Multi-Asset Class Fixed Income

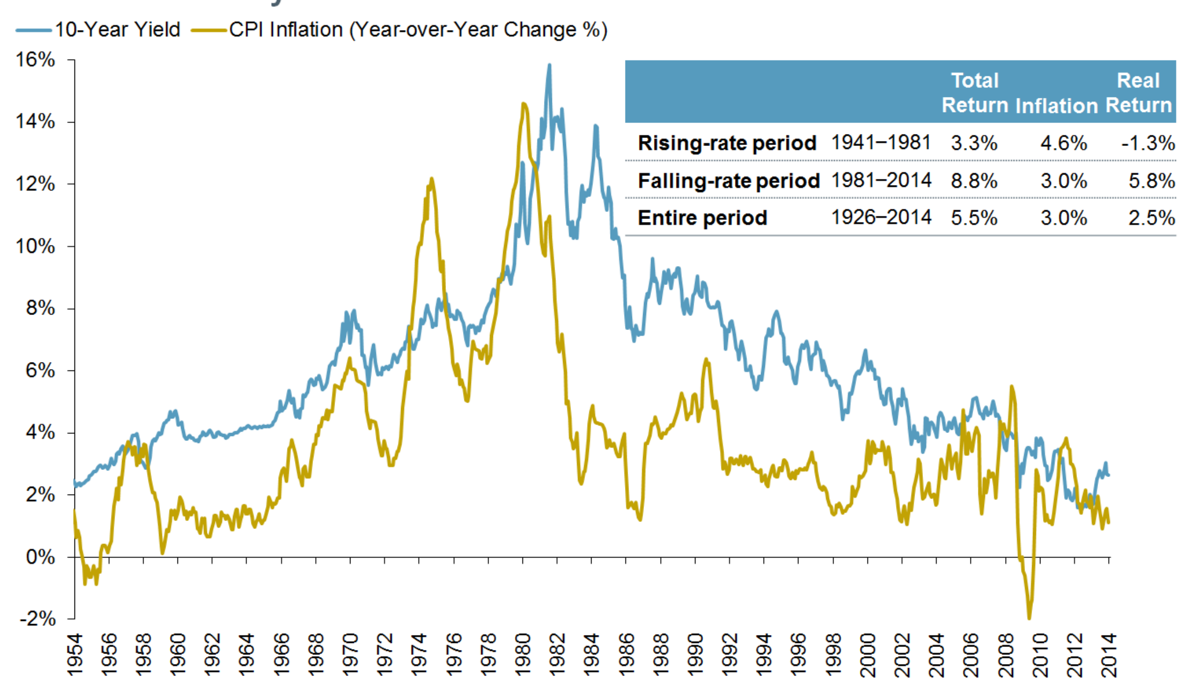
In an environment of historically low interest rates, investors are looking for ways to boost their income potential, but are reluctant to take on significant risk in their portfolios. Using a multi-asset class approach can enhance the income profile of a fixed-income portfolio.

Low Interest Rate, Low Yield Environment

- With interest rates on the safest credit categories of the bond universe so low, investors are challenged to find sources of income without taking on some degree of additional risk.
- Although the rate of inflation is also low, the current environment exposes investors in fixed income to a greater risk of losing purchasing power over time.
- Investors could be further challenged if interest rates or inflation increase; high-quality bonds have delivered poor inflation-adjusted returns during past periods of rising rates and inflation.

Bond Investors Face a Challenging Environment

10-Year Treasury Yield and Inflation



		Total Return	Inflation	Real Return
Rising-rate period	1941–1981	3.3%	4.6%	-1.3%
Falling-rate period	1981–2014	8.8%	3.0%	5.8%
Entire period	1926–2014	5.5%	3.0%	2.5%

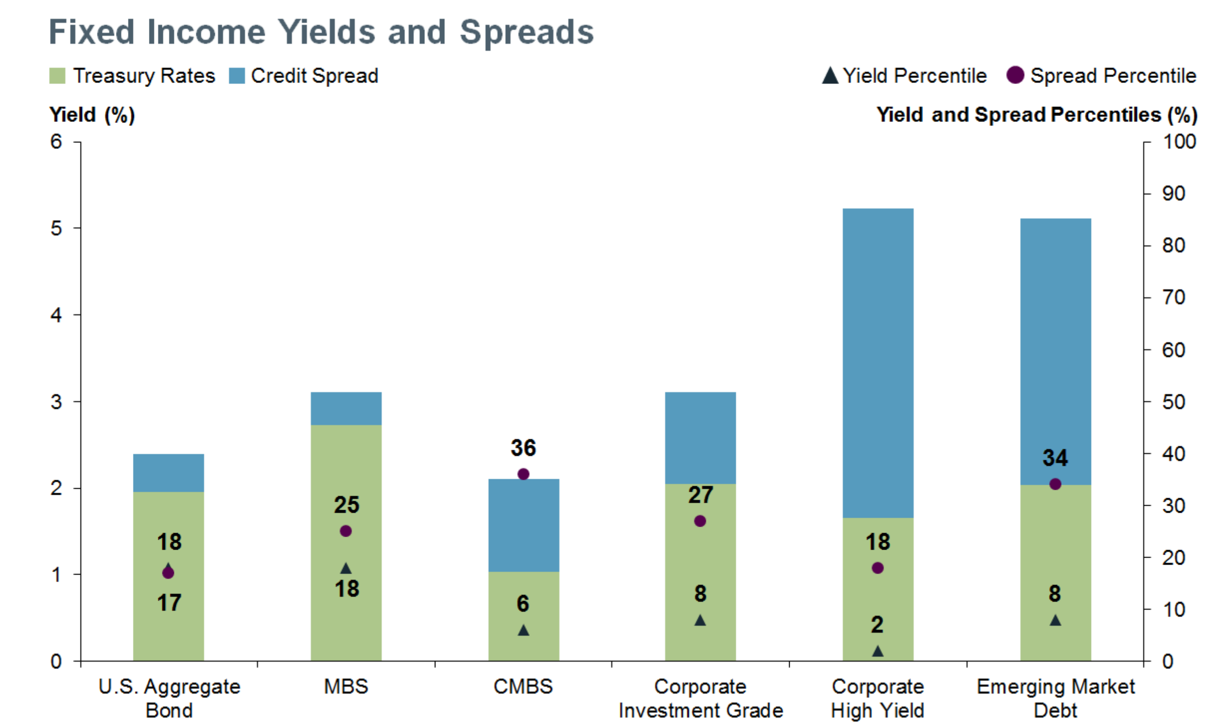
CPI: *Consumer Price Index, an inflationary indicator published monthly that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Total returns are average annual, represented by IA SBBI U.S. Intermediate-Term Government Bond Index, a custom index designed to measure the performance of intermediate-term U.S. government bonds. Real returns are adjusted by rates of inflation; differences are due to rounding. Inflation data as of 2/28/14. Source: U.S. Treasury, Federal Reserve Board, Haver Analytics, Morningstar EnCorr, Fidelity Investments (AART), as of 3/31/14.*

Fidelity INVESTMENTS

Bond Yields Still Relatively Low, Credit Spreads Mixed

- Despite rising rates in mid-2013, bond yields remain near historically low levels. In most bond categories, credit spreads (differences in yield between bonds) are closer to their historical averages.
- Spread differentials represent differences in the underlying fundamental and technical backdrops for the various categories. Relative to their history, U.S. high-yield bonds have tight spreads amid strong corporate fundamentals, while emerging-market debt spreads are closer to historical averages.
- Dissimilar bond performance and valuations caused by distinct underlying bond characteristics offer investors opportunities for active management and portfolio diversification.

Bond Yields Still Relatively Low, Credit Spreads Narrowed



*Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Percentile ranks of yields and spreads based on historical period from 1/1/00 to 3/31/14. **MBS:** Mortgage-Backed Securities; **CMBS:** Commercial Mortgage-Backed Securities. All categories represented by respective Barclays bond indices. Source: Barclays, Fidelity Investments (AART) as of 3/31/14.*

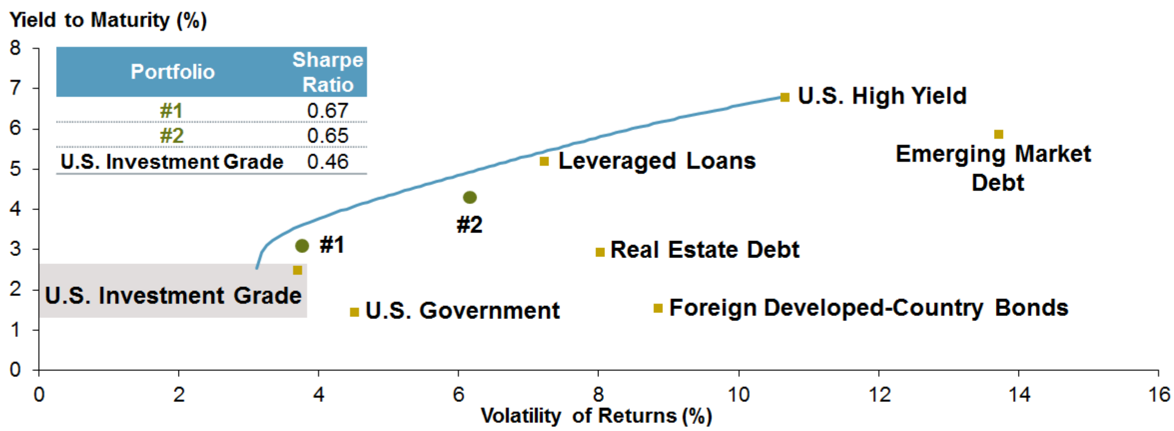
Index definitions: Barclays U.S. Aggregate Bond Index is a market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. Barclays U.S. Credit Bond Index (Corporate Investment Grade) is designed to cover publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements; bonds must be SEC-registered to qualify. Barclays 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 maturities of at least one year. Barclays 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). Barclays U.S. Corporate High Yield Bond Index is a market value-weighted index which covers the U.S. non-investment grade fixed-rate debt market. Barclays Emerging Market Bond Index is an index that tracks total returns for external-currency-denominated debt instruments of the emerging markets.

Allocating to Fixed Income: A Multisector Approach

- Historically low yields on high-quality U.S. bonds suggest that diversifying across a broad variety of fixed-income sectors may significantly improve a portfolio's Sharpe ratio (a measure of risk-adjusted return), especially when using yield-to-maturity as a guide for expected future returns. The previous steeply falling interest rate backdrop can bias historical returns used by traditional mean-variance optimization.
- Investing in a broad spectrum of fixed-income asset classes may also provide opportunities to diversify across different risk characteristics, such as inflation resistance or geographic variation.

Allocating to Fixed Income: A Multisector Approach

Efficient Frontier Using Yield to Maturity, 1998–2013



Portfolio	Description	Portfolio	Description
#1	**High-quality portfolio with limited risk** 80% U.S. Investment Grade 5% U.S. High Yield 5% U.S. Real Estate Debt 5% Leveraged Loans 5% Emerging Market	#2	**Mix of high yield, government, and foreign** 40% U.S. High Yield 30% U.S. Government 15% Foreign Developed 15% Emerging Market

Sharpe ratio *compares portfolio returns above the risk-free rate relative to overall portfolio volatility (a higher Sharpe ratio implies better risk-adjusted returns).* ***Volatility*** *represented by standard deviation, which measures the degree of variation from the average (a low standard deviation means data points are close to average).* ***Yield to maturity*** *is the rate of return anticipated on a bond if it is held until the maturity date. The* ***efficient frontier*** *is at the core of the modern portfolio theory. It represents those portfolios with the highest expected return given a level of risk. Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. All indices are unmanaged. You cannot invest directly in an index. Data presented for the period from 1/1/98 to 12/31/13. Source: FactSet, Bloomberg Finance L.P., Morningstar EnCorr, Fidelity Investments (AART), as of 3/31/14.*

Index/portfolio returns are represented by indices as described and defined here. U.S. Investment-Grade – Barclays U.S. Aggregate Bond Index, a 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. U.S. Government – Barclays U.S. Government Index, which is designed to cover public obligations of the U.S. Government with a remaining maturity of one year or more. U.S. High Yield – BofA ML High Yield Index, which tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Real Estate Debt – 50% Barclays CMBS Index and 50% BofA ML Corporate Real Estate Index; Barclays 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 maturities of at least one year; BofA ML 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. Leveraged Loans – S&P/LSTA Performing Loan Index, 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. Emerging Market Debt – JP Morgan EMBIG Composite Index, which tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities.Foreign Developed-Country Bonds – Citigroup G-7 non-USD Bond Index, which is designed to measure the unhedged performance of the government bond markets of the Group of 7, excluding the U.S (i.e., Japan, Germany, France, Britain, Italy, Canada, and the UK); issues included in the index have fixed-rate coupons and maturities of one or more years.

Portfolio Implications

- Interest rates near historic lows pose challenges that many fixed-income investors have not experienced during their lifetimes.
- Investors should focus on the sources of risk that affect fixed-income investments—particularly inflation.
- Diversifying beyond high-quality fixed-income categories, while remaining anchored to traditional safe assets, is more important than ever before.

As investors' desire for income continues to increase, we believe a strategy that leads to prudent risk taking may mitigate portfolio volatility and help investors pursue their income goals.

This report is a product of the Asset Allocation Research Team (AART). AART conducts economic, fundamental, and quantitative research to develop asset allocation recommendations for Fidelity's portfolio managers and investment teams. AART is responsible for analyzing and synthesizing investment perspectives across Fidelity's asset management unit to generate insights on macroeconomic and financial market trends and their implications for asset allocation.

For more information about multi-asset class fixed income, please refer to the *Quarterly Market Update*.

674639.2.0