slightly wider

THEMES

- Systemic risk eased, better backdrop for security selection
- Supportive monetary policies, but several risks
- Fiscal policy drag in Europe, looming risk in U.S.
- Profit growth decelerating, but corporate fundamentals solid
- Riskier assets now more fully valued, though still attractive relative to government bonds
- U.S. still in better stage of economic cycle, more risk in China and abroad

PERFORMANCE

- More economically sensitive asset categories outperformed, with less risky fixed income trailing
- Biggest quarterly U.S. equity rally in nearly three years

Past performance is no guarantee of future results.
Asset Market Performance

Economically sensitive foreign stocks led the broad-based rally that produced double-digit returns across most global equity markets. Riskier credit securities also performed well, while Treasury bonds and other more defensive assets trailed. The risk meter was in the top third of most positive quarters during the past 30 years.

### Asset Market Performance

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Q1 2012 (%)</th>
<th>1-Year (%)</th>
<th>Q1 2012 (%)</th>
<th>1-Year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Small-Cap Stocks</td>
<td>14.9</td>
<td>-5.9</td>
<td>Gold</td>
<td>5.6</td>
</tr>
<tr>
<td>Emerging-Market Stocks</td>
<td>14.1</td>
<td>-8.5</td>
<td>High-Yield Bonds</td>
<td>5.2</td>
</tr>
<tr>
<td>U.S. Mid-Cap Stocks</td>
<td>12.9</td>
<td>3.3</td>
<td>Emerging-Market Bonds</td>
<td>4.9</td>
</tr>
<tr>
<td>U.S. Large-Cap Stocks</td>
<td>12.6</td>
<td>8.5</td>
<td>U.S. Corporate Bonds</td>
<td>2.0</td>
</tr>
<tr>
<td>U.S. Small-Cap Stocks</td>
<td>12.4</td>
<td>-0.2</td>
<td>Commodities</td>
<td>0.9</td>
</tr>
<tr>
<td>Foreign Developed-Country Stocks</td>
<td>11.0</td>
<td>-5.3</td>
<td>Investment-Grade Bonds</td>
<td>0.3</td>
</tr>
<tr>
<td>Real Estate Stocks</td>
<td>10.5</td>
<td>11.3</td>
<td>U.S. Treasury Bonds</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

**Risk Meter: U.S. Stock Minus Treasury Bond Returns, 1982–2012**

Past performance is no guarantee of future results. You cannot invest directly in an index. See appendix for important index information.

Economy/Macro Backdrop
Global Data Stabilized, U.S. Economy Still in Front

After a steep decline in 2011, global leading economic indicators stabilized during the first quarter, with roughly one-third of the world’s 37 largest economies showing improvement over the past six months. Despite continued weakness, more data releases surprised positively in Europe and China. U.S. leading indicators and positive surprises remained relatively solid.

Leading Economic Indicators

Economic Surprise Indices

LEFT: Shading denotes U.S. recession as defined by National Bureau of Economic Research (NBER). Global LEI = percent of world’s 37 largest economies with rising Leading Economic Indicators. See appendix for list of countries. U.S. LEI = percent of 10 indicators included in the Conference Board Leading Economic Indicators Index rising on a 6-month basis. Source: The Conference Board, OECD, Foundation for International Business and Economic Research (FIBER), FAM (AART) as of 2/29/12.

RIGHT: See appendix for index definitions. Source: Citigroup, Haver Analytics, FAM (AART) as of 3/31/12.
Global Monetary Stimulus Boosted Liquidity, Sentiment

Major central banks’ extraordinary policy actions—including the ECB’s second long-term refinancing operation (LTRO)—have doubled their balance sheets since late 2008. Bolstered by easing from several developing economies, monetary policy remains a supportive factor for global asset markets, though the pace of additional accommodation may moderate.

Size of Central Bank Balance Sheets

- Bank of Japan
- European Central Bank
- Bank of England
- Federal Reserve

Q1 Central Bank Actions

- ECB: 2nd Round of LTRO
- Brazil: Policy Rate Cut
- Indonesia: Policy Rate Cut
- China: Bank Reserve Requirement Ratio Cut
- Japan: Additional Quantitative Easing
- U.K.: Additional Quantitative Easing

LEFT: Total assets of each central bank shown. Source: Bank of Japan (BoJ), Bank of England (BoE), European Central Bank (ECB), Federal Reserve Board (Fed), Haver Analytics, FAM (AART) as of 1/31/12.
China’s Slowdown Continued Amid Modest Signs of Easing

China displayed broad-based weakness across exports, industrial production, and autos. Soft property sales and slowing in construction industries such as cement reflected the weak state of the real estate sector. Authorities eased some monetary policy measures, but lending and money supply growth remained tepid, underscoring continued risks to the outlook.

**Auto and Cement Production**

- **Autos (Year-over-Year Change of 3-Month Sum)**
- **Cement (Year-over-Year Change of 3-Month Sum)**

**Bank Sentiment and Money Supply**

- **Lending Attitude of Banks**
- **Money Supply, M1 (Year-over-Year Change)**


China’s Growth Critical to Global Trade

Many economies have benefited from the rapid growth in Chinese imports in recent years, particularly commodity exporters and Asian industrials. The possibility that China may not resume the same level of growth as in recent years presents a risk to the exports, economies, and industries that have been more dependent on Chinese demand.

Exports to China as % of Total Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports as % of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>28%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>27%</td>
</tr>
<tr>
<td>Korea</td>
<td>24%</td>
</tr>
<tr>
<td>Japan</td>
<td>20%</td>
</tr>
<tr>
<td>Brazil</td>
<td>17%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11%</td>
</tr>
<tr>
<td>Singapore</td>
<td>10%</td>
</tr>
<tr>
<td>India</td>
<td>8%</td>
</tr>
<tr>
<td>United States</td>
<td>7%</td>
</tr>
<tr>
<td>Russia</td>
<td>7%</td>
</tr>
<tr>
<td>Euro Area</td>
<td>7%</td>
</tr>
<tr>
<td>China Exports as % of GDP</td>
<td>5%</td>
</tr>
</tbody>
</table>

12-month sum of exports through 10/31/11. Gross Domestic Product (GDP) for 2011. Source: International Monetary Fund; Taiwan Directorate General of Budget, Accounting and Statistics; Haver Analytics; FAM (AART) as of 12/31/11.
The U.S. economy remains in a mid-cycle expansion. Employment and housing trends have picked up steam in recent months, while manufacturing and credit activity have also improved. Consumption trends have firmed on the back of strengthening labor markets and other developments. Global economic conditions remain weak.

Source: Fidelity Asset Management (Asset Allocation Research Team) as of 3/31/12.
Slower Productivity Gains Lead Firms to Expand Payrolls

Recent job gains are consistent with prior mid-cycle expansions. Typically, firms cut back jobs during a recession to create a boost to productivity (output per hour worked), leading to higher profitability. As economic growth becomes more entrenched and productivity gains slow, higher sales must be met with more workers, leading to accelerating payroll growth.

**Productivity vs. Payroll Growth**

Labor Markets Showed Progress on Wages, Structural Issues

Job market repair has been slowed by structural problems such as limited labor mobility, skill mismatches, and other factors. However, the normal relationship between rising job openings and lower unemployment has begun to reassert itself, and income growth has perked up. Small business sentiment rose to post-recession highs for hiring and planned compensation.

**Small Business Sentiment**

- Hiring
- Compensation

**Firms with Job Openings (%)**

**Plans to Raise Compensation (Net %)**

**Beveridge Curve**

- Job Openings Rate (%)
- Unemployment Rate (%)

**LEFT:** Percent of firms with one or more job openings that are hard to fill. Source: National Federation of Independent Business, Haver Analytics, FAM (AART) through 2/29/12. **RIGHT:** Job openings rate = job openings level as a percent of total employment plus job openings level. Monthly data for 12/2000–1/2012. Source: Bureau of Labor Statistics, Haver Analytics, FAM (AART) through 1/31/12.
Early Cycle Arriving Late: Consumer Credit, Spending Power

Consumer spending has continued to improve, partly due to the ongoing relief of financial pressures that had impeded consumption activity. Thanks to low interest rates and some deleveraging, consumers generally have lower levels of financial obligations. Bolstered by easing credit standards, households have begun to borrow more, boosting their spending power.

Financial Obligations vs. Non-Mortgage Consumer Credit Growth

- Non-Mortgage Consumer Borrowing
- Household Financial Obligations Ratio

Consumer borrowing excludes debt secured by real estate. SAAR = Seasonally adjusted at an annualized rate. Financial obligations ratio = ratio of household financial obligations to disposable personal income. Source: Federal Reserve Board, Haver Analytics, FAM (AART) as of 12/31/11.
Early Cycle Arriving Late: Housing

Underlying fundamentals in housing have improved. Home prices have been weak but continue to stabilize, particularly for non-distressed properties. Despite still-low levels of building activity, housing starts have risen, and increasing demand for construction labor signals that this typically early-cycle sector may return as a positive to GDP growth.

**Home Prices**

- Distressed Excluded
- Distressed Included

**Construction Activity**

- Avg. Weekly Construction Hours
- Housing Starts

Index Level (Apr-06 = 100)

LEFT: CoreLogic home price indices shown. See appendix for definition of distressed sales. Source: CoreLogic, Haver Analytics, FAM (AART) through 2/29/12.

Corporate Profitability Solid, Inventories In Check

Despite a slower pace of earnings growth, the corporate sector continues to be robust, with profit margins near all-time highs. In a positive signal for sustained corporate strength, the purchasing managers’ new orders-to-inventories ratio—a leading indicator of manufacturing activity—remained high and compared favorably with other major economies around the world.

U.S. Corporate Profits

Corporate Profits as % of GDP

Manufacturing New Orders and Inventories

<table>
<thead>
<tr>
<th>PMI New Orders-to-Inventories Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
</tr>
<tr>
<td>India</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Eurozone</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Spain</td>
</tr>
</tbody>
</table>

The U.S. economy remains in a relatively slow but increasingly self-sustaining mid-cycle expansion. Increasing consumer spending, expanding payrolls, stabilizing home prices, and positive credit growth have reinforced one another. With inventories well contained, corporate profitability solid, and the Fed on hold, traditional late-cycle signals are absent.

### Inflationary Pressures
- **Red = High**

### Business Cycle Update: Mid-Cycle Expansion

**EARLY**
- Activity rebounds (GDP, IP, employment, incomes)
- Credit begins to grow
- Profits grow rapidly
- Policy still stimulative
- Inventories low; sales improve

**MID**
- Growth peaking
- Credit growth strong
- Profit growth peaks
- Policy neutral
- Inventories and sales grow; reach equilibrium

**LATE**
- Growth moderating
- Credit tightens
- Earnings under pressure
- Policy contractionary
- Inventories grow; sales growth falls

**CONTRACTION**
- Falling activity
- Credit dries up
- Profits decline
- Policy eases
- Inventories and sales both fall

---

Source: Fidelity Asset Management (Asset Allocation Research Team) as of 3/31/12.
Inflation Pressures Have Receded, Though Oil Still a Risk

Developing economies that faced rising inflationary pressures during mid-2011 saw inflation rates drop significantly during the first quarter, providing a more favorable backdrop for monetary easing. However, oil prices jumped as conflict curbed output in several countries. Limited supply growth and geopolitical concerns remain major risks for oil.

Change in Inflation Rates, 2012 vs. 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Difference in 1-Year Inflation Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-1%</td>
</tr>
<tr>
<td>Emerging Total</td>
<td>0%</td>
</tr>
<tr>
<td>China</td>
<td>-2%</td>
</tr>
<tr>
<td>Philippines</td>
<td>-3%</td>
</tr>
<tr>
<td>Asia Emerging Total</td>
<td>-4%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-3%</td>
</tr>
<tr>
<td>India</td>
<td>-2%</td>
</tr>
<tr>
<td>Russia</td>
<td>-4%</td>
</tr>
</tbody>
</table>

Oil Production Declines

- Year-over-Year Change in 3-Month Avg, Million bpd
  - Iran: 0.36
  - Sudan: 0.21
  - Libya: 0.14
  - Yemen: 0.19
  - Syria: 0.19
  - Venezuela: 0.09
  - Nigeria: 0.06
  - Iraq: 0.02


Right: bpd = barrels per day. Year-over-year change of 3-month average production for each country. Source: International Energy Administration, FAM (AART) as of 2/29/12.
Gasoline Prices a Headwind, But Some Mitigating Factors

Gasoline prices rose to nearly $4 per gallon during the first quarter, but would have to rise to $5 to match the year-over-year increase that weighed on consumers during the second quarter of 2011. Inflationary pressures in other areas have been abating, and with miles traveled falling and fuel efficiency rising, gas matters less to consumer budgets now than before.

Gasoline Prices

Year-over-Year Change  Avg Gasoline Price

Q1 2011  Q2 2011  Q3 2011  Q4 2011  Q1 2012

- 0%  5%  10%  15%  20%  25%  30%  35%  40%

Gasoline Efficiency vs. Miles Driven

U.S. Vehicle Miles of Travel
Gasoline Efficiency (miles/barrel)

Miles Driven (12-Month Moving Avg, Billions)
Efficiency (12-Month Moving Avg, Miles/Barrel)

LEFT: Source: Energy Information Administration, Bloomberg, FAM (AART) through 3/31/12.
RIGHT: Source: Federal Highway Administration, Energy Information Administration, Haver Analytics, FAM (AART) through 1/31/12.
Monetary Policy Risk Amid Higher Inflation Expectations

Expecting the inflation rate to fall below 2% and the unemployment rate to stall without stronger economic growth, the Federal Reserve extended its zero-rate guidance through 2014 and hinted that further action was possible. However, labor markets continue to heal, and the Fed’s prior actions occurred after a period of falling—not rising—inflation expectations.

Inflation History & Expectations vs. Fed Projections

QE1 and QE2 = 2 rounds of quantitative easing by Fed to increase money supply and hence liquidity. Twist = Fed operation to sell medium-term bonds and buy long-term bonds, attempting to drive down long-term interest rates. Source: Bureau of Economic Analysis, Federal Reserve Board, Haver Analytics, FAM (AART) as of 3/31/12.
Fiscal Austerity a Risk to U.S. and European Outlook

Political risk amid fiscal consolidation efforts remains high, with the U.S. facing a severe fiscal drag in 2013 under current law. Automatic spending reductions and the expiration of tax cuts next year would cause the fiscal deficit to narrow by nearly 3.8% of GDP, similar to the annual magnitude that several European countries have attempted or begun to undertake.

Size of Projected Fiscal Consolidation

Fiscal consolidation shows the 1-year change in the budget deficit as a % of GDP for the years shown in blue bars. Fiscal consolidation shows the 1-year change in the budget deficit as a % of GDP for the years shown in blue bars.

Source: International Monetary Fund, Congressional Budget Office, Haver Analytics, FAM (AART) as of 3/31/12.
Outlook: Market Assessment

The global economy remains divergent, with the U.S. mid-cycle dynamics providing a more favorable investing environment than many foreign economies. The rally in risk assets has left them generally more fully valued and offering less favorable risk-reward profiles than previously, underscoring the need for selectivity and attention to a wide array of significant risks.

Risks:

- **Policy**
  - Managing excess government debt and fiscal austerity in developed economies
  - Sustainability of extraordinary monetary measures and potential for unintended consequences
- **Oil prices**
  - Potential for geopolitical or other supply shocks to push up inflation

Potential Asset Allocation Implications:

- Relatively neutral outlook warranting high degree of selectivity
- Potential risk-reward less favorable for some riskier asset categories after strong market results during last two quarters
- Many riskier asset prices more fully valued, but still attractive relative to “safe-haven” assets
- Favor investments and industries that are more U.S.-centric than China-centric and global

U.S. economy in mid-cycle expansion, China and Europe in late cycle/recession

Systemic risk eased, but still elevated

Strong corporate fundamentals

Quarterly Theme: U.S. Regaining Its Luster?
U.S. as Low-Cost Energy Producer

More productive technologies, including horizontal drilling and hydraulic fracturing, have led to a turnaround in the U.S. energy sector. Natural gas prices are much lower than abroad, and oil production is rising rapidly for the first time in two decades. These trends have positive implications for domestic industries, consumers, the trade balance, and the U.S. dollar.

Natural Gas Prices

- Europe
- U.S.
- Japan

U.S. Dollar per Million BTU

18
16
14
12
10
8
6
4
2
0
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

12-Month Average

10.5
9.5
8.5
7.5
6.5
5.5
4.5
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012

U.S. Crude Oil Production

Million Barrels per Day

Greatly Improved U.S. Manufacturing Competitiveness

Over the past decade, the cost structure of U.S. manufacturing companies relative to many trading partners has improved through access to cheaper energy sources and more limited wage pressures. The weaker U.S. dollar has also helped to dramatically lower U.S. unit labor costs, making the manufacturing sector more competitive versus many other economies.

U.S. Manufacturing Costs

- Change Since 2000

Global Manufacturing Labor Costs

- Change in Real Effective Unit Labor Costs Since Q1 2002

LEFT: Source: Census Bureau, Haver Analytics, FAM (AART) through 2010. RIGHT: Manufacturing labor costs adjusted by the change in the real effective exchange rates. Source: Organization for Economic Cooperation and Development (OECD), Bank for International Settlements, Haver Analytics, FAM (AART) through 12/31/11.
Economic Flexibility Still a U.S. Strength

Although the aftermath of the 2008 financial crisis impaired the U.S. cyclical recovery, a comparison with post-bubble Japan demonstrates that market-driven flexibility is still inherent in the U.S. economy. A swift adjustment occurred in housing, where construction plummeted but has since found a floor, while U.S. corporations quickly returned to record profitability.

Corporate Profits

Construction Activity

LEFT: Source: Bureau of Economic Analysis, Japan Ministry of Finance, Haver Analytics, FAM (AART) through 12/31/11. RIGHT: Source: Census Bureau; Japan Ministry of Land, Infrastructure and Transport; Haver Analytics; FAM (AART) through 2/29/12.
Demographics Favorable Relative to Many Other Economies

The U.S. is expected to face slower growth of its working-age population—a key factor for economic growth—over the next several decades relative to its post-WWII experience, but the growth rate will remain positive. In contrast, working-age populations are already declining in Japan and Germany, and will begin to fall in China during the next several years.

Working-Age Population Growth

Fiscal Risk Remains Major Challenge

With the need to reduce deficits created by stimulative policies, and put the government budget on a more sustainable path in the medium term, looming fiscal problems present perhaps the greatest challenge to the U.S. economy. The government debt-to-GDP ratio is rising at a much faster clip in the U.S. than in Japan during its post-crisis environment.

**Fiscal Balance**

- **U.S.**
- **Japan**

**Government Debt**

- **U.S.**
- **Japan**

*LEFT: Source: OECD, Haver Analytics, FAM (AART) through 12/31/11. RIGHT: Source: OECD, Haver Analytics, FAM (AART) through 12/31/11.*
U.S. Equity Markets
Investors in the U.S. equity market enjoyed the best first quarter since 1998. All market capitalization categories posted robust returns, while growth stocks outperformed value stocks. With the financial and economic environment favoring riskier assets, REITs lagged the broad market for the quarter, but fared better for the trailing year.

Q1 2012 Total Return

- **Growth**: 14.6%
- **Mid Caps**: 12.9%
- **Large Caps**: 12.6%
- **Small Caps**: 12.4%
- **Value**: 11.2%
- **REITs**: 10.5%

1-Year

- **Growth**: 10.1%
- **Mid Caps**: 3.3%
- **Large Caps**: 8.5%
- **Small Caps**: -0.2%
- **Value**: 4.3%
- **REITs**: 11.3%

Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Equity market returns represented by: Large Caps – S&P 500 Index; Mid Caps – Russell Midcap Index; Small Caps – Russell 2000 Index; Growth – Russell 3000 Growth Index; Value – Russell 3000 Value Index; REITs – NAREIT Equity Only Index. Source: FAM (AART) as of 3/31/12.
Financial stocks rebounded as global monetary accommodation helped to ease credit distress, particularly in the eurozone. Information technology, consumer discretionary, and other economically sensitive sectors outperformed more defensive sectors, especially utilities, which was the only sector to post a first-quarter loss.

**Economically Sensitive Sectors Outpaced Defensive Sectors**

Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in a more diversified basket of securities. Sector returns represented by S&P 500 sectors. Source: FAM (AART) as of 3/31/12.
Valuations Less Attractive After Multiple Expansion

Earnings multiples have been on an uptrend since late last year, reflecting better-than-expected U.S. economic data and increasingly positive investor sentiment. After two years of compression, including last summer’s rapid descent, the price-to-earnings ratio measured by trailing and forward 12-month earnings is still below the long-term average near 17.

S&P 500 Valuations

Trailing | Forward | Avg Trailing Since 1926

Price-to-Earnings Ratio

Source: FactSet, FAM (AART) as of 3/31/12.
What if the Market is Revaluing Dividends?

Though high dividend payers trailed in the first quarter, there may be a long-term shift in investor preferences for dividends. With interest rates low, stocks with higher payout ratios have enjoyed higher valuations as the market has paid a premium for the stability of distributed earnings. Many stocks still have low payout ratios and may benefit from raising their dividends.

### S&P 500 Valuations

<table>
<thead>
<tr>
<th>Payout Ratio</th>
<th>Forward Price-to-Earnings Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 70%</td>
<td>16</td>
</tr>
<tr>
<td>&gt; 50%</td>
<td>15</td>
</tr>
<tr>
<td>&gt; 30%</td>
<td>14</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>13</td>
</tr>
</tbody>
</table>

### S&P 500 Payout Ratio

- **Payout Ratio**
- **Median for Period**

Past performance is no guarantee of future results. **LEFT:** Source: Standard & Poor’s, FAM (AART) through 3/29/12. **RIGHT:** Payout ratio = percentage of earnings paid in dividends to shareholders. Source: Standard & Poor’s, Haver Analytics, FAM (AART) through 12/31/11.
Sector Breakdown: Domestic vs. Global Exposure

Companies with higher proportions of revenues from the U.S. economy may offer a purer play on domestic trends than the broader market. Sectors such as technology, materials, and energy generally derive more sales from abroad, while utilities, telecom, and financials are more domestic-oriented. Within sectors, there is often a wide disparity among industries as well.

Domestic Exposure of S&P 500 Sectors and Industries

Domestic Sales % of Total Sales

Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in a more diversified basket of securities. Source: FactSet, FAM (AART) as of 12/31/11.
Corporate Earnings Growth Positive But Slowing

During the past eight quarters, actual S&P 500 earnings growth has generally exceeded expectations, although the growth rate and the size of the surprise have moderated recently. Company earnings guidance has also deteriorated, a possible sign that positive earnings surprises may become more difficult in the quarters ahead.

**S&P 500 Earnings Growth**

<table>
<thead>
<tr>
<th>Actual</th>
<th>Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Earnings Growth (Year-over-Year)**

**Negative Corporate Guidance**

<table>
<thead>
<tr>
<th>1-Month</th>
<th>3-Month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Expected Earnings Growth**

- Q1 2012: 0%
- Full Year 2012: 12%

**Negative Guidance as % of Total Guidance**

Source: FactSet, FAM (AART) through 3/31/12. **RIGHT:** Source: Bloomberg, FAM (AART) through 3/28/11.
International Equity Markets & Global Assets
Strong Returns for International Equities

In a reversal from 2011, foreign equities rebounded and riskier asset categories such as small-cap and emerging-market stocks had the highest returns. Dollar weakness generally added to returns, except for Japan where yen depreciation detracted. Gold lagged more economically sensitive assets, and commodity markets other than crude oil softened.

Q1 2012 Total Return

<table>
<thead>
<tr>
<th>Category</th>
<th>Q1 2012 LC</th>
<th>1-Year USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI EAFE Small Cap</td>
<td>15.0%</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>10.8%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>19.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>10.3%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Europe</td>
<td>7.7%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Gold</td>
<td>N/A</td>
<td>15.5%</td>
</tr>
<tr>
<td>Commodities</td>
<td>N/A</td>
<td>-16.3%</td>
</tr>
</tbody>
</table>

LC = Local currency. All returns are gross in U.S. dollars unless otherwise noted. Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Index returns represented by: Europe – MSCI® Europe Index; Japan – MSCI® Japan Index; Emerging Markets – MSCI® EM Index, Gold – Gold Bullion Price, London PM Fix; Commodities – S&P GSCI Commodities Index. Source: FactSet, FAM (AART) as of 3/31/12.
Foreign stock advances were widespread as monetary authorities boosted liquidity around the world. With the U.S. no longer the destination of the global flight to safety, the dollar fell modestly against most currencies, which enhanced the international equity gains experienced by U.S. investors.

### Q1 2012 Global Equity Market Performance

<table>
<thead>
<tr>
<th>Region</th>
<th>Local Return (%)</th>
<th>US$ Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Europe</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Germany</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Greece</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Spain</td>
<td>(5)</td>
<td>(3)</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>India</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Australia</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>EMEA</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Russia</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Egypt</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>South Africa</td>
<td>6</td>
<td>11</td>
</tr>
</tbody>
</table>

Local = Local currency returns. US$ = U.S. dollar returns. Parentheses denote negative returns. Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Index returns represented by: Europe, Middle East, & Africa (EMEA) = MSCI EM EMEA. Developed Europe = MSCI® Europe Index. Asia Pacific = MSCI AC Asia Pacific Index. Latin America = MSCI EM Latin America. All country/region returns are gross MSCI® country/region indexes, in US$ unless otherwise noted. Sources: MSCI®, FactSet, FAM (AART) as of 3/31/12.
Commodity Prices Ticked Up, But Generally Trendless

Most commodity prices rose during the first quarter, though they remained lower than one year ago. Rising crude oil prices more than offset weak natural gas. Better-than-expected global economic growth supported industrial metals such as copper and aluminum. Gold held up as a reserve asset over the year, but silver fared better in the quarter’s risk-on environment.

### Commodity Price Index

<table>
<thead>
<tr>
<th></th>
<th>Energy</th>
<th>Industrial Metals</th>
<th>Precious Metals</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index Level (3/31/11 = 100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>May-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Jun-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Jul-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Aug-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Sep-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Oct-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Nov-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Dec-11</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Jan-12</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Feb-12</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
<tr>
<td>Mar-12</td>
<td>89</td>
<td>92</td>
<td>110</td>
<td>96</td>
</tr>
</tbody>
</table>

Price Change

- Precious Metals: 8% (11%)
- Energy: 8% (-2%)
- Agriculture and Livestock: 2% (-14%)
- Industrial Metals: 7% (-17%)

Past performance is no guarantee of future results. You cannot invest directly in an index. Standard & Poor’s Goldman Sachs Commodity Sub-Indices. Please see appendix for important index information. Source: Standard & Poor’s, Haver Analytics, FAM (AART) as of 3/31/12.
Secular Trends: Emerging Market Consumer Growth

Consumers in the developing world represent a significant growth opportunity. Relatively low debt levels provide potential purchasing power as emerging markets deepen their financial systems and expand consumer credit. Rising household wealth, especially in Asia, is already accelerating growth in the markets for luxury goods.

**Consumer Debt Levels**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>8%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13%</td>
</tr>
<tr>
<td>Brazil</td>
<td>15%</td>
</tr>
<tr>
<td>Turkey</td>
<td>16%</td>
</tr>
<tr>
<td>China</td>
<td>27%</td>
</tr>
<tr>
<td>Chile</td>
<td>30%</td>
</tr>
<tr>
<td>Poland</td>
<td>34%</td>
</tr>
<tr>
<td>Japan</td>
<td>67%</td>
</tr>
<tr>
<td>U.S.</td>
<td>87%</td>
</tr>
</tbody>
</table>

**Luxury Goods Sales to Emerging Asia**

- **Emerging Asia Sales as % of Total Sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>8%</td>
<td>12%</td>
<td>16%</td>
<td>17%</td>
<td>18%</td>
<td>18%</td>
<td>21%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Foreign Stock Valuations Remain Below Long-Term Average

Earnings multiples rose somewhat in both developed and emerging markets as investor sentiment improved. However, following one year of compression, price-to-earnings ratios remain well below long-term averages and may suggest that investors are pricing in slower profit growth.

Emerging Markets’ P/E Ratio

Developed Markets’ P/E Ratio

Price-to-Earnings Ratio

Trailing P/E  Forward P/E  Long-Term Avg P/E

Mar-04  Mar-05  Mar-06  Mar-07  Mar-08  Mar-09  Mar-10  Mar-11  Mar-12

Price-to-Earnings Ratio

Mar-04  Mar-05  Mar-06  Mar-07  Mar-08  Mar-09  Mar-10  Mar-11  Mar-12

Fixed-Income Markets
Lower-Quality Debt Outpaced Safer Assets

Investors flocked to lower-quality, more economically sensitive fixed income assets, leading to narrowing credit spreads and strong performance by corporate high-yield bonds and emerging market debt in the first quarter. Treasury yields rose on solid economic data, causing higher-quality categories to lag.

Q1 2012 Total Return

<table>
<thead>
<tr>
<th>Category</th>
<th>1-Year</th>
<th>2012 Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Yield</td>
<td>5.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>EM Debt</td>
<td>12.6%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Leveraged Loan</td>
<td>2.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Credit</td>
<td>9.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Municipal</td>
<td>12.1%</td>
<td>1.7%</td>
</tr>
<tr>
<td>TIPS</td>
<td>12.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>ABS</td>
<td>5.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>MBS</td>
<td>6.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Agency</td>
<td>4.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Treasuries</td>
<td>8.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Aggregate</td>
<td>7.7%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Treasury Yields Up, But No Signs of Flagging Demand

Interest rates rose during the first quarter—creating a headwind to fixed-income investment returns—but are still far below their levels at the beginning of 2011. Demand for Treasuries continued to be solid. The Fed and foreign central banks have absorbed much of the issuance in recent years, leaving official institutions as the largest holders of Treasuries.

10-Year Treasury Yield

Holders of Treasury Securities

Past performance is no guarantee of future results. LEFT: Source: Bloomberg, FAM (AART) as of 3/31/12. RIGHT: Source: U.S. Treasury, Federal Reserve Board, Haver Analytics, FAM (AART) as of 1/31/12.
Uncertainty Drives Need for Multisector Bond Exposure

During the past several years, the U.S. economy has abruptly shifted through varying conditions, which have historically affected the relative performance of different fixed-income sectors. The uncertain global macro backdrop and low yields-to-maturity on high-quality bonds reinforce the need to diversify across multiple fixed-income categories.

Past performance is not a guarantee of future results. Diversification does not ensure a profit or guarantee against loss. Source: Morningstar EnCorr, FAM (AART) as of 3/31/12.
Corporate Bond Spreads Narrowed, Fundamentals Solid

Yield spreads for both investment-grade and high-yield bonds compressed sharply—by 57 bps and 124 bps, respectively—during the first quarter, but remain above their historical averages. Given the solid condition of corporate balance sheets and the lowest debt-servicing burden in more than five decades, further spread tightening may be justified.

**Corporate Debt Service Burden**

Interest Expense as % of Profits

**Corporate Bond Credit Spreads**

<table>
<thead>
<tr>
<th>High Yield OAS (bps)</th>
<th>Investment Grade OAS (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>568</td>
<td>177</td>
</tr>
</tbody>
</table>

Higher Credit Quality Boosts Emerging Market Debt Universe

Yield spreads on sovereign debt from the governments of developing countries fell during the first quarter and remained well below the average level seen in the 2000s. Higher valuations for emerging market debt may be warranted due to issuers’ sharply rising credit quality. However, higher credit quality also tends to bring greater sensitivity to interest rate movements.

Emerging Market Debt Credit Quality and Valuation

% of Universe Rated Investment Grade

Stripped Spread

Spread (basis points)

% Investment Grade

Muni Yields Still Attractive, Fundamentals Still Solid

AAA-rated municipal bond yields became less attractively valued versus Treasuries, but offered superior after-tax yields across all maturities. The fiscal outlook for many municipalities remains challenging, but state revenues reflect signs of improvement with stronger income and sales tax revenues, while localities are faced with declining property tax revenue.

AAA Municipal Bond-to-Treasury Ratio

<table>
<thead>
<tr>
<th>Years to Maturity</th>
<th>3/31/12</th>
<th>12/30/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>140%</td>
<td>120%</td>
</tr>
<tr>
<td>10</td>
<td>180%</td>
<td>140%</td>
</tr>
<tr>
<td>15</td>
<td>220%</td>
<td>180%</td>
</tr>
<tr>
<td>20</td>
<td>260%</td>
<td>220%</td>
</tr>
<tr>
<td>25</td>
<td>300%</td>
<td>260%</td>
</tr>
<tr>
<td>30</td>
<td>340%</td>
<td>300%</td>
</tr>
</tbody>
</table>

After-Tax Breakeven Level at Highest Tax Bracket = 65%

Tax Revenue Growth

- Personal Income Tax
- Sales Tax
- Property Tax

LEFT: Past performance is no guarantee of future results. Breakeven level uses current top federal income tax bracket (35%). Source: FAM (AART) as of 3/31/12. RIGHT: Shaded areas are U.S. Recessions as defined by National Bureau of Economic Research. Chart represents 4-quarter average of quarterly year-over-year percent change. Data not adjusted for legislative changes. Personal income tax and sales tax represent state portion only, while property tax reflects state and local components. Source: U.S. Census Bureau, Quarterly Summary of State and Local Tax Revenue, FAM (AART) as of 3/22/12.
Asset Allocation Themes
Falling Correlations: Better Backdrop for Active Management

Stock correlations fell significantly from their all-time highs in October, creating a better environment for individual stock picking. In a high correlation environment, underlying corporate fundamentals have had less impact on prices. Since 2008, for example, companies that beat earnings expectations the most saw their returns beat the market by smaller margins.

Russell 1000 Stock Correlations

Correlation  Median for Period

60-Day Stock Correlation

Oct 2011  Dec 2008

Stock Relative Returns and Correlations

Top Surprisers’ Relative Return  Russell 1000 Correlations

Median for Period  Median for Period

Relative Return (pps)  1-Year Daily Stock Correlation

LEFT: Source: FAM (AART) through 2/29/12. RIGHT: Top Surprisers = Top quartile of Russell 1000 companies beating median consensus earnings expectations. Relative return versus Russell 1000 Index. pps = percentage points. Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. Source: FAM (AART) through 3/31/12.
Despite short-term deviations due to movements in inflation or interest rates, real (inflation-adjusted) yields have usually been a good indicator of real bond returns over the long term. Since 1923, the average 10-year real yield was 2.1% and the average 10-year real return was 2.0%. The current 10-year real yield stands at roughly zero, implying a difficult outlook for real returns.

**Real Treasury Yields Inform Real Bond Return Expectations**

**U.S. 10-Year Real Yield vs. Subsequent 10-Year Real Return**

Past performance is no guarantee of future results. 10-year Treasury real returns are the difference between the total return and the change in Consumer Price Index (CPI) over the period. Proprietary methodology used to calculate the 10-year Treasury real yields. Source: FAM (AART) through 3/31/12.
Asset Categories That May Help Protect Against Inflation

Over the long run, cash has rarely been able to outpace the rate of inflation. Several assets offer some inflation protection through their hard-asset nature or income-adjusting characteristics. Because these categories have different sensitivities to inflation, combining them into a real return composite may provide a higher frequency of outpacing inflation.

**Frequency of Exceeding Inflation, 1973–2011**

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>39%</td>
</tr>
<tr>
<td>Commodities</td>
<td>67%</td>
</tr>
<tr>
<td>Real Estate Stocks</td>
<td>69%</td>
</tr>
<tr>
<td>Real Estate Income</td>
<td>70%</td>
</tr>
<tr>
<td>TIPS</td>
<td>79%</td>
</tr>
<tr>
<td>Leveraged Loans</td>
<td>79%</td>
</tr>
<tr>
<td>Real Return Composite*</td>
<td>86%</td>
</tr>
</tbody>
</table>

Investors Continued to Favor Bonds Over Stocks

While stocks handily outperformed bonds during the quarter, investors continued to shun equity funds and piled into bond funds. This extended the post-2008 pattern in which investors have largely gravitated to bonds, even during periods when equities have outperformed—the opposite pattern of behavior displayed over the previous two decades.

Stock Earnings Yield High Relative to Bond Yields

For decades, the stock earnings yield generally moved in the same direction as Treasury yields and was often lower. Over the past two years, bond yields fell to historic lows, while the earnings yield rose to its highest level since the 1980s. The last time the yield difference was this wide marked the beginning of a prolonged period of stock outperformance.

**Equity Earnings Yield vs. Bond Yields**

![Graph showing S&P 500 Earnings Yield vs. 10-Year Treasury Yield]

**Post-September 1974 Annualized Returns**

<table>
<thead>
<tr>
<th></th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>38%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Treasury Bonds</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Inflation</td>
<td>8%</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Performance Rotations Underscore Need for Diversification

The performance of different asset categories has varied widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year—even among asset classes that are moving in the same direction. A simple portfolio allocation with 60% in U.S. equities and 40% in U.S. bonds illustrates the benefits of diversification.

Periodic Table of Returns

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Stocks</td>
<td>18%</td>
<td>17%</td>
<td>38%</td>
<td>35%</td>
<td>35%</td>
<td>66%</td>
<td>32%</td>
<td>14%</td>
<td>26%</td>
<td>56%</td>
<td>32%</td>
<td>35%</td>
<td>40%</td>
<td>5%</td>
<td>79%</td>
<td>28%</td>
<td>8%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging-Market Stocks</td>
<td>17%</td>
<td>33%</td>
<td>8%</td>
<td>37%</td>
<td>23%</td>
<td>33%</td>
<td>29%</td>
<td>24%</td>
<td>26%</td>
<td>8%</td>
<td>10%</td>
<td>47%</td>
<td>26%</td>
<td>21%</td>
<td>13%</td>
<td>16%</td>
<td>-20%</td>
<td>58%</td>
<td>27%</td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td>Large Cap Stocks</td>
<td>15%</td>
<td>20%</td>
<td>3%</td>
<td>37%</td>
<td>23%</td>
<td>29%</td>
<td>21%</td>
<td>27%</td>
<td>12%</td>
<td>5%</td>
<td>4%</td>
<td>39%</td>
<td>21%</td>
<td>14%</td>
<td>27%</td>
<td>12%</td>
<td>-26%</td>
<td>37%</td>
<td>19%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>Small Cap Stocks</td>
<td>15%</td>
<td>19%</td>
<td>2%</td>
<td>30%</td>
<td>22%</td>
<td>24%</td>
<td>20%</td>
<td>24%</td>
<td>8%</td>
<td>2%</td>
<td>-2%</td>
<td>37%</td>
<td>18%</td>
<td>12%</td>
<td>22%</td>
<td>11%</td>
<td>-34%</td>
<td>32%</td>
<td>18%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Value Stocks</td>
<td>11%</td>
<td>19%</td>
<td>1%</td>
<td>28%</td>
<td>22%</td>
<td>22%</td>
<td>14%</td>
<td>21%</td>
<td>-1%</td>
<td>-2%</td>
<td>-6%</td>
<td>31%</td>
<td>17%</td>
<td>7%</td>
<td>18%</td>
<td>7%</td>
<td>-36%</td>
<td>28%</td>
<td>17%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Foreign-Developed Country Stocks</td>
<td>8%</td>
<td>17%</td>
<td>0%</td>
<td>20%</td>
<td>16%</td>
<td>20%</td>
<td>9%</td>
<td>21%</td>
<td>-3%</td>
<td>-4%</td>
<td>-9%</td>
<td>31%</td>
<td>11%</td>
<td>5%</td>
<td>16%</td>
<td>6%</td>
<td>-36%</td>
<td>27%</td>
<td>16%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Real Estate Stocks</td>
<td>8%</td>
<td>10%</td>
<td>-1%</td>
<td>18%</td>
<td>15%</td>
<td>13%</td>
<td>3%</td>
<td>12%</td>
<td>-5%</td>
<td>-4%</td>
<td>-15%</td>
<td>29%</td>
<td>11%</td>
<td>5%</td>
<td>12%</td>
<td>5%</td>
<td>-37%</td>
<td>26%</td>
<td>15%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>High-Yield Bonds</td>
<td>7%</td>
<td>10%</td>
<td>-2%</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
<td>-3%</td>
<td>7%</td>
<td>-9%</td>
<td>-12%</td>
<td>-16%</td>
<td>28%</td>
<td>9%</td>
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<td>11%</td>
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Appendix: Important Information

Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the author and not necessarily those of Fidelity Investments. Fidelity does not assume any duty to update any of the information. Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk.

These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

All indices are unmanaged and performance of the indices includes reinvestment of dividends and interest income and, unless otherwise noted, is not illustrative of any particular investment. An investment cannot be made in any index.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bonds and short-term investments entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks.

Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest-rate, currency-exchange-rate, economic, and political risks, all of which are magnified in emerging markets.

The securities of smaller, less well-known companies can be more volatile than those of larger companies.

Growth stocks can perform differently from the market as a whole and other types of stocks and can be more volatile than other types of stocks. Value stocks can perform differently than other types of stocks and can continue to be undervalued by the market for long periods of time.

Lower-quality debt securities generally offer higher yields, but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

The municipal market is volatile and can be significantly affected by adverse tax, legislative, or political changes and by the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a debt security to decrease. A portion of the dividends you receive may be subject to federal, state, or local income tax or may be subject to the federal alternative minimum tax. Generally, tax-exempt municipal securities are not appropriate holdings for tax advantaged accounts such as IRAs and 401(k)s.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

The gold industry can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency.

Changes in real estate values or economic conditions can have a positive or negative effect on issuers in the real estate industry, which may affect your investment.

Leverage can magnify the impact that adverse issuer, political, regulatory, market, or economic developments have on a company. In the event of bankruptcy, a company’s creditors take precedence over the company’s stockholders. Although the companies that the fund invests in may be highly leveraged, the fund itself does not use leverage as an investment strategy.
Appendix: Important Information

CPI – Consumer Price Index. An inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly.

The Russell 2000® Index is a market capitalization-weighted index of smaller company stocks. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 26% of the total market capitalization of the Russell 1000 Index. The Russell 3000® Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The Russell 3000 Growth Index is an unmanaged index that measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index is an unmanaged index that measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Morgan Stanley Capital InternationalSM (MSCI®) Europe, Australasia, Far East Index (EAFE) is an unmanaged market capitalization-weighted index designed to represent the performance of developed stock markets outside the United States and Canada. The MSCI Europe Index is a market capitalization-weighted index of over 550 stocks traded in 14 European markets. The MSCI® Emerging Markets (EM) Index is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in emerging markets. The MSCI EM (Emerging Markets) Latin America Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Latin America. The MSCI EM Latin America Index consists of the following six emerging-market country indices: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The MSCI EM (Emerging Markets) Asia Index is a free float-adjusted, market capitalization index designed to measure equity-market performance in the following countries: China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand. The MSCI Japan Index is an unmanaged index of stock prices that reflects the common stock prices of the index companies translated into U.S. dollars, assuming reinvestment of all dividends paid by the index stocks net of any applicable foreign taxes. The MSCI Spain Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Spain. The MSCI Russia Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Russia. The MSCI Germany Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Germany. The MSCI Greece Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Greece. The MSCI South Africa Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in South Africa. The MSCI Egypt Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Egypt. The MSCI China Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in China. The MSCI India Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in India. The MSCI Brazil Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Brazil. The MSCI Mexico Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Mexico. The MSCI Chile Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Chile. The MSCI Australia Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in Australia.

The MSCI EAFE Small Cap Index currently consists of the following 21 developed-market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and United Kingdom. This index aims to capture 40% of the full market capitalization of the eligible small-cap universe of companies in each country by industry. This is a range of 200–1500 billion USD. MSCI then free float-adjusts the included companies.

The MSCI EM (Emerging Markets) Europe, Middle East, and Africa (EMEA) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in the emerging-market countries of Europe, the Middle East, and Africa. The MSCI EM EMEA Index consists of the following 10 emerging-market country indices: Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco, and South Africa.

The Bank of America Merrill Lynch High-Yield Bond Master II Index is an unmanaged index that tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Russell 1000 Index is a market capitalization–weighted index designed to measure the performance of the large-cap segment of the U.S. equity market.

CoreLogic distressed sales include short sales and REOs. A short sale is typically a sale of real estate in which the sale proceeds fall short of the balance owed on the property’s loan. REO (Real Estate Owned) is property in the possession of a lender usually obtained through a foreclosure.

The BofA Merrill Lynch US 1-3 YearCredit Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market with maturities between one and three years.
Credit Suisse Leveraged Loan Index is a market value-weighted index designed to represent the investable universe of the U.S. dollar-denominated leveraged loan market.

The Barclays Capital® (BC) U.S. Treasury Index is designed to cover public obligations of the U.S. Treasury with a remaining maturity of one year or more. The BC Aggregate Bond Index is an unmanaged, market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The BC U.S. Credit Bond Index is designed to cover publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements; bonds must be SEC-registered to qualify. The BC U.S. Agency Index is designed to cover publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The BC CMBS Index is designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody’s, S&P, and Fitch respectively, with maturity of at least one year. The BC MBS Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The BC U.S. Municipal Bond Index covers the U.S. dollar-denominated, long-term tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The BC TIPS Index is an unmanaged market index made up of U.S. Treasury Inflation Linked Index securities. The BC U.S. Government Bond Index is a market value-weighted index of U.S. Government fixed-rate debt issues with maturities of one year or more. The BC ABS Index is a market value-weighted index that covers fixed-rate asset-backed securities with average lives greater than or equal to one year and that are part of a public deal; the index covers the following collateral types: credit cards, autos, home equity loans, stranded-cost utility (rate-reduction bonds), and manufactured housing.

FTSE NAREIT Equity REIT Index – The unmanaged National Association of Real Estate Investment Trusts (NAREIT) Equity Index is a market value-weighted index based on the last closing price of the month for tax-qualified REITs listed on the NYSE.

S&P/LSTA Leveraged Performing Loan Index – Standard & Poor's/Loan Syndications and Trading Association Leveraged Performing Loan Index is a market value-weighted index designed to represent the performance of U.S. dollar-denominated, institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads, and interest payments.

S&P GSCI Commodities Index is a world-production weighted index composed of 24 widely traded commodities. All sub-indices of the S&P GSCI™ sub-indices (Energy, Industrial Metals, Precious Metals, and Agriculture and Livestock) follow the same rules regarding world production weights, methodology for rolling, and other functional characteristics.

The S&P 500® is a market capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.

The following is a definition of the S&P 500 sectors: Consumer Discretionary – Companies that tend to be the most sensitive to economic cycles. Consumer Staples – Companies whose businesses are less sensitive to economic cycles. Energy – Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment, and other energy-related service and equipment, including seismic data collection. The exploration, production, market, refining and/or transportation of oil and gas products, coal, and consumable fuels. Financials – Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and real estate, including REITs. Health Care – Companies in two main industry groups: Health care equipment suppliers, manufacturers, and providers of health care services; and companies involved in research development, production, and marketing of pharmaceuticals and biotechnology products. Industrials – Companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. Information Technology – Companies in technology software & services and technology hardware & equipment. Materials – Companies that are engaged in a wide range of commodity-related manufacturing. Telecommunication Services – Companies that provide communications services primarily through fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable networks. Utilities – Companies considered electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

The JPM® EMBI Global Index tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities.

The CoreLogic Home Price Index provides a multi-tier market evaluation based on price, time between sales, property type, loan type (conforming vs. nonconforming), and distressed sales. The CoreLogic HPI is a repeat-sales index that tracks increases and decreases in sales prices for the same homes over time, which provides a more accurate "constant-quality" view of pricing trends than basing analysis on all home sales. CoreLogic distressed sales include short sales and REOs. A short sale is typically a sale of real estate in which the sale proceeds fall short of the balance owed on the property’s loan. REO (Real Estate Owned) is property in the possession of a lender usually obtained through a foreclosure.
The major economies included in the Global Leading Indicators Diffusion Index are: Austria, Belgium, Brazil, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Italy, Japan, South Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Russia, Slovakia, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United States, United Kingdom.

Standard deviation shows how much variation there is from the average (mean or expected value). A low standard deviation indicates that the data points tend to be very close to the mean, whereas a high standard deviation indicates that the data points are spread out over a large range of values.

Correlation coefficient measures the interdependencies of two random variables that range in value from −1 to +1, indicating perfect negative correlation at −1, absence of correlation at 0, and perfect positive correlation at +1.

The Conference Board Leading Economic Indicators (LEI) is a composite of 10 leading indicators designed to signal peaks and troughs in the business cycle. The weighted LEI Index gives each component a certain weight based on the perceived importance as a leading indicator. The LEI Diffusion Index measures the proportion of the components that are rising to those that are falling.

The Purchasing Managers’ Index (PMI) is a survey of purchasing managers in a certain economic sector. A PMI over 50 represents expansion of the sector compared to the previous month, while a reading under 50 represents a contraction, and a reading of 50 indicates no change.

The BofA Merrill Lynch Corporate Real Estate Index is a market capitalization-weighted index of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market by real estate issuers; it is a subset of the BofA Merrill Lynch US Corporate Index. Qualifying securities must have an investment-grade rating (based on an average of Moody’s, S&P, and Fitch). In addition, qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $250 million.

The Dow Jones-UBS Commodity Index measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

The Citigroup Economic Surprise Indexes are objective and quantitative measures of economic news, covering all G10 economies. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median).

Dow Jones U.S. Select Real Estate Securities Index is a float-adjusted market capitalization–weighted index of publicly traded real estate securities such as real estate investment trusts (REITs) and real estate operating companies (REOCs).

FTSE NAREIT All REITs Index is a market capitalization–weighted index that is designed to measure the performance of all tax–qualified Real Estate Investment Trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ National Market List.

MSCI REIT Preferred Index is a preferred stock market capitalization-weighted index of certain exchanged-traded perpetual preferred securities issued by US Equity and US Hybrid REITS.

Barclays Capital U.S. Intermediate Credit Bond Index is a market value-weighted index of investment-grade fixed-rate corporate debt and sovereign, supranational, local authorities, and non-U.S. agency debt with intermediate range maturities. Barclays Capital U.S. 1-3 Year Credit Bond Index is a market value-weighted index of investment-grade fixed-rate debt securities with maturities from one to three years from the U.S. Corporate Indices.

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