leadership series | SECOND QUARTER 2016

Quarterly Market Update

PRIMARY CONTRIBUTORS

Lisa Emsbo-Mattingly
Director of Asset Allocation Research

Dirk Hofschire, CFA
SVP, Asset Allocation Research

Jake Weinstein, CFA
Senior Analyst, Asset Allocation Research

Austin Litvak
Senior Analyst, Asset Allocation Research

Caitlin Dourney
Analyst, Asset Allocation Research

Fidelity INVESTMENTS

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Market Summary

Overview: Tepid Global Growth, Volatile Markets

Continued concerns about China's outlook and the trajectory of the global economy weighed on sentiment at the start of 2016, but the tone reversed sharply amid the steady U.S. economy and a perceived easing in the Fed's tightening posture. We expect global economic growth to stabilize as 2016 progresses, with a possible upside surprise in inflation.

	Q1 2016 TRENDS	OUTLOOK Q2 2016
MACRO	• Weak global economy but incipient signs of steadying – U.S. recession risk low; rise in late-cycle indicators – Growth recession in China – Tepid but stable trends in many DMs • Global policy easing – Federal Reserve softened hiking stance – China boosted stimulus – Negative rates in Europe and Japan – Bond yields dropped, dollar weakened	• Global economy in process of stabilization – U.S. economy sturdy; mix of mid- and late-cycle dynamics – Europe cyclical trajectory slow but steady – China the biggest risk, but emphasis on stimulus and stability • Late-cycle signals may continue to rise – Low "base effect" may help lift commodity prices and EM growth – Inflation may surpass low expectations
MARKETS	• Volatility: Steep drop then sharp rally in risk assets • Commodities, EMs, non-U.S. currencies erased quarterly losses	• Elevated volatility likely to continue • Favor equities but smaller allocation tilts • Steep downturn in EMs, commodities, and non-U.S. currencies may be ending • Inflation-resistant assets may offer protection against an upside surprise

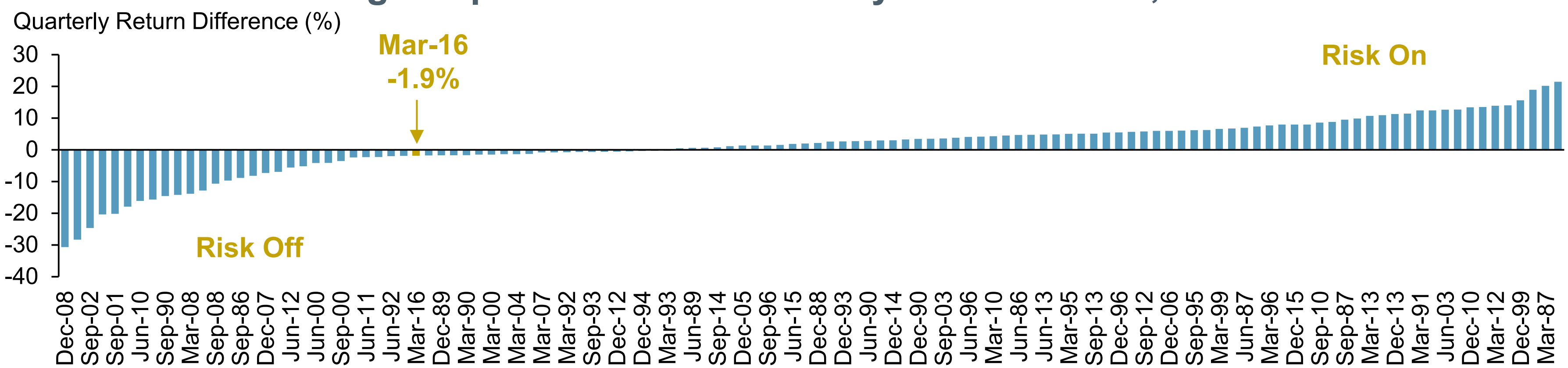
Fed: Federal Reserve. DM: developed market. EM: emerging market. Past performance is no guarantee of future results.

Mid-Quarter Reversal Marks Turbulent Start to 2016

A steep drop in global risk assets during the first few weeks set a risk-off tone for the quarter, as investors rotated to government bonds and gold. A subsequent rally in global equities and commodities during the final weeks of Q1 pushed most categories into positive territory for 2016, though more defensive assets have still fared better on a one-year basis.

	Q1 2016 (%)	1-Year (%)		Q1 2016 (%)	1-Year (%)
Gold	16.7%	4.2%	Investment-Grade Bonds	3.0%	2.0%
Long Government & Credit Bonds	7.3%	0.4%	U.S. Mid-Cap Stocks	2.2%	-4.0%
Real Estate Stocks	5.8%	4.7%	U.S. Large-Cap Stocks	1.3%	1.8%
Emerging-Market Stocks	5.8%	-11.7%	Commodities	0.3%	-19.7%
Emerging-Market Bonds	5.2%	4.4%	Non-U.S. Small-Cap Stocks	-0.5%	3.5%
U.S. Corporate Bonds	3.9%	0.9%	U.S. Small-Cap Stocks	-1.5%	-9.8%
High-Yield Bonds	3.2%	-4.0%	Non-U.S. Developed-Country Stocks	-2.9%	-7.9%

Risk Meter: U.S. Large-Cap Stock minus Treasury Bond Returns, 1986–2016

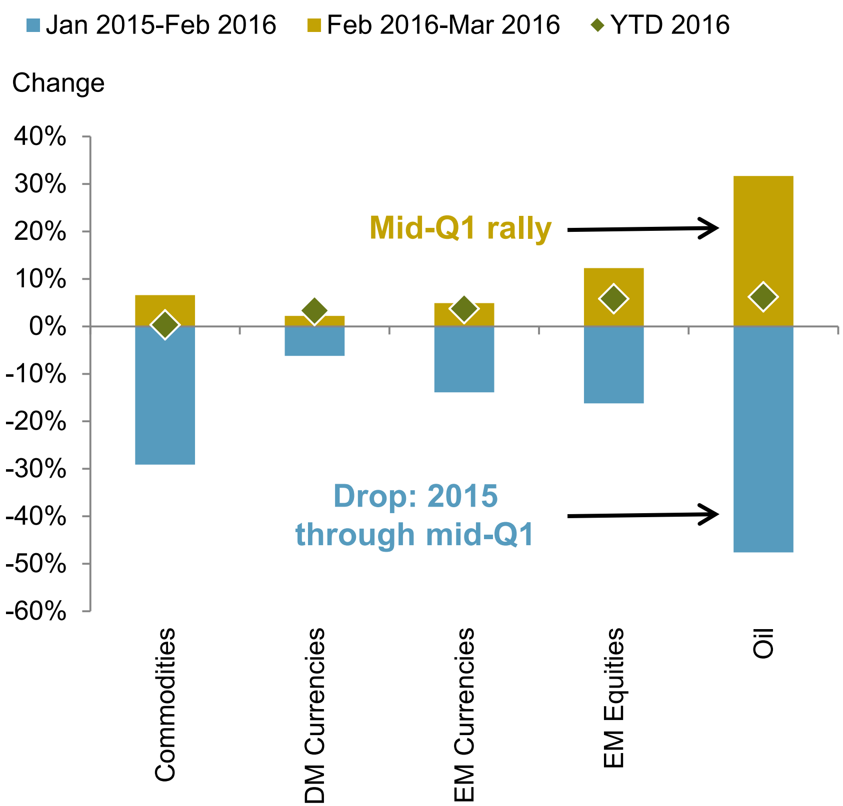


Past performance is no guarantee of future results. It is not possible to invest directly in an index. See appendix for important index information. Assets represented by: Commodities – Bloomberg Commodity Index; Emerging-Market Bonds – JP Morgan EMBI Global Index; Emerging-Market Stocks – MSCI EM Index; Gold – Gold Bullion, LBMA PM Fix; High Yield Bonds – Bank of America Merrill Lynch (BofA ML) High Yield Bond Index; Investment-Grade Bonds – Barclays U.S. Aggregate Bond Index; Non-U.S. Developed-Country Stocks – MSCI EAFE Index; Non-U.S. Small-Cap Stocks – MSCI EAFE Small Cap Index; Real Estate Stocks – FTSE NAREIT Equity Index; U.S. Corporate Bonds – Barclays U.S. Credit Index; U.S. Large-Cap Stocks – S&P 500 Index; U.S. Mid-Cap Stocks – Russell Midcap Index; U.S. Small-Cap Stocks – Russell 2000 Index; U.S. Treasury Bonds – Barclays U.S. Treasury Index. Source: Bloomberg Finance L.P., Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

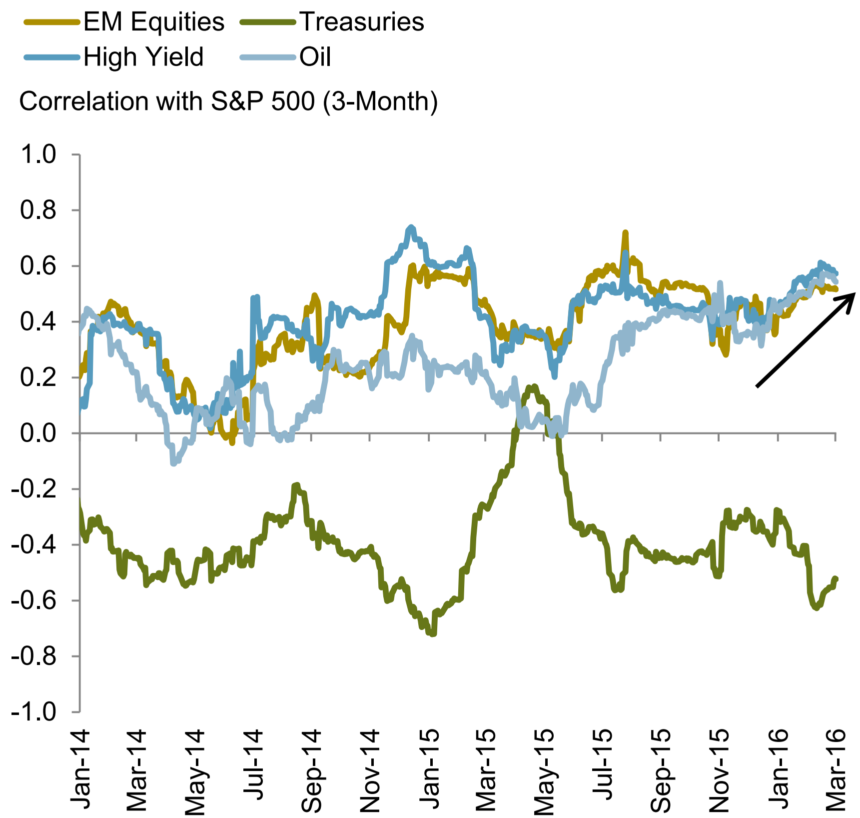
After Extended Drop, Global Assets Posted Rebound

The worst performers in 2015—emerging-market equities, commodities, and non-U.S. currencies—suffered further losses in the first several weeks of 2016 before rebounding to finish with Q1 gains. Over the past few quarters, the returns of oil prices, high-yield bonds, and EM equities have been highly correlated, leaving Treasuries as a key diversifier.

2016 vs. 2015 Performance Trends



Correlations with U.S. Equities

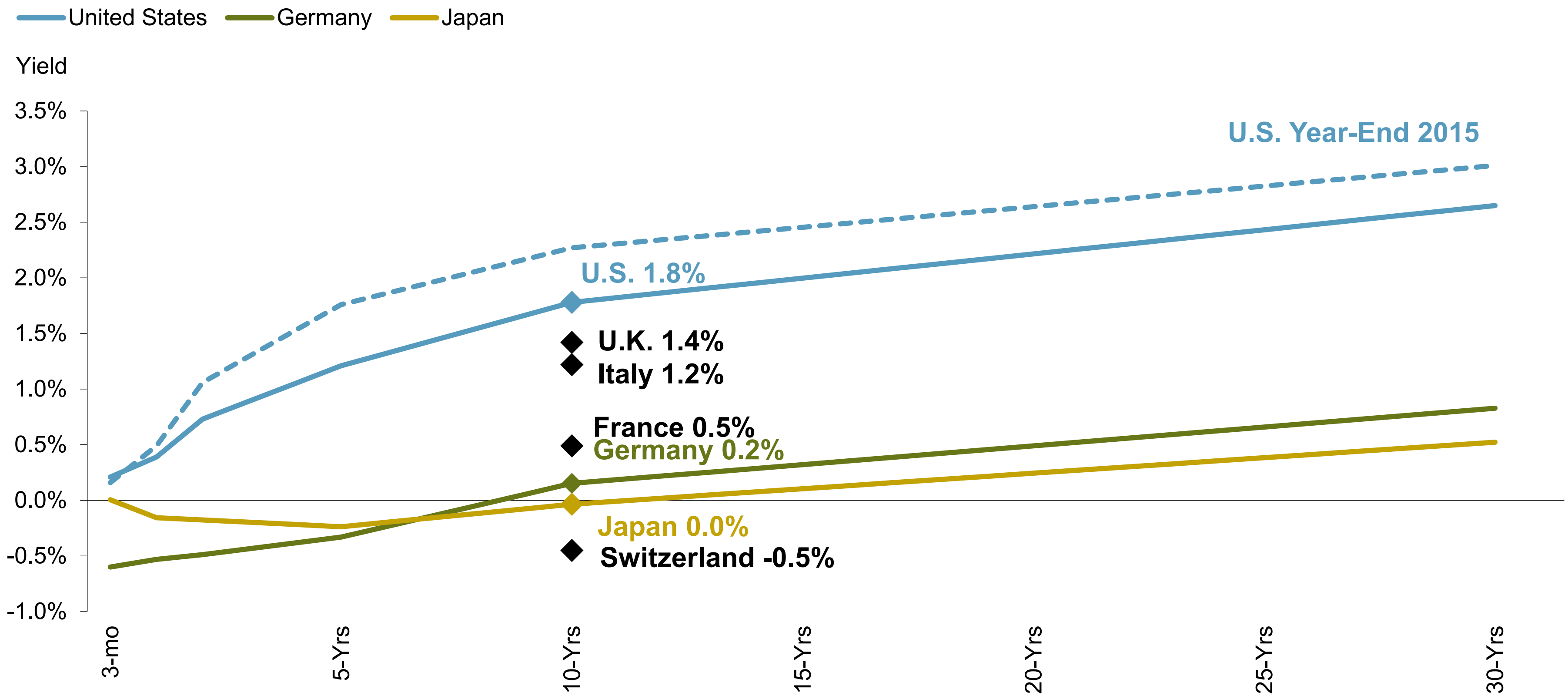


LEFT: DM and EM currencies are equal-weighted averages of MSCI EAFE and MSCI EM countries' currencies. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/16. **RIGHT:** Correlations use daily returns. EM = MSCI EM Index; Treasuries = Barclays Treasury Index; High Yield = Bank of America Merrill Lynch High Yield Master II Index; Oil = WTI Oil price. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/16.

Sovereign Bond Yields Drop Even Further; Some Negative

Weak global growth and easier monetary postures by many of the world's largest central banks pushed down government bond yields during Q1. Negative policy rates in Japan and the eurozone helped push bond yields into negative territory for some countries, while U.S. 10-year yields remained relatively high compared with many other advanced economies.

Sovereign Bond Yield Curves



Source: Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

Economy/Macro Backdrop

Multi-Time-Horizon Asset Allocation Framework

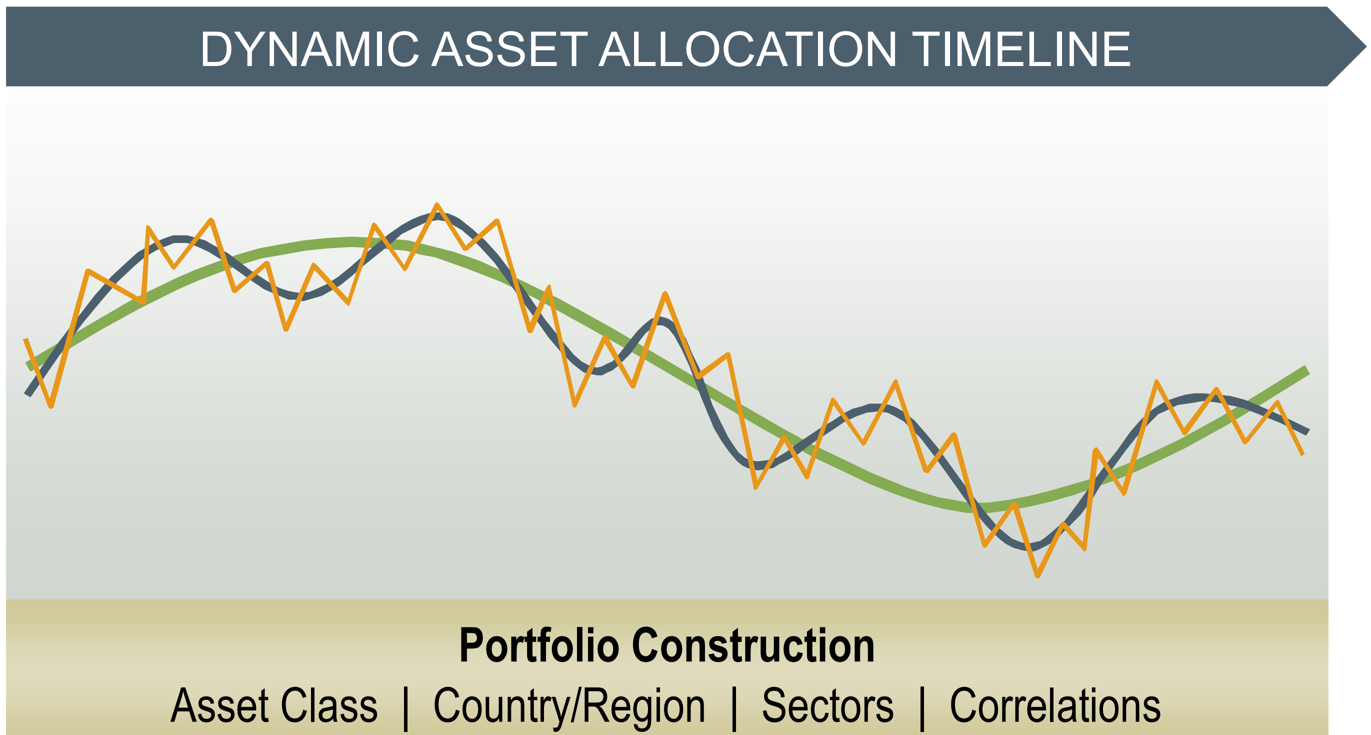
Fidelity's Asset Allocation Research Team (AART) believes that asset price fluctuations are driven by a confluence of various factors that evolve over different time horizons. As a result, we employ a framework that analyzes trends among three temporal segments: tactical (short term), business cycle (medium term), and secular (long term).

HORIZONS

Secular
(10–30 years)

Business Cycle
(1–10 years)

Tactical
(1–12 months)

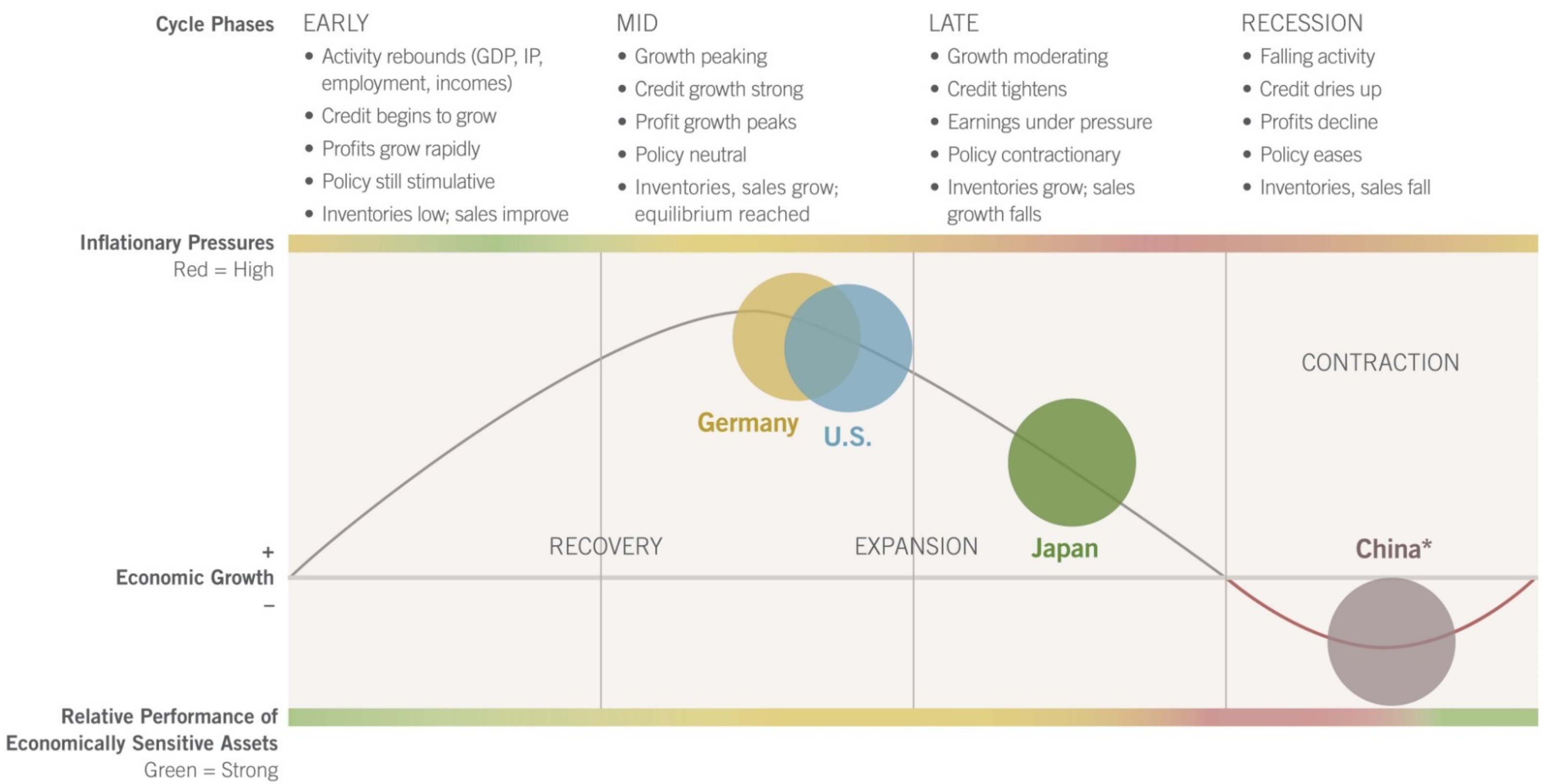


For illustrative purposes only. Source: Fidelity Investments (AART).

Business Cycle: Slow Backdrop, Possible Global Bottoming

Global economic growth remains tepid, as China and several other emerging markets, such as Brazil, face recessionary pressures. Most of the developed world remains in a slow expansion, in either a mature stage of mid-cycle or earlier innings of late cycle. We expect the global environment to be stable in 2016, albeit at an overall subdued pace of growth.

Business Cycle Framework

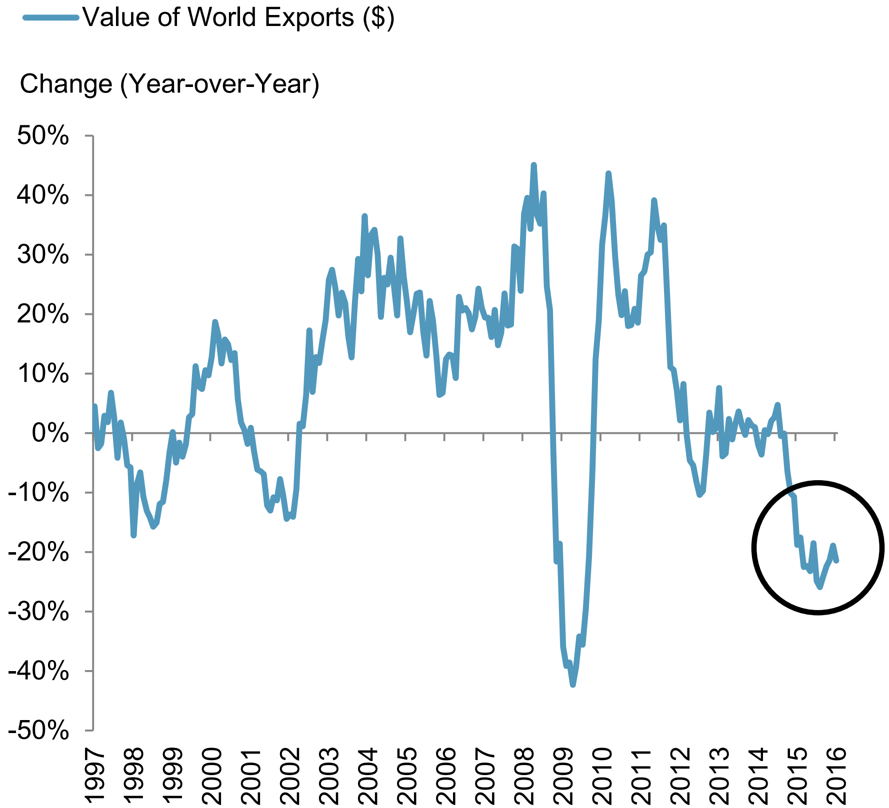


Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. *A growth recession is a significant decline in activity relative to a country's long-term economic potential. We have adopted the "growth cycle" definition for most developing economies, such as China, because they tend to exhibit strong trend performance driven by rapid factor accumulation and increases in productivity, and the deviation from the trend tends to matter the most for asset returns. We use the classic definition of recession, involving an outright contraction in economic activity, for developed economies. Source: Fidelity Investments (AART).

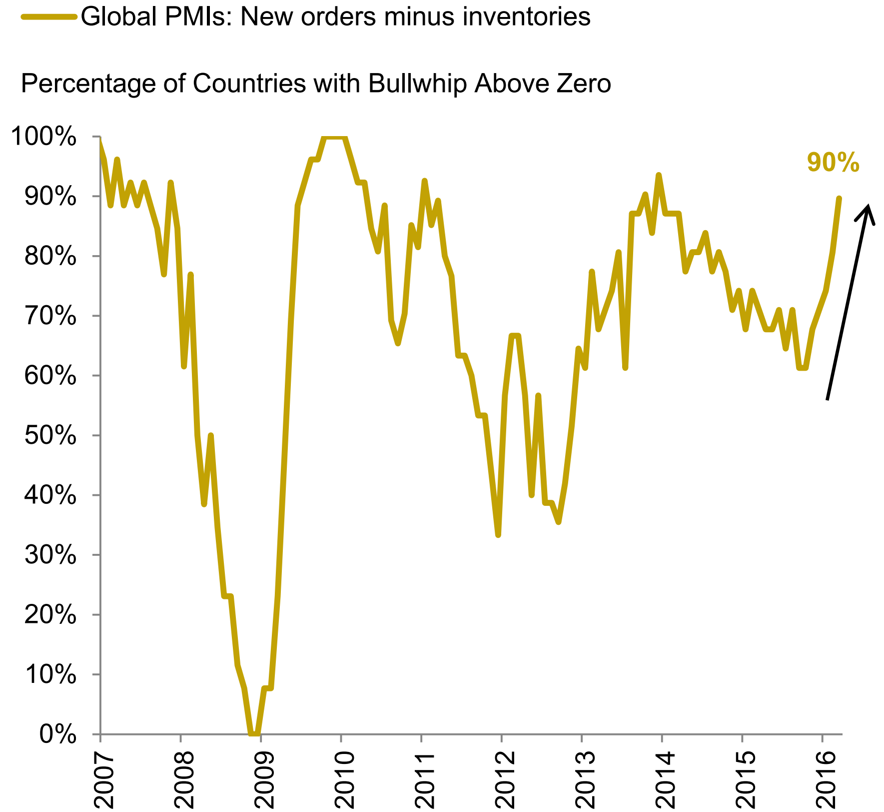
Global Trade and Industrial Recession May Be Ebbing

Faltering growth and excess manufacturing capacity in China and other emerging markets helped push the global economy into a trade recession in 2015. Leading indicators of global manufacturing activity—including the difference between new orders and inventories—show incipient signs that global trade and industrial activity may have bottomed.

Global Trade Growth



Global Manufacturing Bullwhip

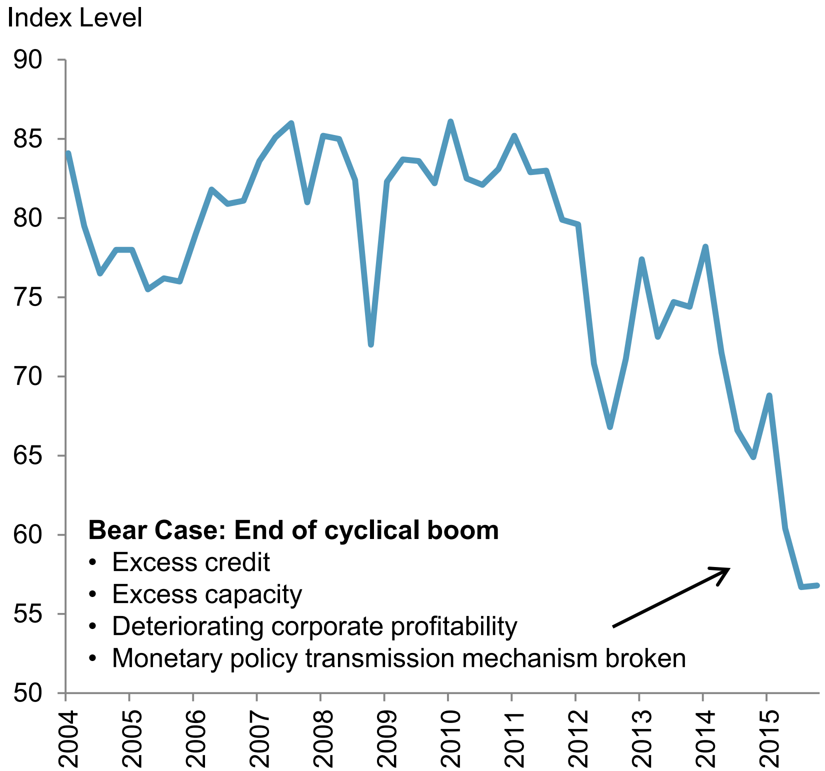


LEFT: Export value in USD, adjusted for changes in currency. Source: International Monetary Fund, Haver Analytics, Fidelity Investments (AART), as of 12/31/15. **RIGHT:** Manufacturing bullwhip = new orders PMI less inventories PMI. Includes PMIs from 31 countries. Source: Markit, Fidelity Investments (AART), as of 3/31/16.

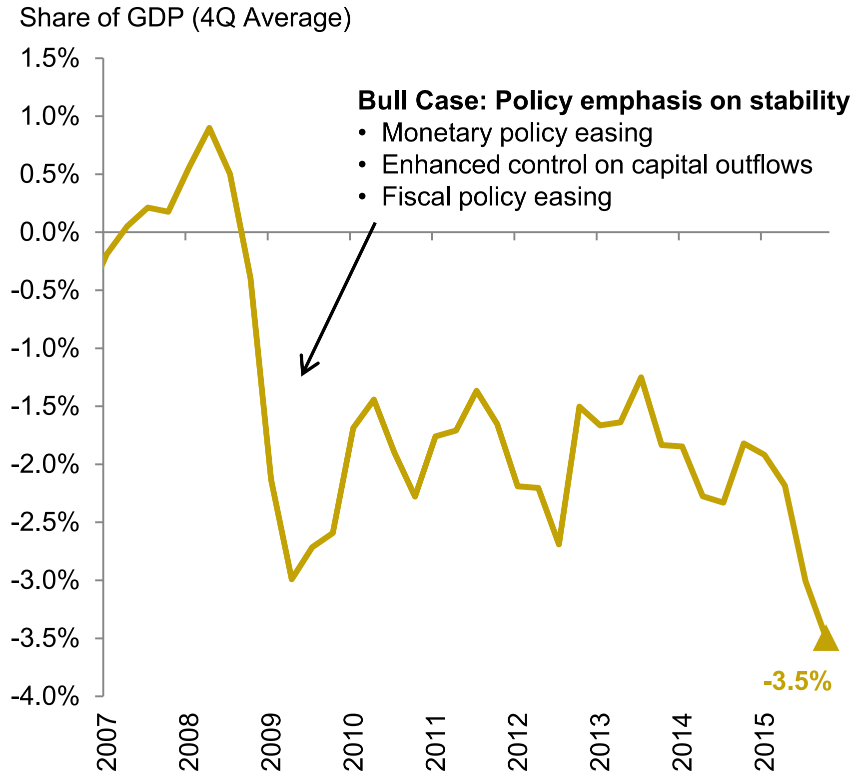
China Key to Global Outlook: Near-Term Stabilization Likely

After a multi-year credit and investment boom, China's economy faces massive industrial overcapacity and an overleveraged corporate sector. The effectiveness of monetary easing is blunted by waning loan demand and the need for greater structural adjustments, but the policy emphasis on stability and fiscal stimulus makes a near-term stabilization the most likely scenario.

China Loan Demand



China's Fiscal Deficit

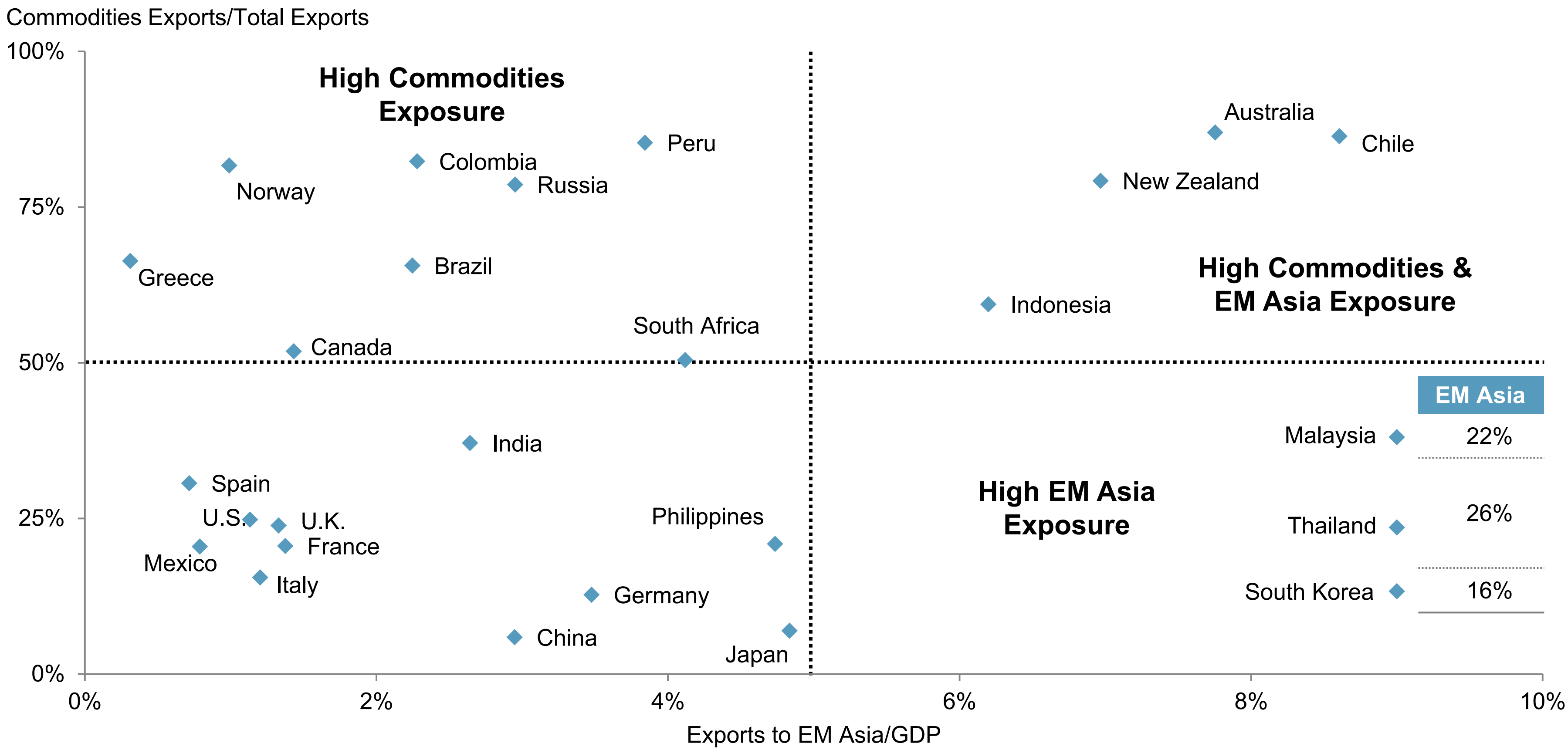


LEFT: Source: China National Bureau of Statistics, Haver Analytics, Fidelity Investments (AART), as of 12/31/15. **RIGHT:** Source: China National Bureau of Statistics, Fidelity Investments (AART), as of 12/31/15.

Any Global Stabilization Would Benefit Exporters

On a relative basis, countries that are highly dependent on commodity exports, and those that export to China and other emerging Asian economies, have suffered disproportionately amid faltering global growth and plummeting commodity prices in recent years. If China and the global economy can find their footing, the headwinds facing exporters will likely abate.

Country Export Exposures to Emerging Asia and Commodities

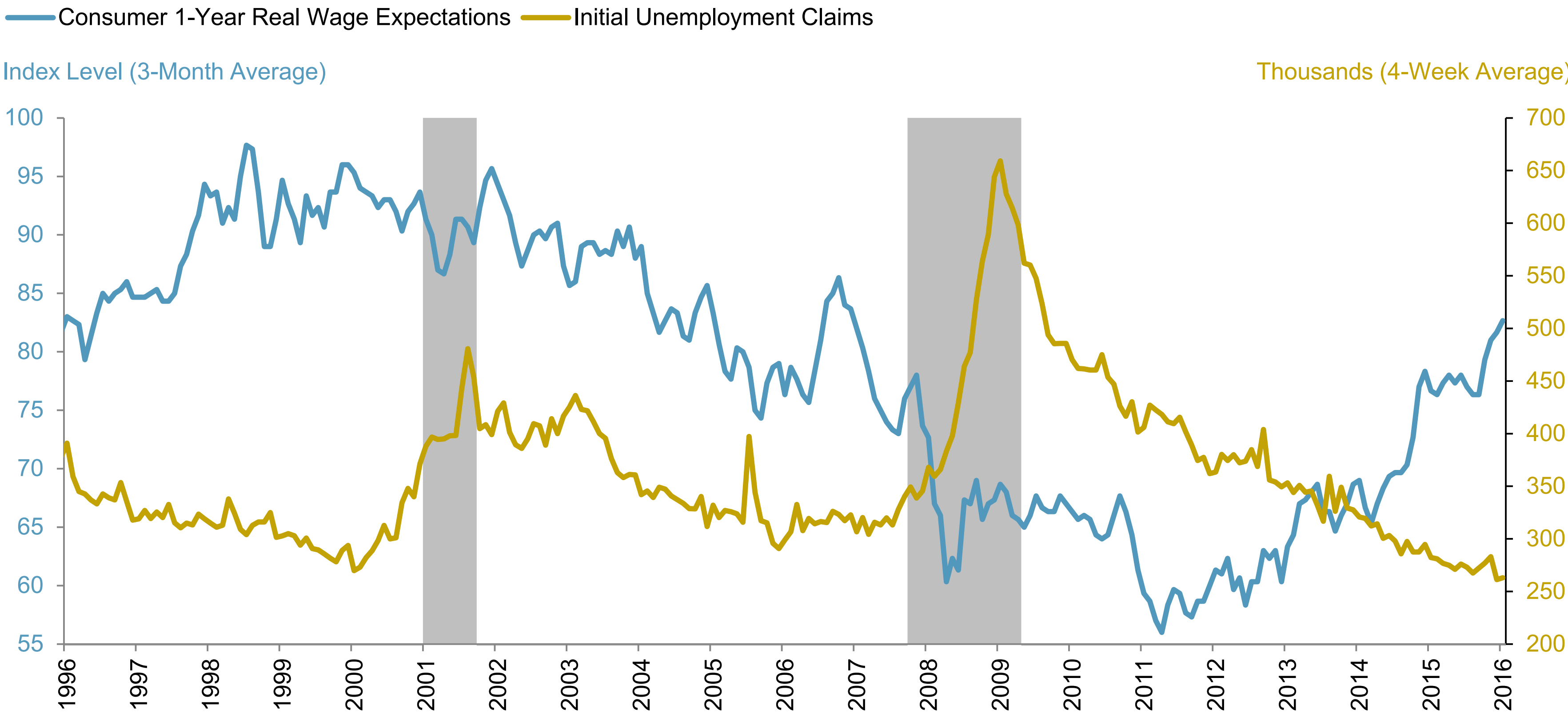


Exports exclude services exports. Commodities include agricultural, fuel, and mining products. Source: International Monetary Fund, World Trade Organization, Official Country Statistics, Haver Analytics, Fidelity Investments (AART), as of 12/31/14.

Consumer Buoys Backdrop: Low Odds of U.S. Recession

With labor markets continuing to tighten and inflation remaining low, U.S. consumers have enjoyed solid real (inflation-adjusted) income gains and have experienced a steady rise in future real wage expectations. Although rising savings rates have blunted the pace of consumption growth, the large, sturdy U.S. household sector has kept the U.S. expansion intact.

U.S. Labor and Wage Trends



Shaded area represents U.S. recession as defined by National Bureau of Economic Research (NBER). Source: University of Michigan, Department of Labor, NBER, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

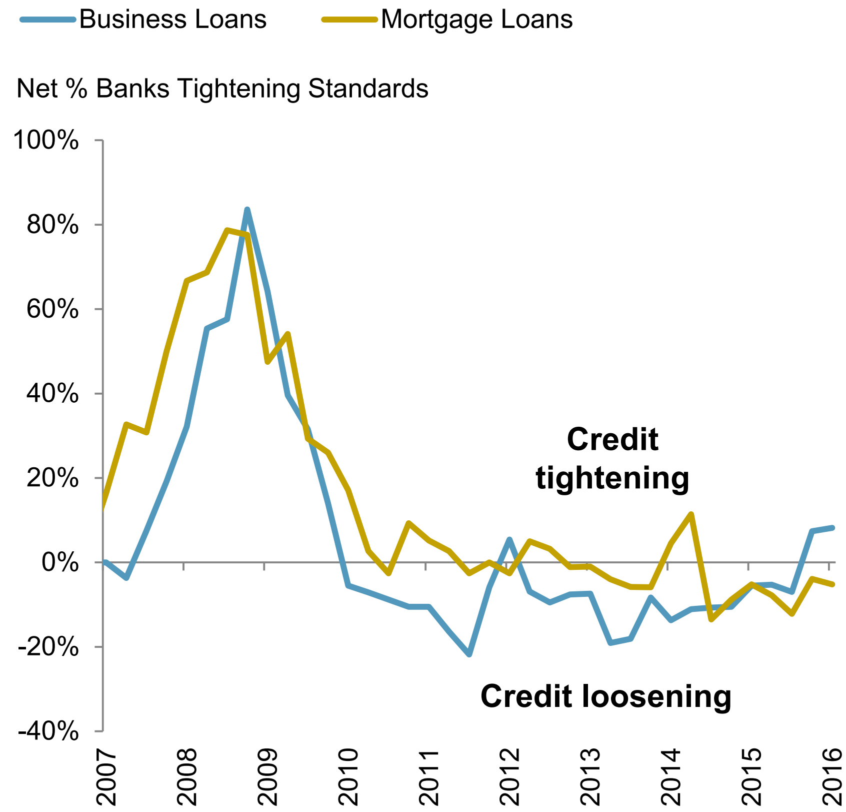
A Mix of Mid- and Late-Cycle Dynamics in the U.S.

During the late-cycle phase, credit lending standards have historically tightened and housing activity has typically moderated. Recently, banks have tightened business credit but continue to ease mortgage lending, and the housing sector has remained a positive support for U.S. domestic growth.

U.S. Housing Fundamentals

Positive Trends	Details
Rising Demand	• Labor market tightening • Real wage gains
Housing Affordable	• Low mortgage rates • Incomes rising
Greater Mortgage Access	• Banks easing credit standards
Low Supply	• Months of inventory below historical average
Construction	• Starts and permits near cycle highs

Bank Lending Standards

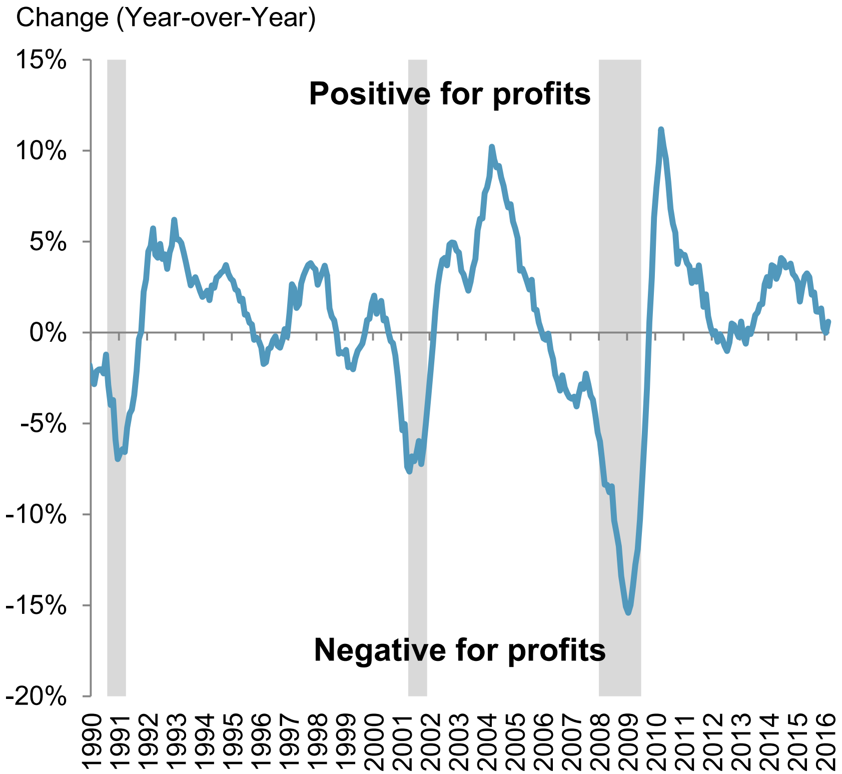


LEFT: Source: Census Bureau, National Association of Realtors, Haver Analytics, Fidelity Investments (AART), as of 2/29/16. **RIGHT:** Source: Federal Reserve, Haver Analytics, Fidelity Investments (AART), as of 2/1/16.

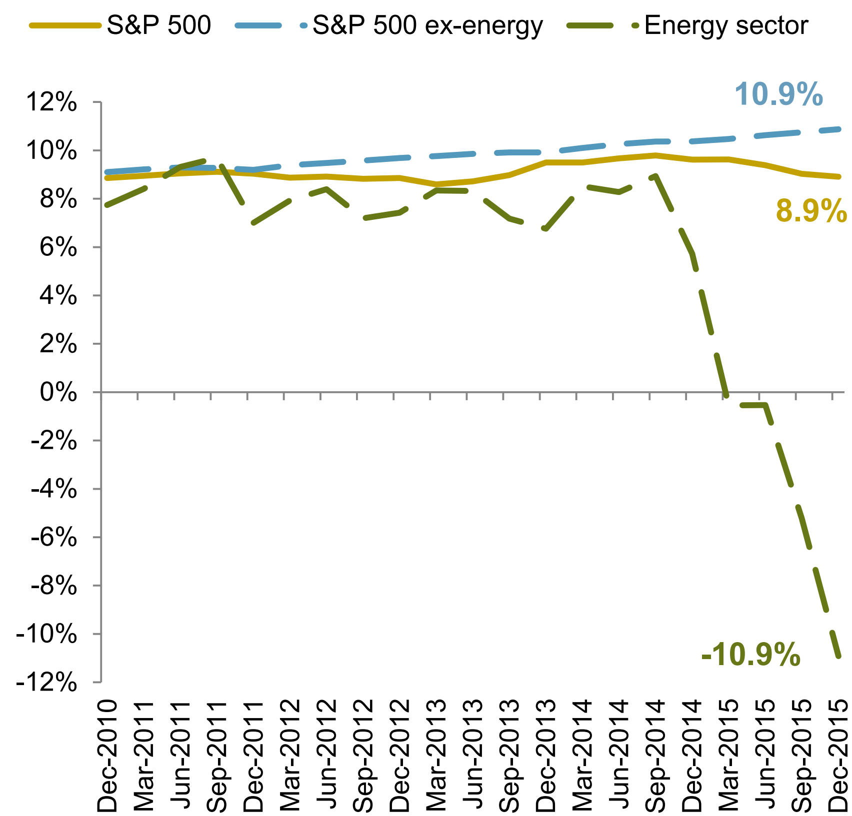
Incipient Signs of Profit Margin Pressures

Historically, declining profit margins have often coincided with the late-cycle phase. Faltering cyclical productivity growth, hampered by wage gains, often presages margin pressure. However, profit margins have remained high and relatively steady, reaching a new cycle peak, outside of the volatile energy sector.

Cyclical Productivity Growth



S&P 500 Profit Margins

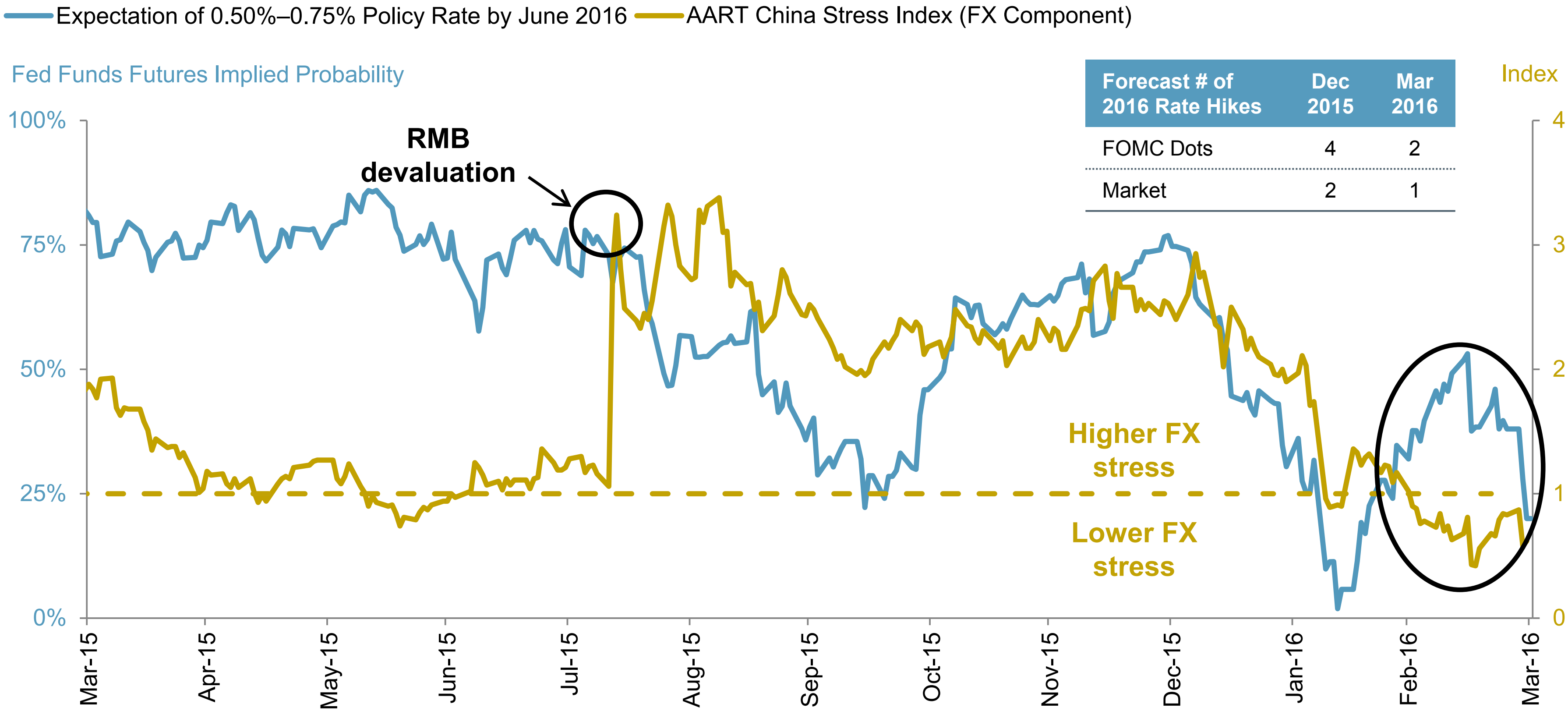


LEFT: Shaded areas represent U.S. recession as defined by National Bureau of Economic Research (NBER). Productivity is measured by a proprietary proxy of U.S. economic productivity that tracks cyclical corporate productivity. Source: Haver Analytics, Fidelity Investments (AART), as of 2/29/16. **RIGHT:** Source: Standard & Poor's, FactSet, Fidelity Investments (AART), as of 12/31/15.

Fed Eased Tightening Stance, Mitigated Pressure on China

The Fed's move to a tightening posture squeezed dollar liquidity and was a factor in prompting China's surprise currency devaluation in mid-2015. During Q1, the Fed lowered its forward rate-hike guidance to be more gradual and closer to market expectations, which reduced financial pressure on China and makes a managed RMB depreciation the most likely scenario.

Fed Probability of Rate Hike vs. RMB Stress



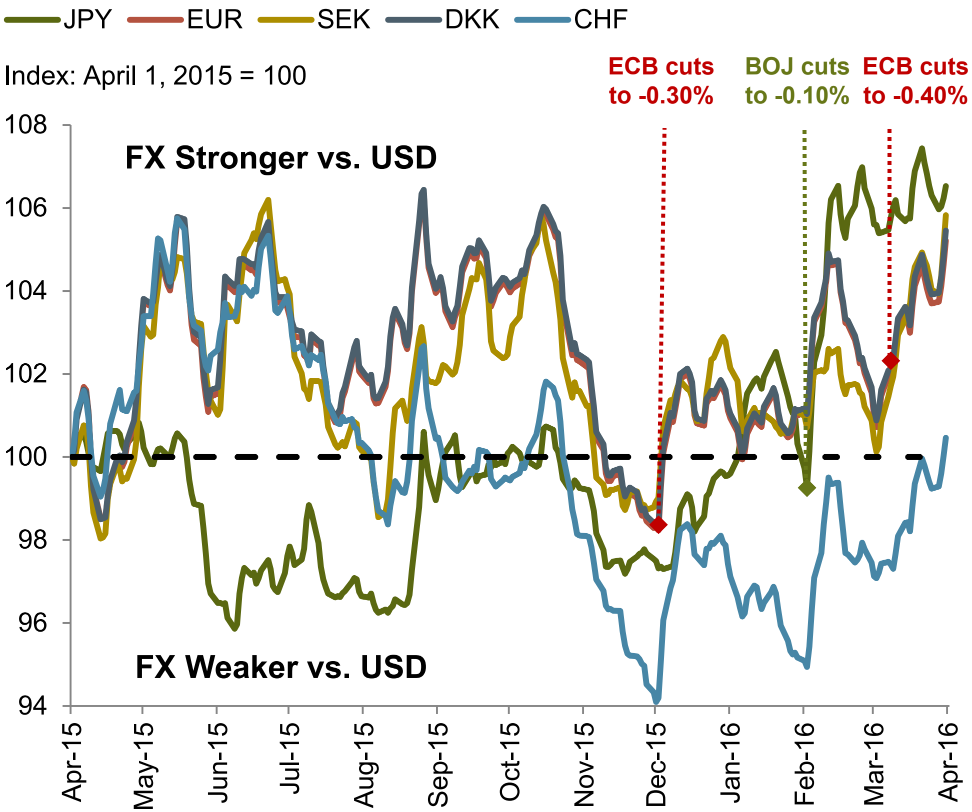
Forecast # of 2016 Rate Hikes	Dec 2015	Mar 2016
FOMC Dots	4	2
Market	2	1

Fed: Federal Reserve. RMB: Renminbi. Probability of at least two Fed hikes by June sourced from fed funds futures. Source: Federal Reserve, Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/16.

Global Easing Continued but Negative Rates Show Limits

Five major central banks, including the BOJ and ECB, have enacted negative policy rates in an effort to boost inflation and weaken their currencies, but all these currencies strengthened against the dollar over the past year. Negative rates may not support (and may even run counter to) their intended goals, an example of the limits of monetary policy.

Negative Policy Rate Currencies vs. U.S. Dollar



Negative Rate Considerations	
Central Bank Goal	**Potential Consequence/ Reality**
Stimulates consumption	Reduces return potential: households, pensions, insurers save more
Incentivizes bank lending	Hurts bank margins, reduces willingness to lend
Reduces debt service burden	Keeps weak firms in business, lowering productivity
Weakens currency	Mixed results: see left chart

JPY: Japanese yen; EUR: euro; SEK: Swedish krona; DKK: Danish krone; CHF: Swiss franc. Currencies are 3-day moving averages. Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

Outlook: Market Assessment

Fidelity's Business Cycle Board, composed of portfolio managers responsible for a variety of asset allocation strategies across Fidelity's asset management unit, believes that any stabilization in China should be supportive of risk assets. However, at this point in the cycle, there may be more limited upside for returns, and therefore smaller bets are warranted.

U.S. recession risks remain low, but late-cycle signals have risen	Global macro environment stabilizing	Pace of Fed tightening will likely be gradual

Asset Allocation Considerations

- Less reliable relative asset performance patterns generally merit smaller cyclical tilts
- Any stabilization in China may provide support to risk assets
- The potential for upside inflation surprises is not priced in

Potential Risks

- Maintain expectation of higher volatility due to unconventional monetary policies and other factors
- At this point in the cycle, risks may be asymmetrical, with generally more limited upside for returns

Fed: Federal Reserve. Source: Market Assessment Statement of Global Asset Allocation's Business Cycle Board, Fidelity Investments, as of 3/31/16.

QUARTERLY MARKET UPDATE

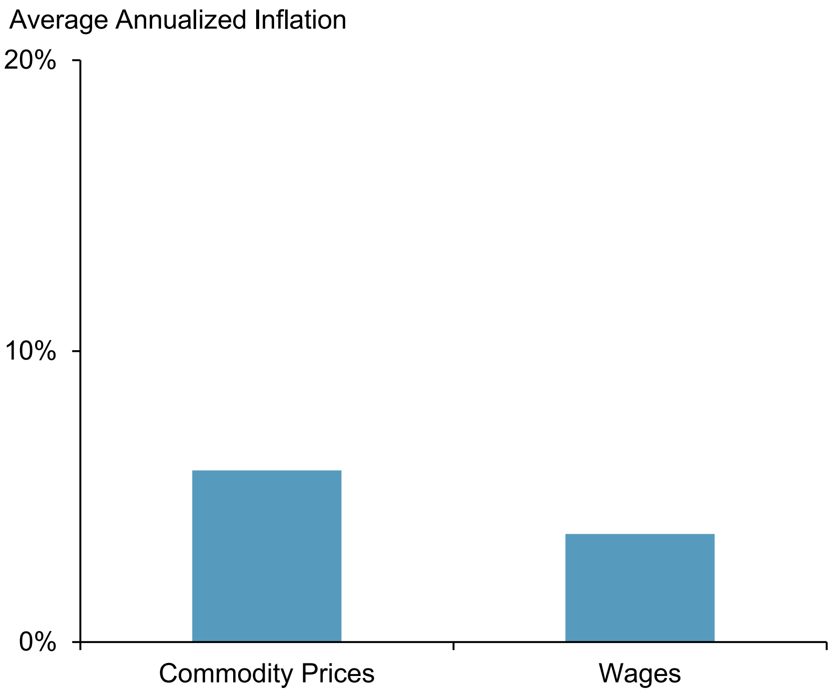
Second Quarter 2016

Theme: Time to Pay Attention to Inflation?

Inflation Impulse Is Typically a Key to Late-Cycle Transition

The transition from a mid-cycle phase to a late-cycle phase typically involves a pickup in inflation indicators, with commodity prices and wages tending to accelerate. These rising input-cost pressures adversely affect profit margins and credit conditions. Today, wage inflation is gaining traction, but commodity inflation remains generally absent.

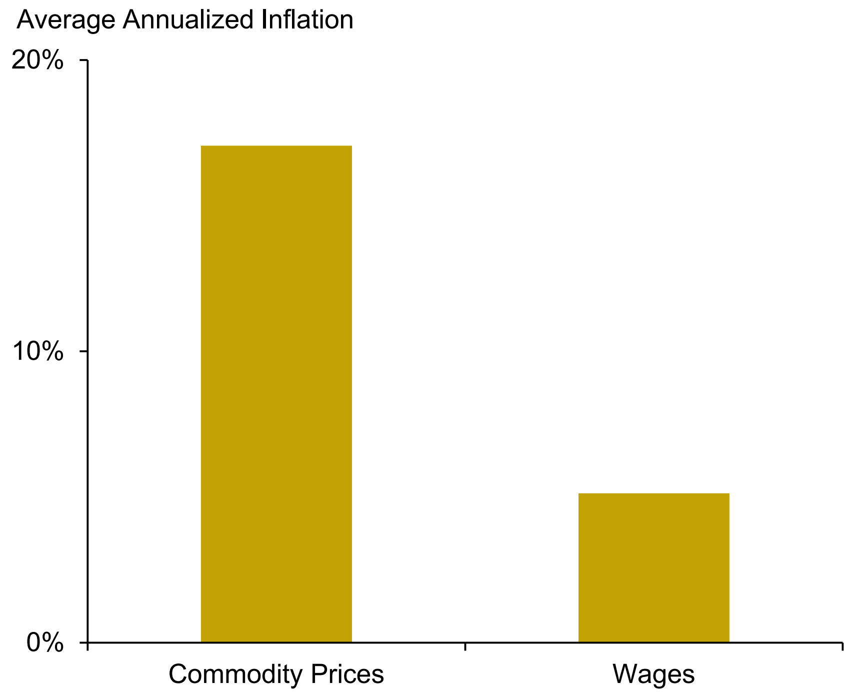
Mid-Cycle Inflation, 1966–2010



Improving macro conditions

- Profit growth solid / peaks
- Credit accessible / spreads narrow
- Monetary policy accommodative / neutralized

Late-Cycle Inflation, 1966–2010



Deteriorating macro conditions

- Profit margins under pressure
- Credit tightens / spreads widen
- Monetary policy becomes restrictive

Fidelity Investments proprietary analysis of historical commodity performance, using data from BP Statistical Review of World Energy, U.S. Department of Agriculture, U.S. Geological Survey, and U.S. Foreign Agricultural Service. Wages = Average Hourly Earnings. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

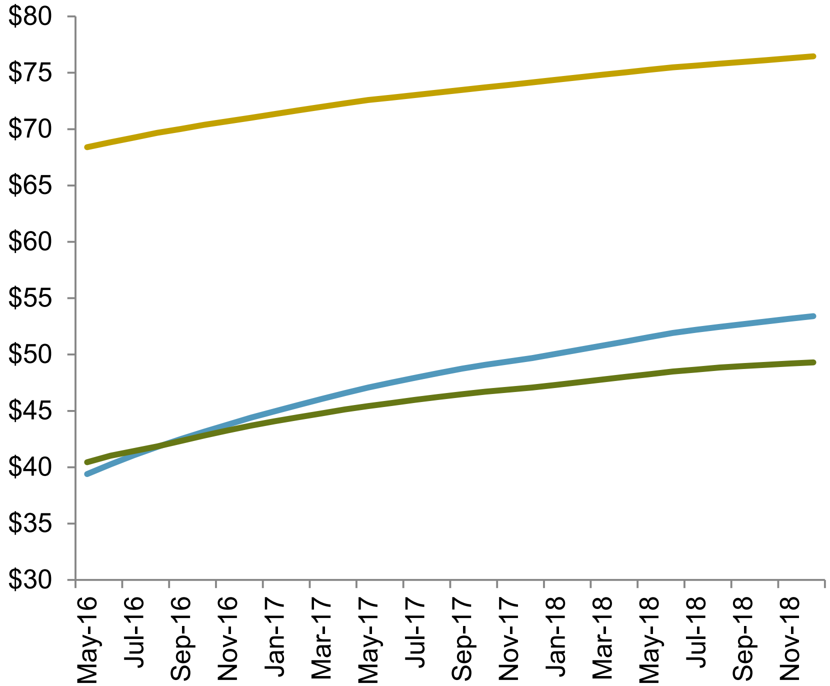
Cheap Oil Could Set the Stage for Higher Prices

Despite the uptick in near-term oil prices, the persistent supply glut pushed down long-dated oil futures during Q1. At this point, oil futures are at levels that could lead to an outright decline in non-OPEC (primarily U.S.) production in 2016, and could therefore bring greater supply-demand balance (and higher prices) as the year progresses.

WTI Crude Oil Futures Curve

Year-end 2015 | Year-end 2014 | 3/31/2016

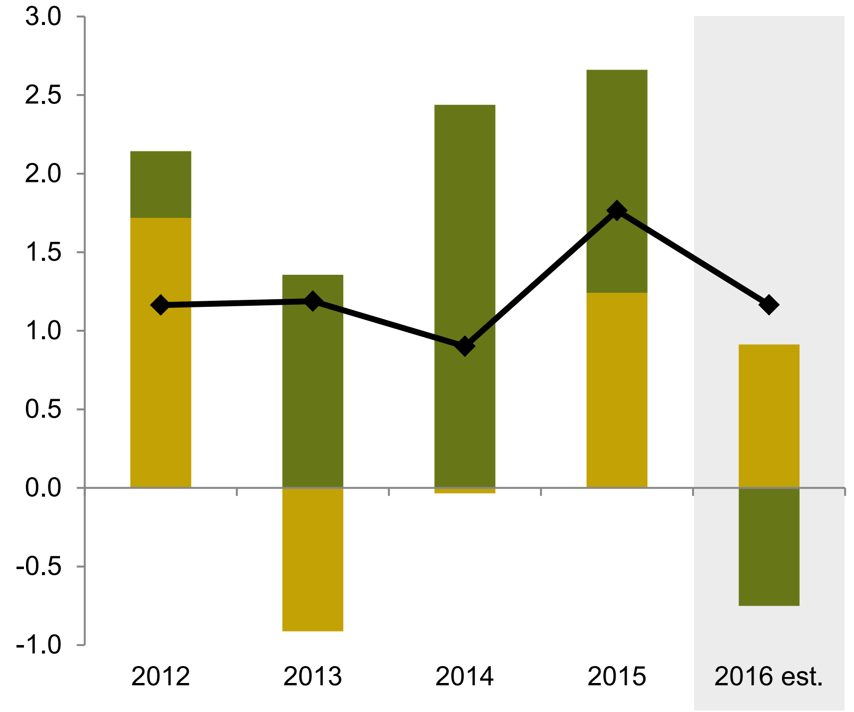
$ per Barrel



Change in Oil Supply and Demand

OPEC Supply | Non-OPEC Supply | Global Demand

Millions of Barrels per Day

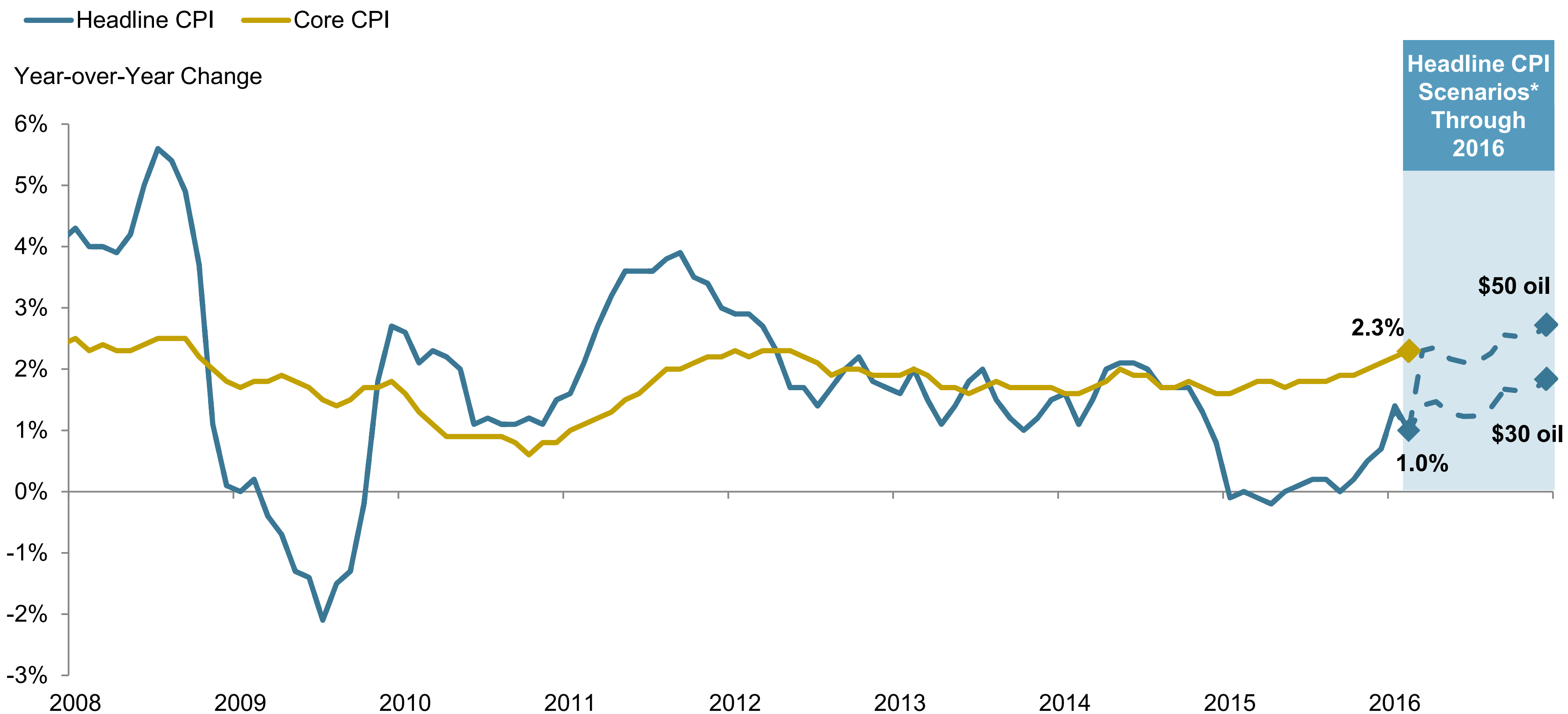


LEFT: WTI: West Texas Intermediate. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/28/16. **RIGHT:** 2016 Global Supply and Non-OPEC production estimates provided by IEA. 2016 OPEC production estimate by Fidelity Investments. Source: Based on IEA data from the IEA Oil Data Service. © OECD/IEA 3/16, IEA Publishing, Fidelity Investments (AART), as of 3/31/16.

Global "Base Effect" Likely to Lift Headline Inflation in 2016

After steep plunges in commodity prices and inflation, a lower base has been established. If global activity continues to stabilize, the "base effect" could push up global inflation even without a powerful growth or commodity rebound. With U.S. core inflation firm, headline inflation will likely rise over the course of 2016 even if oil prices remain low.

U.S. Inflation: The Base Effect



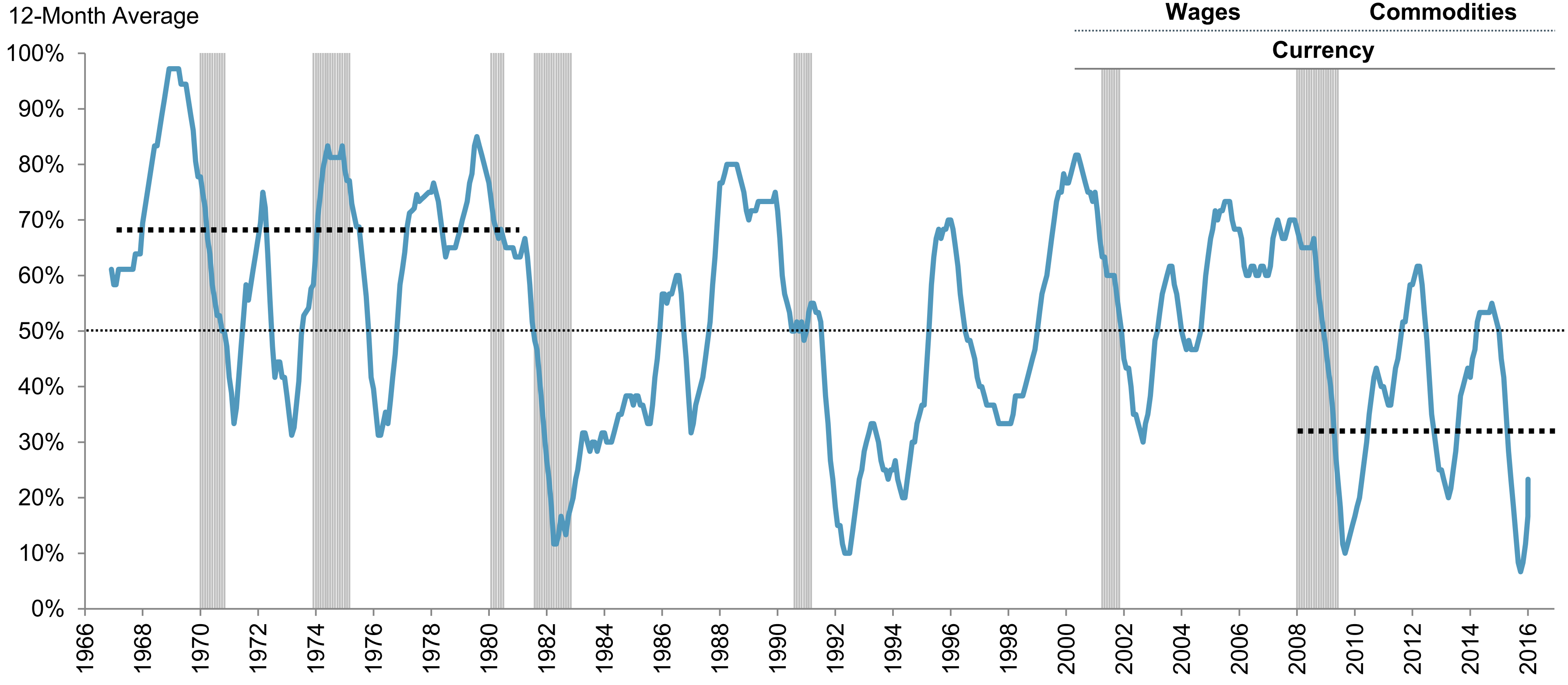
*Scenarios assume core CPI and food cost growth rates remain constant and vary only by the cost of oil each month. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 2/29/16.

U.S. Inflation Indicators May Be Starting to Accelerate

Historically, the U.S. has experienced a sustained broad-based acceleration in inflation pressures as the business cycle matures, and it eventually peaks during the late cycle. While inflation has remained muted since the financial crisis—a far cry from the high levels seen in the late 1960s and 1970s—recent data suggest an uptick has occurred across several indicators.

U.S. Inflation Diffusion Index

Types of Inflation	
Consumer Prices	Business Prices
Wages	Commodities
Currency	

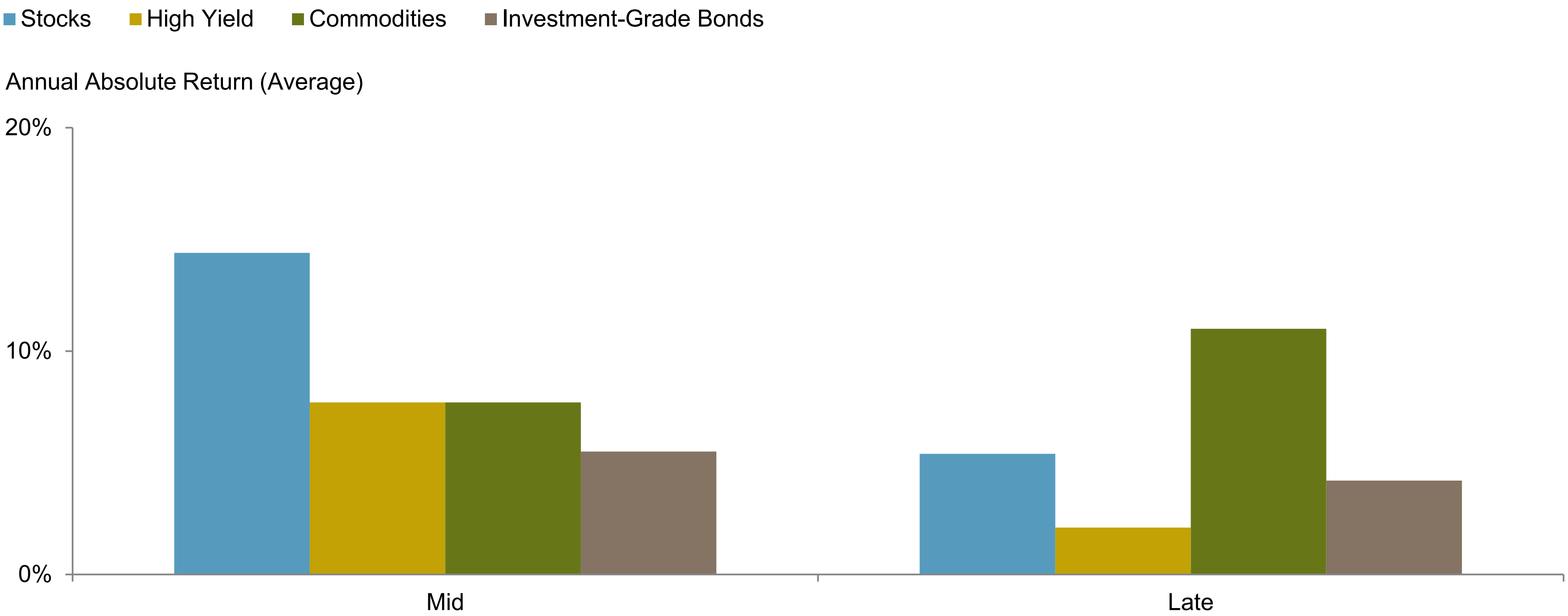


Shaded areas represent U.S. recession as defined by National Bureau of Economic Research (NBER). Fidelity Investments proprietary analysis of historical commodity performance, consumer prices, business prices, wages and currency. The U.S. Inflation Diffusion Index compares the performance of commodity prices, consumer prices, business prices, wages and currency over the past year to their average performance over the past several years. Prices appreciating faster over the past year are considered to be inflationary. Source: Bureau of Labor Statistics, Federal Reserve, Bureau of Economic Analysis, BP Statistical Review of World Energy, U.S. Department of Agriculture, U.S. Geological Survey, and U.S. Foreign Agricultural Service, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

Performance of Inflation Assets Improves in Late Cycles

Late cycles have the most mixed performance of any business cycle phase, with more limited overall upside than mid-cycle phases. There is less confidence in equity performance, though stocks have typically outperformed bonds. Inflation-resistant assets, such as commodities, energy stocks, short-duration bonds, and TIPS have typically performed relatively well.

Asset Class Performance in Mid- and Late-Cycle Phases (1950–2010)



Mid-Cycle: Strong asset class performance

- Favor economically sensitive assets
- Broad-based gains

Late-Cycle: Mixed asset class performance

- Favor inflation-resistant assets
- Gains more muted

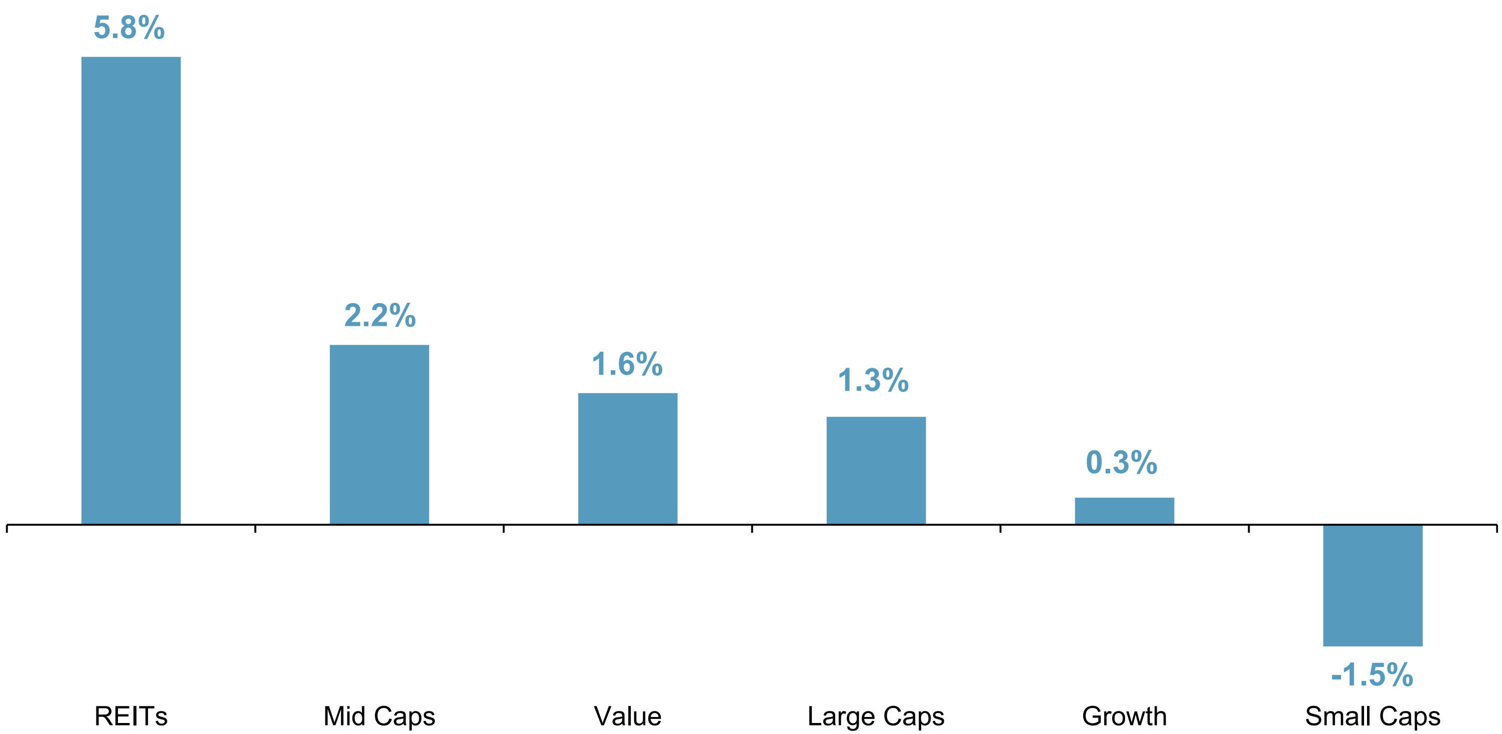
Past performance is no guarantee of future results. Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, Barclays. Source: Fidelity Investments proprietary analysis of historical asset class performance, which is not indicative of future performance.

U.S. Equity Markets

After Initial Wobble, Most Equity Categories Turn Positive

Stock markets got off to a rocky start in Q1, with the S&P 500 falling more than 10% during the first six weeks of the year, but the index recouped its initial losses to post positive returns for the quarter. REITs led the way, as lower interest rates made their dividend yields relatively attractive for investors.

Q1 2016 Total Return



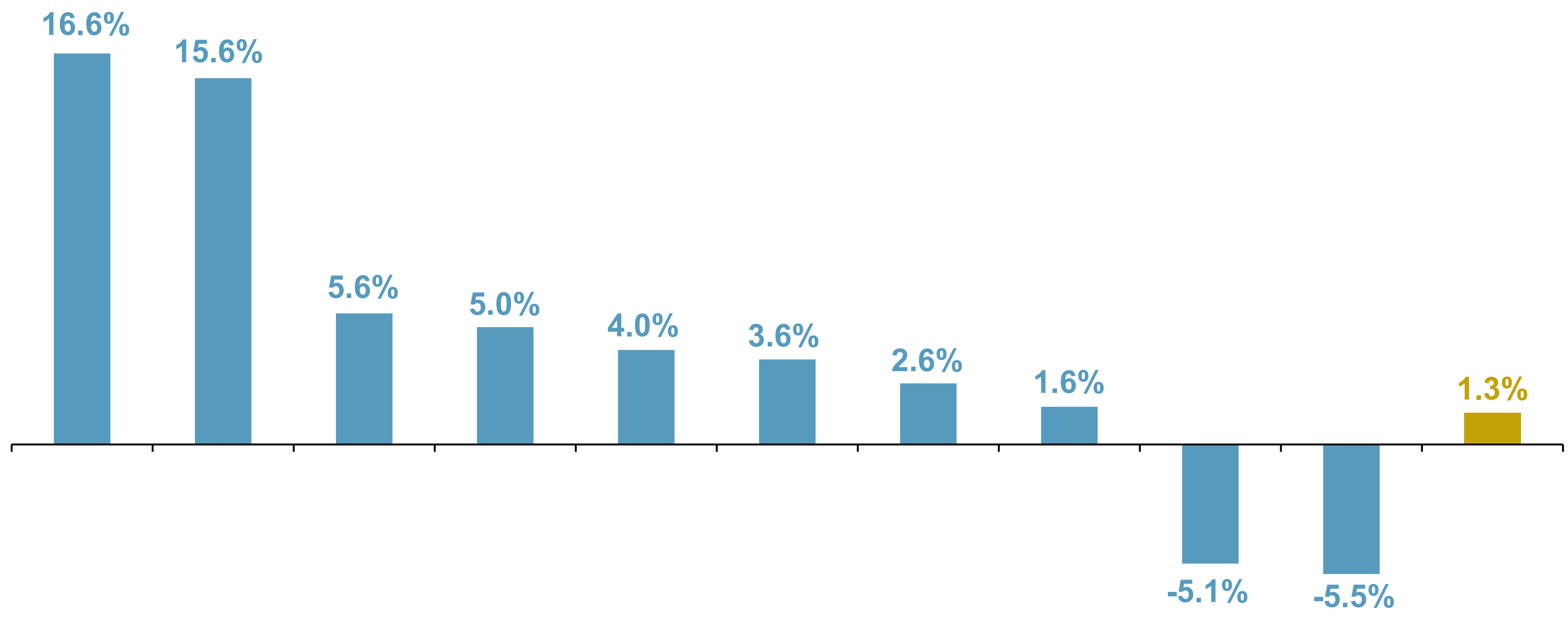
	REITs	Mid Caps	Value	Large Caps	Growth	Small Caps
1-Year	4.7%	-4.0%	-2.1%	1.8%	1.3%	-9.8%

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Equity market returns represented by: Growth – Russell 3000 Growth Index; Large Caps – S&P 500 Index; Mid Caps – Russell Midcap Index; REITs (Real Estate Investment Trusts) – FTSE NAREIT Equity Index; Small Caps – Russell 2000 Index; Value – Russell 3000 Value Index. Source: FactSet, Fidelity Investments (AART), as of 3/31/16.

Defensive Sectors Outpaced Cyclicals as Energy Stabilized

Volatile markets helped non-cyclical sectors outperform their cyclical counterparts in the first quarter. Falling bond yields made sectors with higher dividend yields attractive, including telecom, utilities, and consumer staples. Stabilizing oil prices helped boost energy stocks, while financials were negatively impacted by a flattening yield curve.

Q1 2016 Total Return



	Telecom Services	Utilities	Consumer Staples	Industrials	Energy	Materials	Info Tech	Consumer Discretionary	Financials	Health Care	S&P 500
1-Year	18.7%	16.0%	11.4%	3.2%	-15.5%	-6.0%	8.1%	6.7%	-4.5%	-5.2%	1.8%

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Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. 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 more diversified baskets of securities. Sector returns represented by S&P 500 sectors. Source: FactSet, Fidelity Investments (AART), as of 3/31/16.

Buybacks Boost Earnings amid Subdued Expectations

Earnings expectations dropped during Q1 amid concerns about growth, dollar strength, and low oil prices. Muted expectations may pave an easier path to upside surprises, particularly if energy profits stabilize. Companies used more of their cash for share buybacks, a strategy often employed as the cycle matures and investment opportunities become more limited.

S&P 500 Buybacks vs. Earnings

EPS Growth	4-Quarter Trailing	2016 Estimates	
	2015	as of 12/31/15	as of 3/31/16
S&P 500	-11.1%	7.5%	3.5%
ex-energy	7.0%	8.4%	4.7%

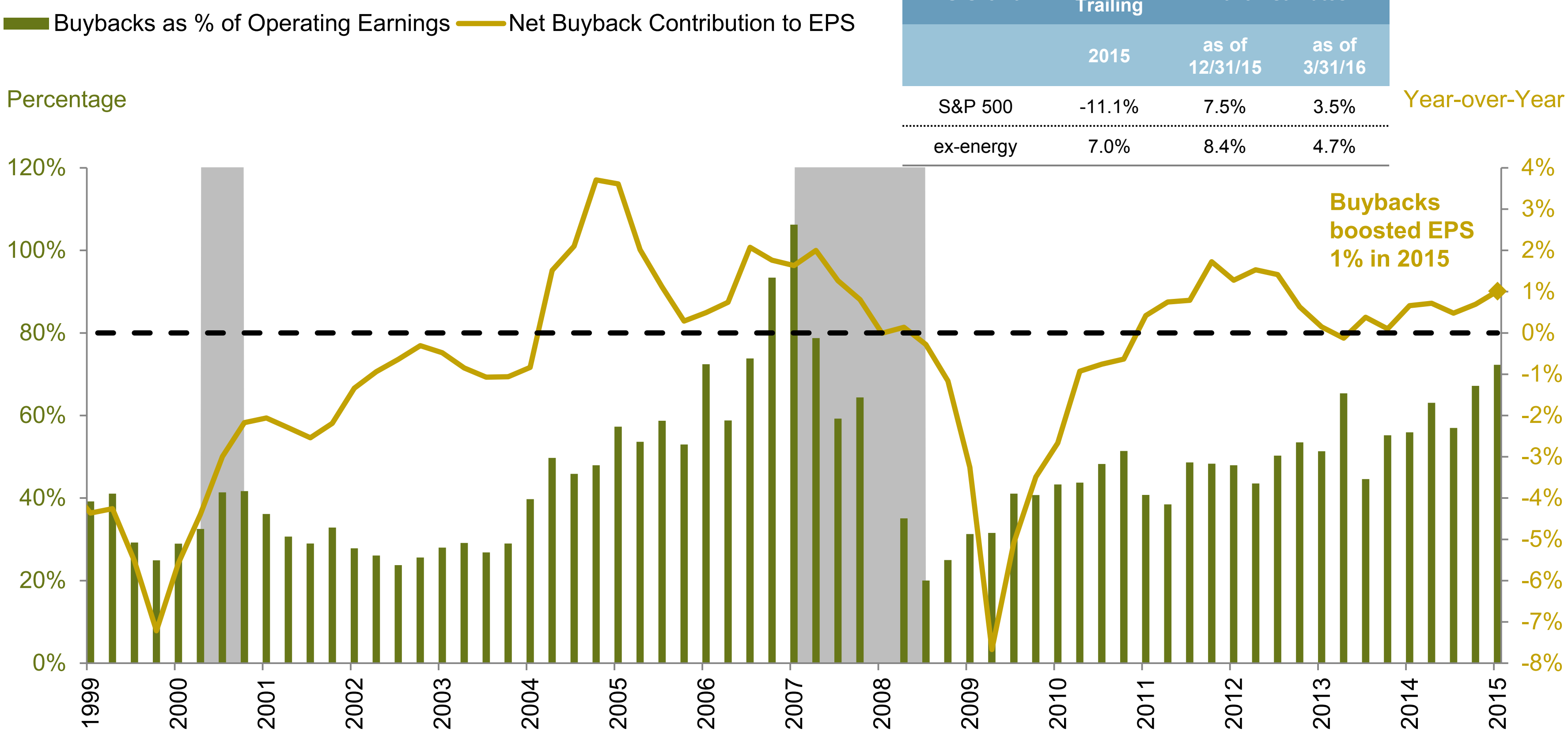


CHART: Shaded areas represent U.S. recession as defined by National Bureau of Economic Research (NBER). Buyback boost to EPS: EPS Growth minus Total Earnings Growth. Q4 2009 year-over-year data excluded due to quarterly earnings shifting to positive from negative in Q4 2008. Source: Standard & Poor's, NBER, Haver Analytics, Fidelity Investments (AART), as of 12/31/15. **TABLE:** Source: Standard & Poor's, FactSet, Fidelity Investments (AART), as of 3/31/16.

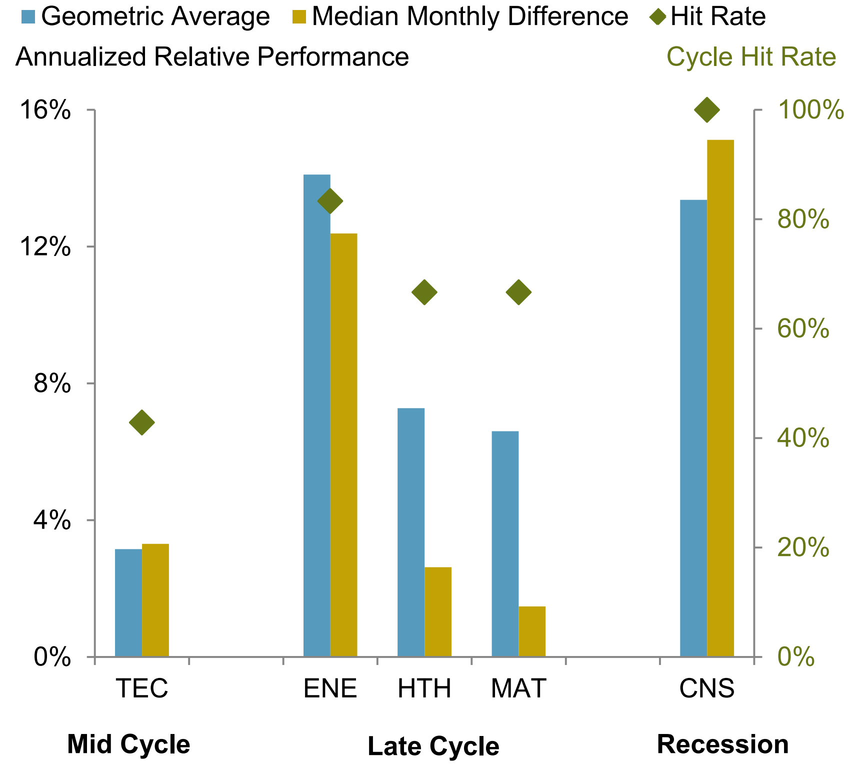
Sector Considerations: Think Through the Cycle

A disciplined business cycle approach to sector allocation can produce active returns by favoring industries that may benefit from cyclical trends. While the mid-cycle phase generally offers more limited opportunities for relative sector outperformance, inflation-sensitive sectors historically have provided consistently solid relative performance during the late-cycle phase.

Business Cycle Approach to Sectors

Sector	Early	Mid	Late	Recession
Financials	+			-
Consumer Discretionary	++		--	
Technology	+	+	--	--
Industrials	++	+		--
Materials		--	++	-
Consumer Staples	-		+	++
Health Care	-		++	++
Energy	--		++	
Telecom	--			++
Utilities	--	-	+	++

Magnitude of Sector Outperformance (1962–2010)

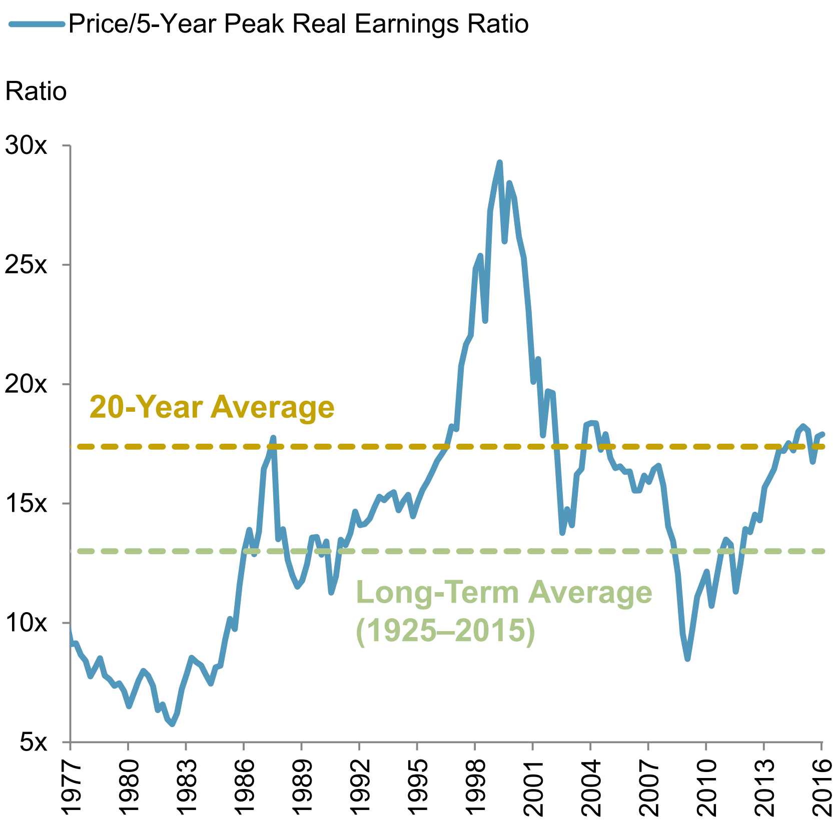


Past performance is no guarantee of future results. Sectors as defined by GICS. **LEFT:** Unshaded (white) portions above suggest no clear pattern of over- or underperformance vs. broader market. Double +/– signs indicate that the sector is showing a consistent signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. A single +/– indicates a mixed or less consistent signal. Source: *The Business Cycle Approach to Sector Investing,* Fidelity Investments (AART), September 2014. **RIGHT:** This chart highlights the best performing sectors in each of the mid-cycle, late-cycle, and recession phases, with an emphasis on the best performing sectors of the late-cycle given the recent rise in late-cycle indicators in the U.S. TEC: Technology; ENE: energy; HTH: health care; MAT: materials. CNS: consumer staples. Hit rate calculates the frequency of a sector outperforming the broader equity market over each business cycle phase since 1962. Source: Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

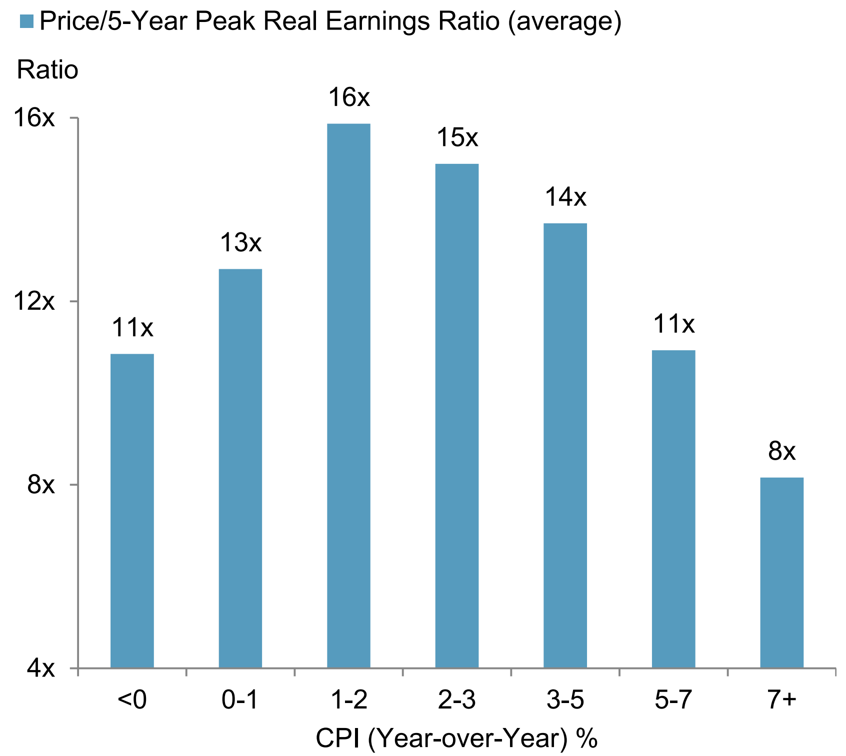
Stocks Fairly Valued, Even if Inflation Ticks Up

U.S. P/E ratios are somewhat above their long-term historical averages, but we believe over the long term that stocks will sustain a valuation level closer to the average of the past 20 years. Valuations have historically had a negative relationship with inflation, but there is room for inflation to rise from today's low levels and still be generally supportive of high P/Es.

S&P 500 Valuations



S&P 500 Valuations vs. Inflation (1925–2016)



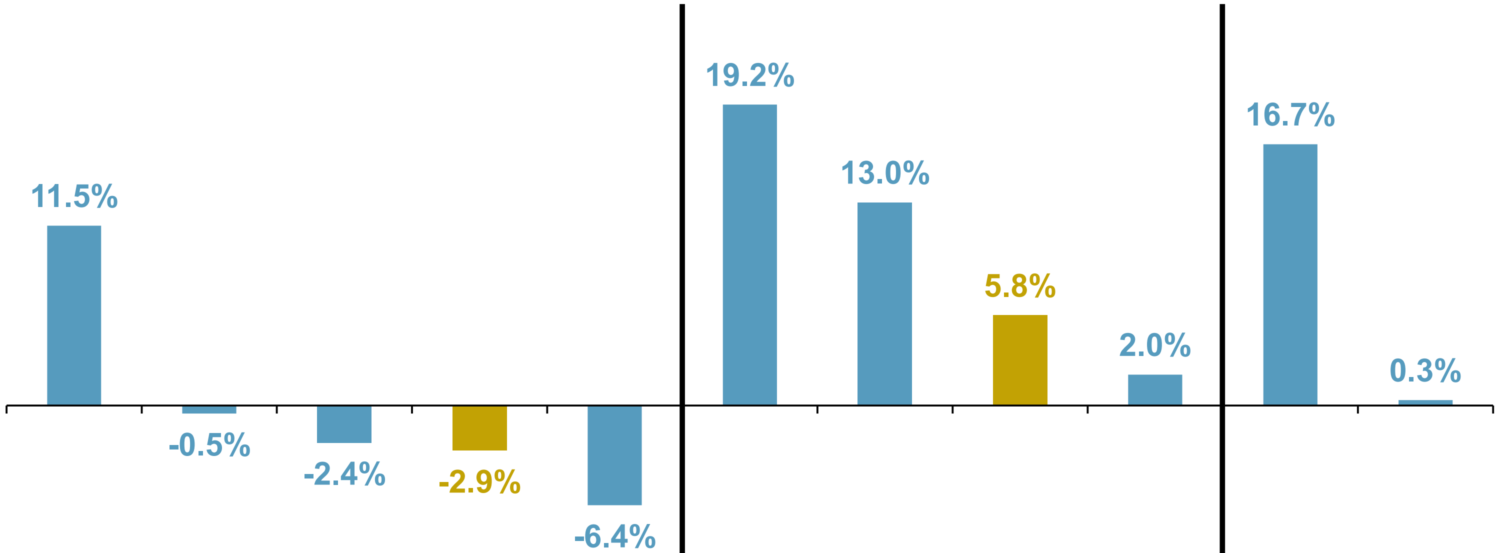
Past performance is no guarantee of future results. Price and five-year peak earnings are adjusted for inflation. Source: Standard & Poor's, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

International Equity Markets & Global Assets

Emerging-Market Equities, Gold Outperform

In a reversal of a multi-year trend, emerging markets were the strongest non-U.S. equity category in Q1. Also running counter to a longstanding narrative, a weakening dollar provided a boost to returns for U.S.-based investors. Gold benefited from the risk-off market environment and global policy easing.

Q1 2016 Total Return



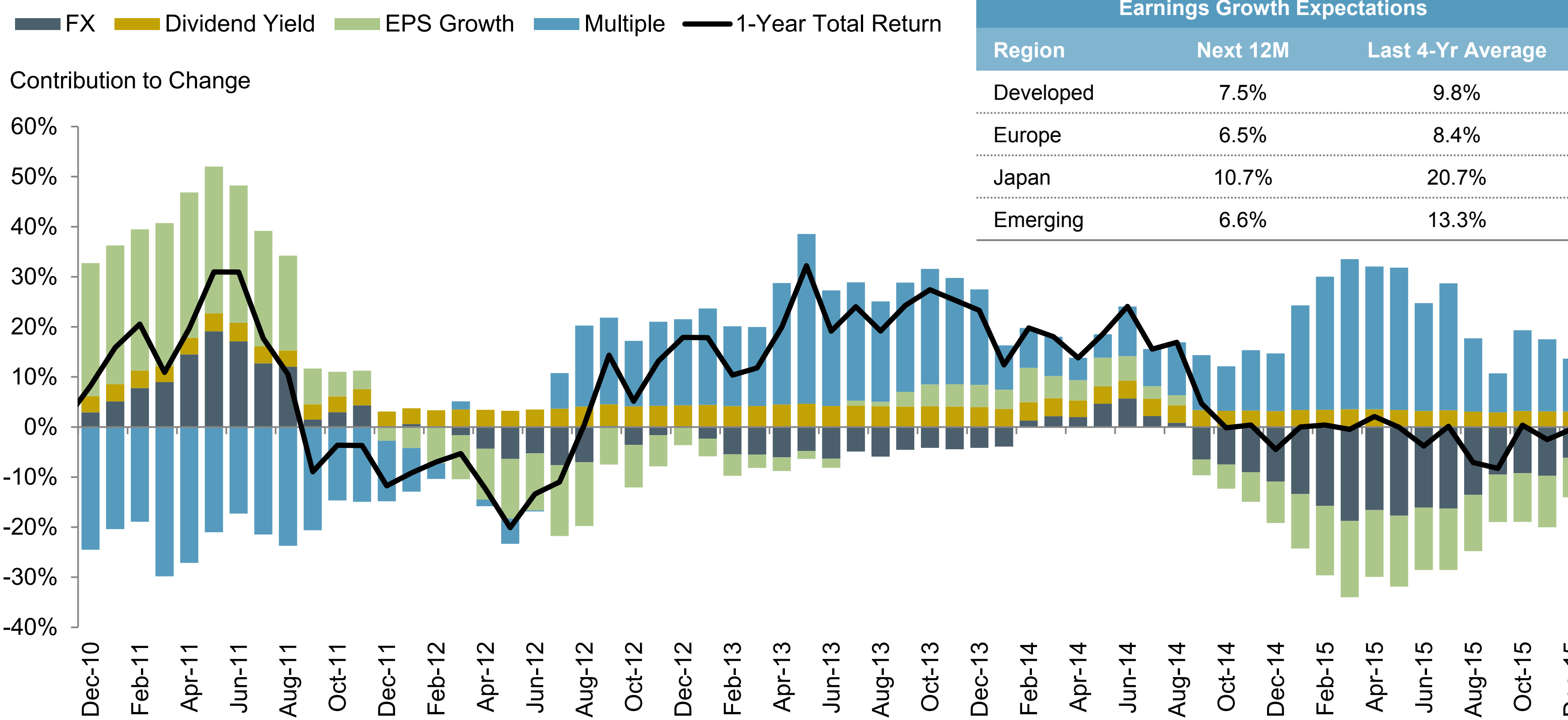
	Canada	EAFE Small Cap	Europe	EAFE	Japan	Latin America	EMEA	Emerging Markets	EM Asia	Gold	Commodities
Q1 2016 LC	3.8%	-4.3%	-4.8%	-6.4%	-12.5%	11.9%	7.6%	2.8%	0.3%	#N/A	#N/A
1-Year USD	-9.5%	3.5%	-8.0%	-7.9%	-6.8%	-8.9%	-11.0%	-11.7%	-12.3%	4.2%	-19.7%
	Developed-Market Equities					**Emerging-Market Equities**				**Commodities**	

EM: emerging markets. LC: local currency. All returns are gross in U.S. dollars unless otherwise noted. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Index returns represented by: Canada – MSCI Canada Index; Commodities – S&P GSCI Commodities Index; EAFE – MSCI Europe, Australasia, Far East Index; EAFE Small Cap – MSCI EAFE Small Cap Index; EM Asia – MSCI Emerging Markets Asia Index; EMEA (Europe, Middle East, and Africa) – MSCI EM EMEA Index; Emerging Markets (EM) – MSCI EM Index; Europe – MSCI Europe Index; Gold – Gold Bullion Price, LBMA PM Fix; Japan – MSCI Japan Index; Latin America – MSCI EM Latin America Index. Source: FactSet, Fidelity Investments (AART), as of 3/31/16.

Improved Earnings Support for DM Equities

Since 2012, developed-market equity performance has been boosted by multiple expansion, but negative earnings growth and weaker currencies have detracted from returns. More realistic earnings expectations and the prospect of more stable currencies may support developed-market performance on a cyclical basis.

Decomposition of DM Equity Returns



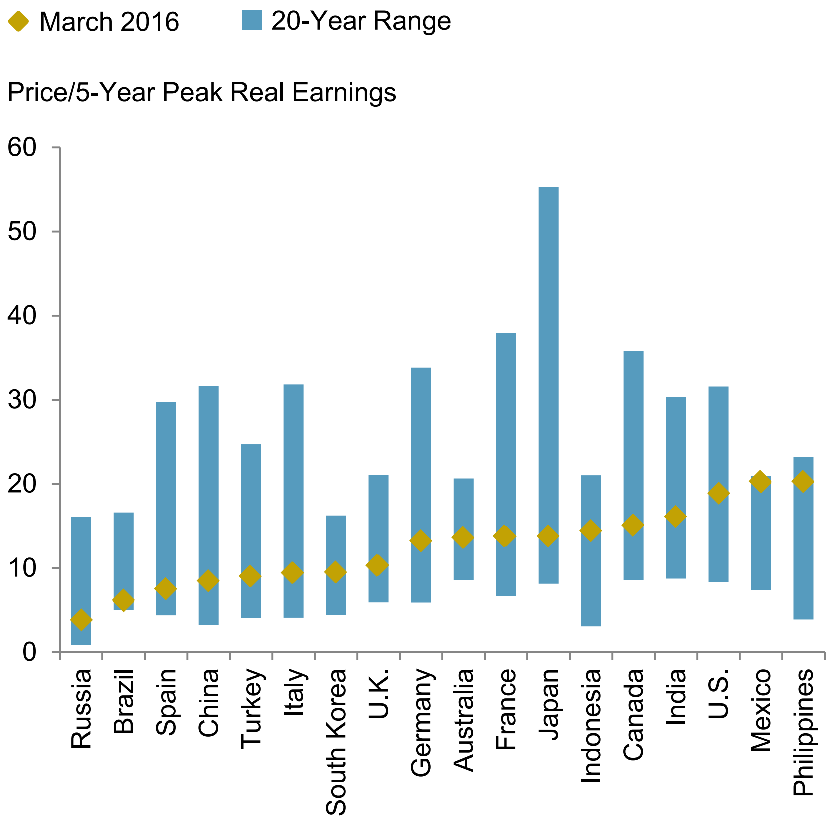
Earnings Growth Expectations		
Region	**Next 12M**	**Last 4-Yr Average**
Developed	7.5%	9.8%
Europe	6.5%	8.4%
Japan	10.7%	20.7%
Emerging	6.6%	13.3%

Chart represents MSCI EAFE returns. **Source:** FactSet, MSCI, Fidelity Investments (AART), as of 3/31/16. Chart as of 12/31/15.

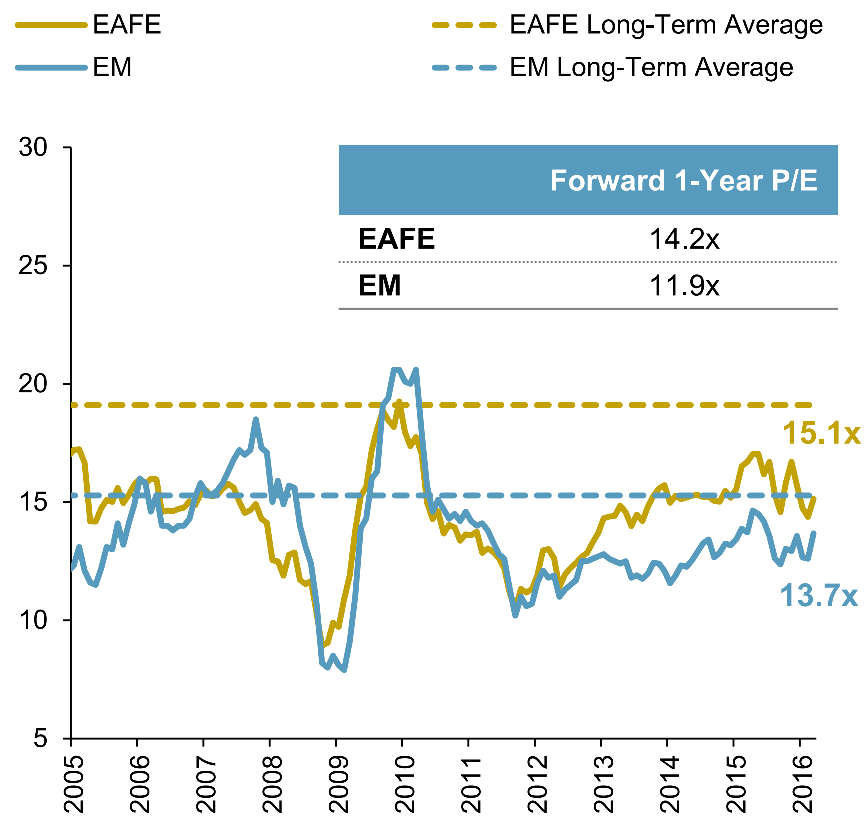
Non-U.S. Equity Valuations Attractive vs. U.S. and History

Price-to-earnings multiples in most countries' equity markets remained at the lower end of their 20-year range, with the cheapest markets including the peripheral eurozone and several emerging markets. Valuations of developed and emerging markets remain below both U.S. multiples and their long-term averages.

Cyclical P/Es



Trailing 12-Month P/E Ratios



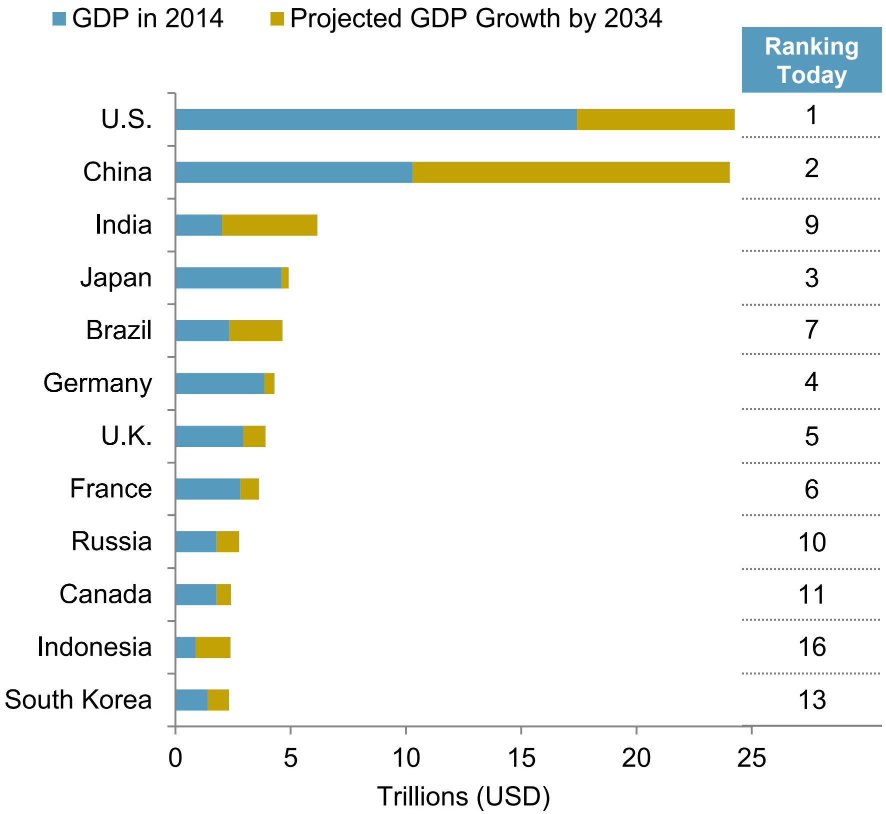
	Forward 1-Year P/E
EAFE	14.2x
EM	11.9x

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. EAFE: Europe, Australasia, Far East. EM: emerging market. Price-to-earnings (P/E) ratio (or multiple): stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. EM – MSCI Emerging Markets Index; EAFE ex-U.S. – MSCI EAFE ex-U.S. Index; U.S. – MSCI USA Index. **LEFT**: Five-year peak earnings are adjusted for inflation. Source: FactSet, countries' statistical organizations, Haver Analytics, Fidelity Investments (AART), as of 3/31/16. **RIGHT**: Forward P/E valuations are price divided by next-twelve-months earnings estimates. Source: FactSet, Fidelity Investments (AART), as of 3/31/16.

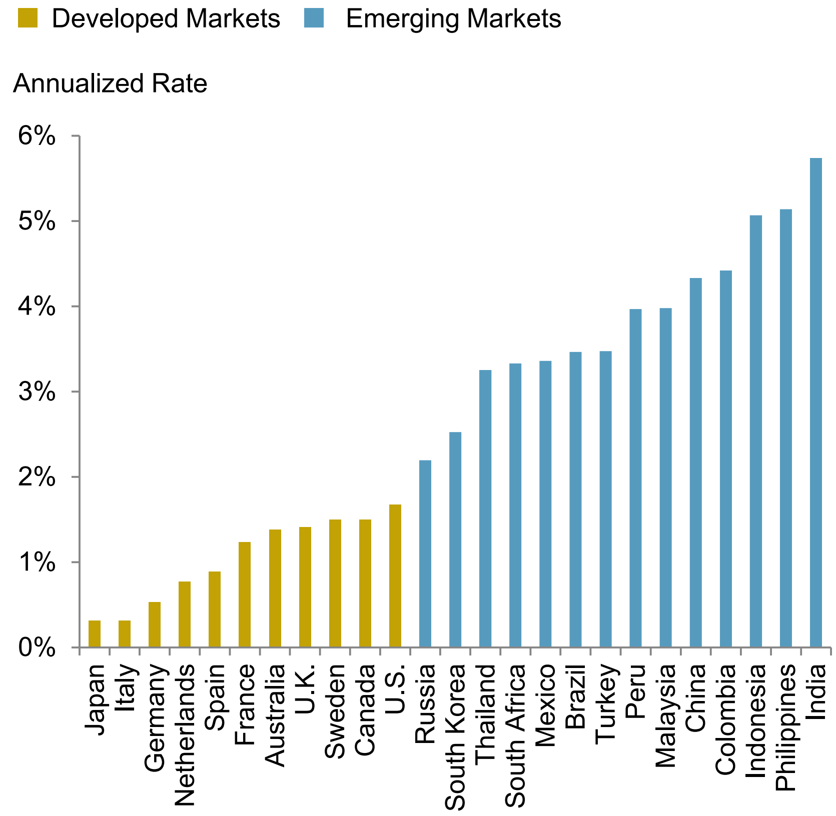
Selective Opportunities in Emerging Markets

While many emerging-market countries face cyclical challenges, we believe that they have strong secular growth prospects and that, by 2034, EMs will make up half of the world's 12 largest economies. Overall, we expect growth of emerging countries to outpace that of developed markets, providing a favorable secular backdrop for EM assets.

World's Largest Economies in 2034



Real GDP Growth Forecasts, 2015–2034

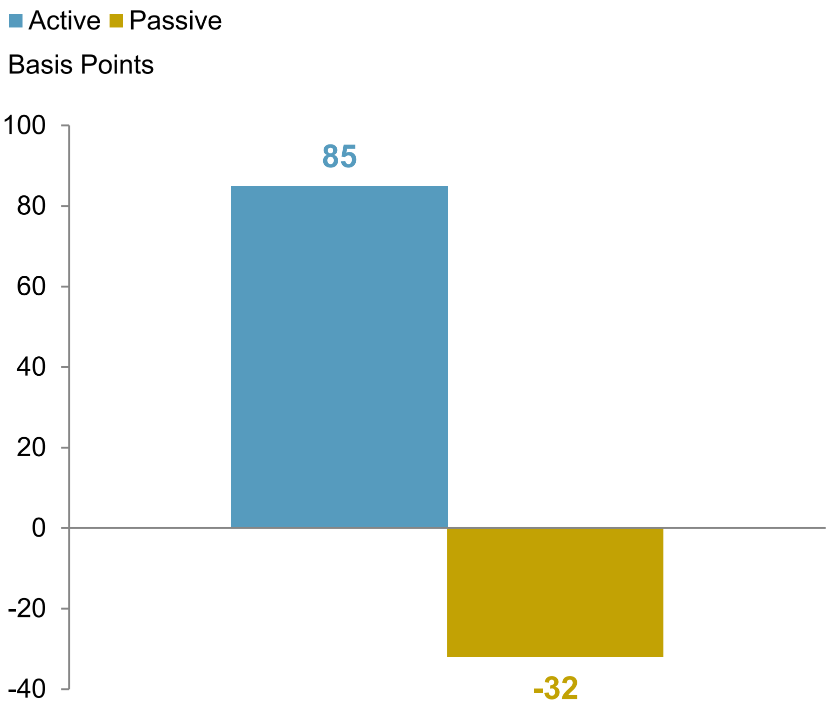


RIGHT: Average forecasts are GDP weighted. Source: Fidelity *Leadership Series* article "Secular Outlook for Global Growth: 2015–2034" (July 2015), Fidelity Investments (AART), as of 12/31/14.

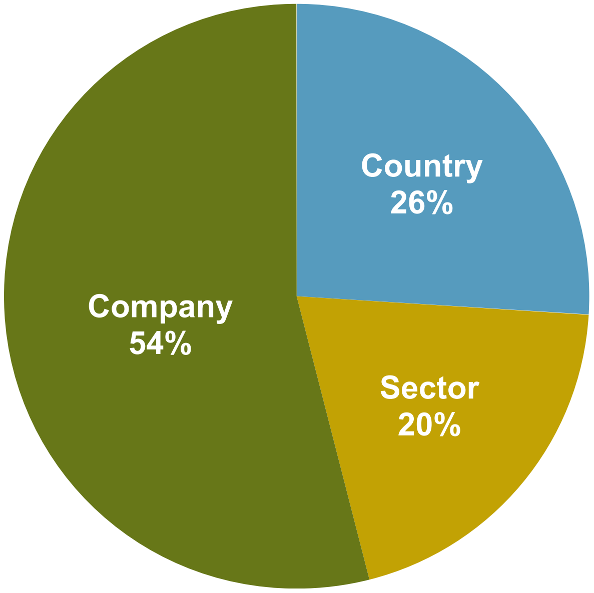
Ample Active Opportunities in the International Space

Over the long term, active international equity managers have exceeded benchmark performance by 85 basis points (on average) by taking advantage of less efficient non-U.S. markets. Quantitative analysis of past equity returns shows that company exposure (security selection) is the most significant factor for explaining differences in performance among stocks.

International Large-Cap Excess Returns (Avg. 1-Year Rolling) 1992–2015



Average Source of Return for Global Stocks 1990–2015



LEFT: Excess returns represent industry average returns for each set of funds (active or passive, including closed or merged funds). International funds labeled as “foreign large growth/value/blend” by Morningstar. Average excess returns: the average of all monthly one-year rolling excess returns for all funds in the set under analysis, using overlapping one-year periods and data from Jan. 1, 1992, to Dec. 31, 2014. Excess returns are returns relative to the primary prospectus benchmark of each fund, net of fees. Basis point: 1/100th of a percentage point. Past performance is no guarantee of future results. This chart does not represent actual or future performance of any individual investment option. See Appendix for additional information. Industry aggregate returns are equal-weighted for all funds in each set. Periods determined by availability of sufficient passive index fund data. Source: Fidelity *Leadership Series* paper “Finding Superior Active Equity Managers: A Simple Approach for Investors” (May 2015), Morningstar, Fidelity Investments, as of 12/31/15. **RIGHT:** Anova: analysis of variation. Source: MSCI All Country World Index, Fidelity Investments, as of 8/31/15.

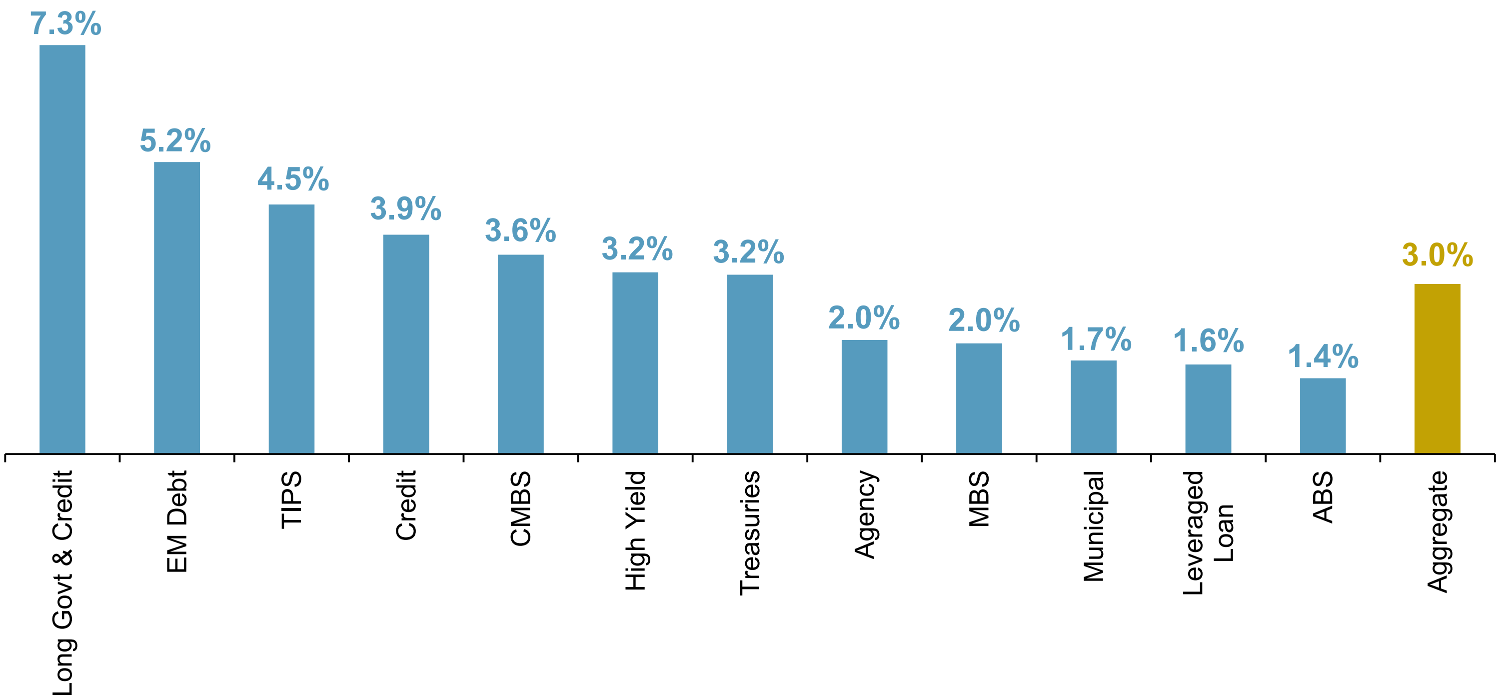
Fidelity INVESTMENTS

Fixed-Income Markets

Falling Rates, Spreads Result in Widespread Gains in Q1

Interest rates dropped sharply during the first quarter, resulting in the outperformance of long-duration bonds. Most credit spreads also narrowed slightly, which boosted the returns of the emerging-market debt and investment-grade corporate credit sectors.

Q1 2016 Total Return



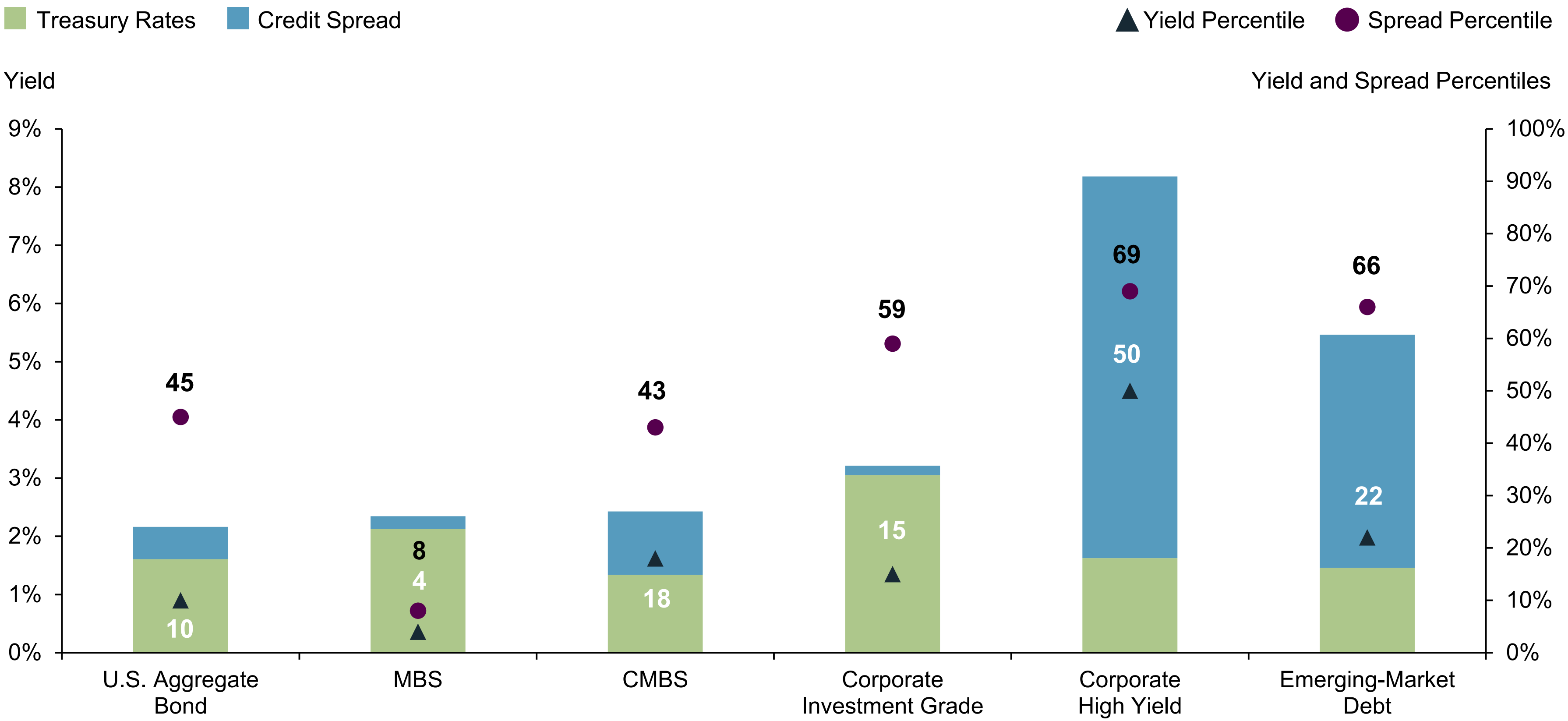
	Long Govt & Credit	EM Debt	TIPS	Credit	CMBS	High Yield	Treasuries	Agency	MBS	Municipal	Leveraged Loan	ABS	Aggregate
1-Year	0.4%	4.4%	1.5%	0.9%	2.6%	-4.0%	2.4%	1.9%	2.4%	4.0%	-1.2%	1.7%	2.0%

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Index returns represented by: ABS (Asset-Backed Securities) – Barclays ABS Index; Agency – Barclays U.S. Agency Index; Aggregate – Barclays U.S. Aggregate Bond Index; CMBS (Commercial Mortgage-Backed Securities) – Barclays Investment-Grade CMBS Index; Credit – Barclays U.S. Credit Bond Index; EM Debt (Emerging-Market Debt) – JP Morgan EMBI Global Index; High Yield – BofA ML U.S. High Yield Index; Leveraged Loan – S&P/LSTA Leveraged Loan Index; Long Government & Credit (Investment-Grade) – Barclays Long Government & Credit Index; MBS (Mortgage-Backed Securities) – Barclays MBS Index; Municipal – Barclays Municipal Bond Index; TIPS (Treasury Inflation-Protected Securities) – Barclays U.S. TIPS Index; Treasuries – Barclays U.S. Treasury Index. Source: FactSet, Fidelity Investments (AART), as of 3/31/16.

Yields Even Lower, Spreads Still Near Historical Averages

Bond yields fell during Q1 as a result both of the risk-off environment to start the quarter and of the Fed backing away from its expected tightening path as the quarter progressed. Spreads narrowed slightly but remain somewhat above their recent historical trend, both for corporate and for emerging-market debt.

Fixed-Income Yields and Spreads

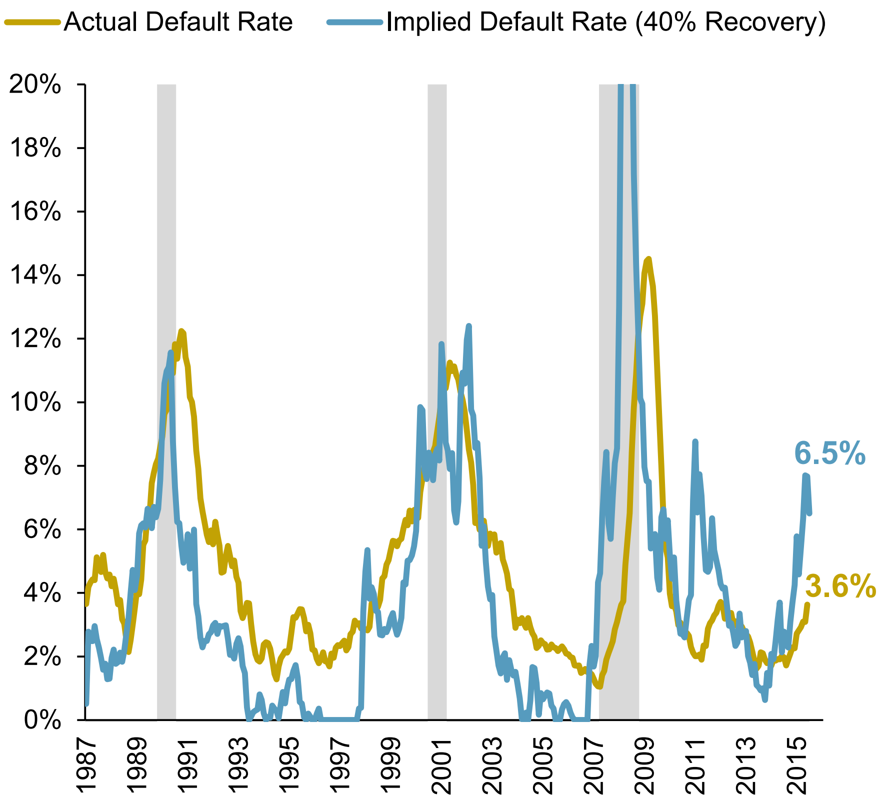


Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Percentile ranks of yields and spreads based on historical period from 2000 to 2016. MBS: mortgage-backed security; CMBS: commercial mortgage-backed security. All categories represented by respective Barclays bond indices. Source: Barclays, Fidelity Investments (AART), as of 3/31/16.

Risks Remain but High-Yield Bonds Pricing In Bad News

High-yield spreads narrowed during the second half of Q1, but the market continues to price in a default rate that implies a significant deterioration. Fundamentals have weakened amid energy-sector challenges and the rise in U.S. late-cycle indicators, but they remain considerably more favorable than the overheated high-yield episodes during the 2000s.

High-Yield Default Rates



High-Yield Fundamentals

Positives
Broadly stable fundamentals: challenged (energy and materials) sectors only 20% of index (vs. 45% TMT in early 2000s)
Valuations more attractive: implied default rate (6.5%) elevated relative to actual default rate (3.6%)
Delayed maturity schedule: <10% of index matures in 2016 and 2017 versus ~60% from 2020–2023
Reasonable underwriting standards: leveraged buyouts only ~15%–20% of issuance proceeds versus 50% in 2007

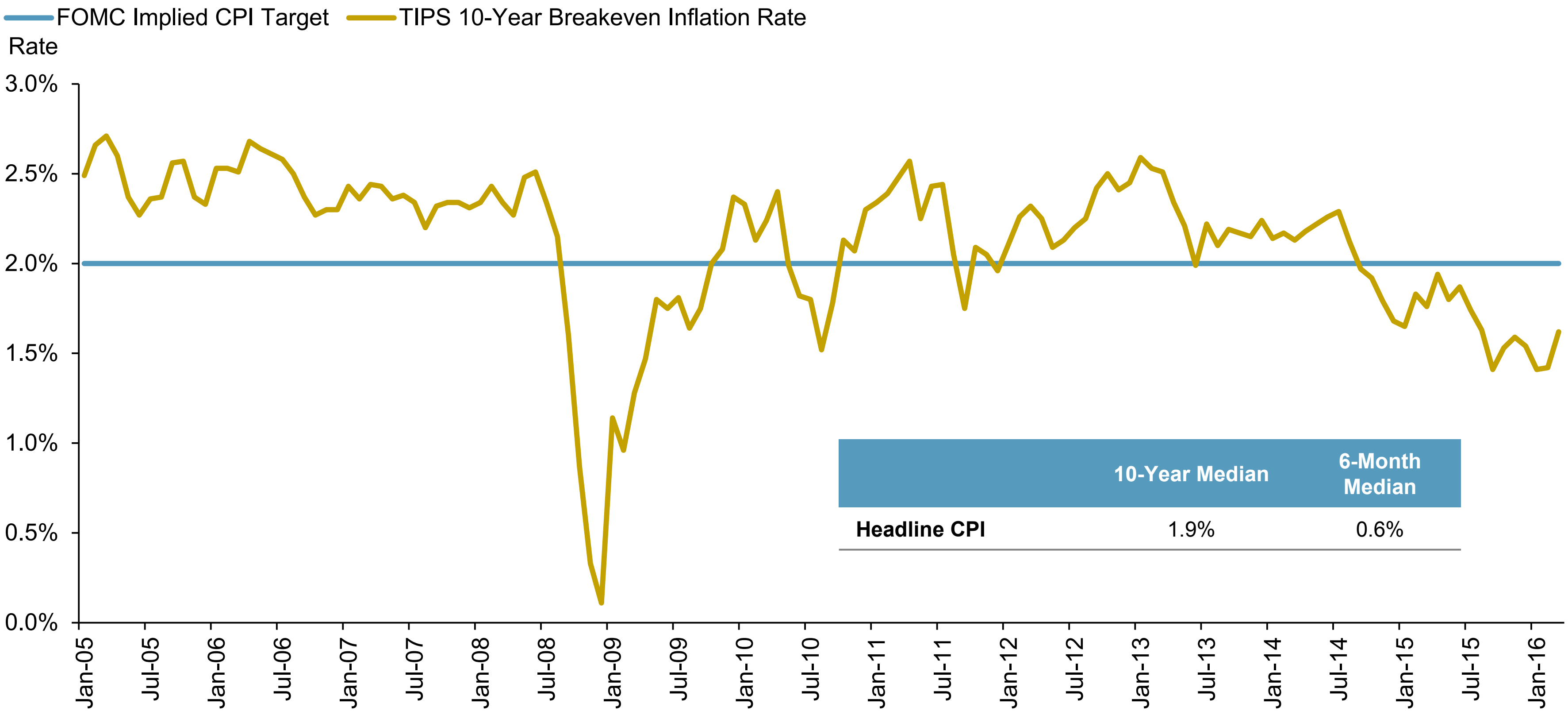
Negatives
Regulatory changes: heightened liquidity risk
Business cycle: historical underperformance in late cycle
Uncertain energy outlook: low oil prices increase risk

Shaded area indicates a recession as defined by the National Bureau of Economic Research (NBER). **LEFT:** Implied defaults reached a peak of 30.5% in November 2008, not shown for scaling purposes. Actual default rates according to Moody's trailing 12-month default rate. Source: Moody's, Bank of America Merrill Lynch, Fidelity Investments (AART), as of 3/31/16. **RIGHT:** TMT = technology, media, telecommunications. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/16.

TIPS: A Relatively Attractive Inflation Hedge

The Treasury market's current 10-year inflation outlook is the weakest it has been at any point over the past 15 years—outside of the financial crisis—and is also below the Fed's long-term target. With the U.S. now experiencing rising late-cycle indicators, TIPS may be an attractively priced hedge against potentially higher inflation.

TIPS Breakeven Inflation vs. Fed Inflation Target



	10-Year Median	6-Month Median
Headline CPI	1.9%	0.6%

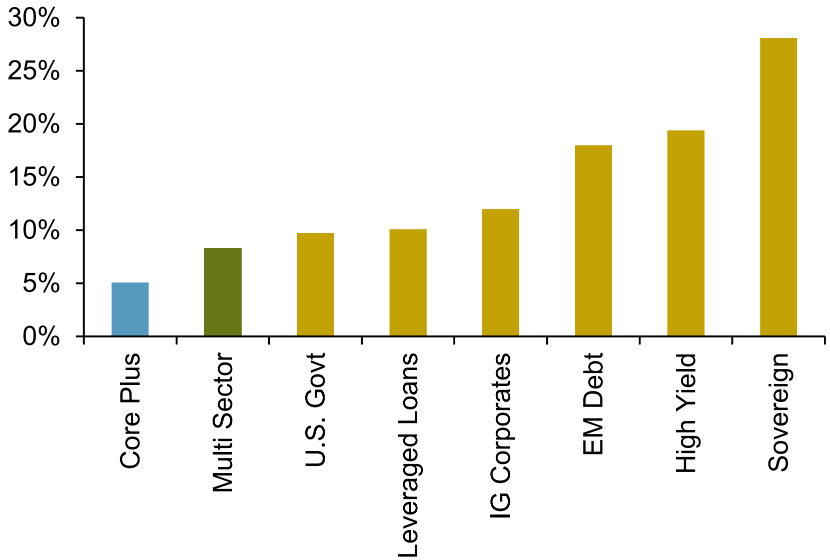
Past performance is no guarantee of future results. The FOMC currently projects the long-term personal consumption expenditure (PCE) deflator to be 2.0%, but TIPS are priced off of the consumer price index (CPI). CPI has been roughly the same level as PCE the past several years, therefore the FOMC's implied CPI target is also 2.0%. Fed: Federal Reserve. FOMC: Federal Open Market Committee. CPI: Consumer Price Index. TIPS: Treasury Inflation-Protected Securities. TIPS breakeven inflation rate calculated as difference between real and nominal 10-year Treasury yields. Source: Federal Reserve, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

Fidelity INVESTMENTS

Benefits of Diversification in a Bond Portfolio

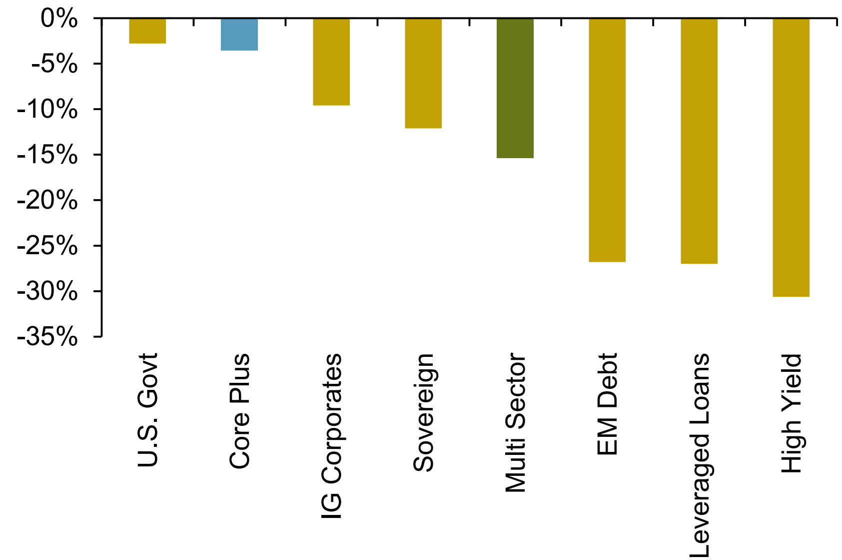
Fixed-income strategies with designated allocations in both high-quality bonds and higher-yielding sectors have exhibited consistent downside protection. Both a "core-plus" and a "multi-sector" portfolio have generated fewer periods of negative returns than any individual bond sector, while providing lower magnitude of losses than lower-quality sectors.

1-Year Negative Return Periods, 1998–2015



Portfolio	Description	
Core Plus	80% U.S. Investment Grade 5% Leveraged Loans	10% U.S. High Yield 5% Emerging Market

Worst 1-Year Returns, 1998–2015



Portfolio	Description
Multi Sector	40% High Yield 25% U.S. Government 15% Emerging Market 15% Foreign DM Bonds 5% Leveraged Loans

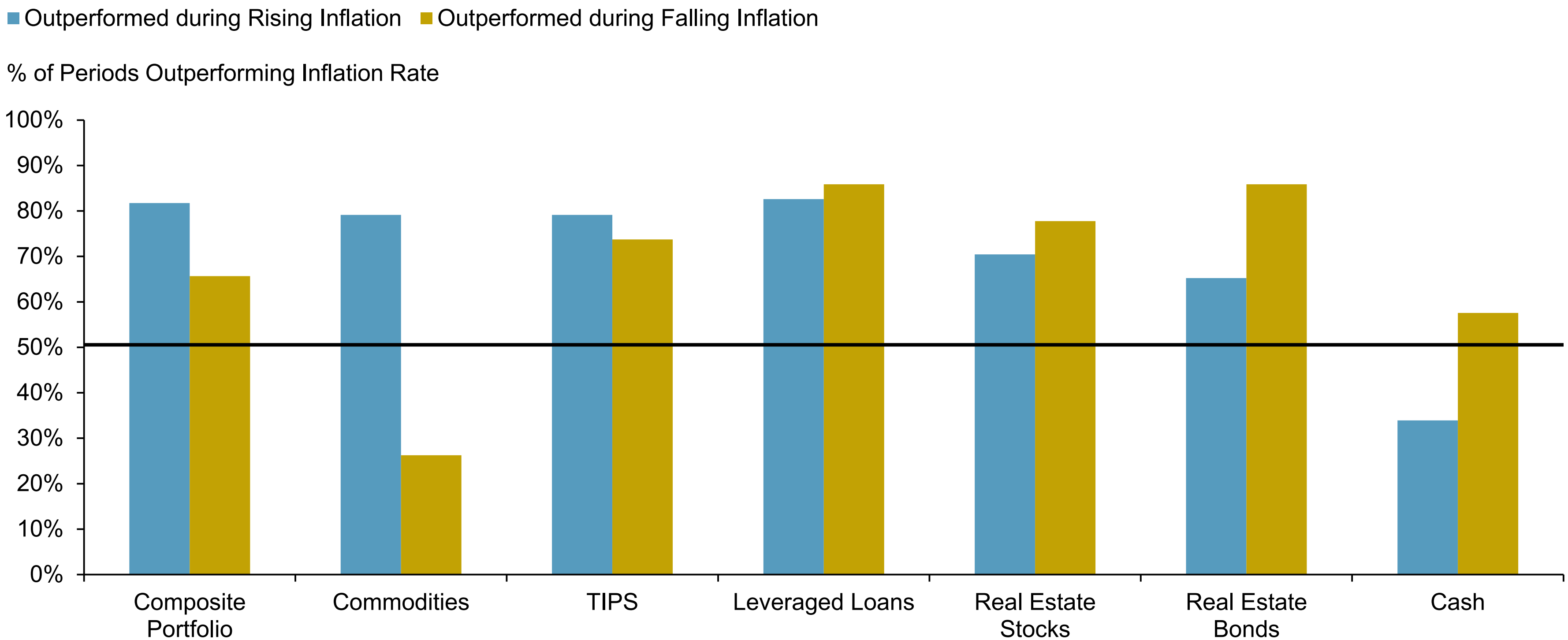
Past performance is no guarantee of future results. It is not possible to invest directly in an index. IG: investment grade. Index returns represented by: Emerging Market Debt – JPM EMBI Global Index; Foreign Developed-Country Bonds – Citigroup G-7 Non-USD Bond Index; Leveraged Loans – S&P/LSTA Performing Loan Index; U.S. Government – Barclays U.S. Government Index; U.S. High Yield – BofA ML High Yield Index; U.S. Investment Grade – Barclays U.S. Aggregate Bond Index. Source: Morningstar, Fidelity Investments (AART), as of 12/31/15.

Asset Allocation Themes

Real Return: Managing Inflation Risk Still Matters

Investments with hard-asset or income-adjusting characteristics have historically offered inflation resistance, particularly when investors needed it most—as inflation increased. Combining assets into a diversified real-return composite has increased the frequency of outpacing inflation as it rises, a difficult task for cash in today's low-rate environment.

Frequency of Outperforming Inflation, 1998–2015



Overall Rate of Outperformance	Composite Portfolio	Commodities	TIPS	Leveraged Loans	Real Estate Stocks	Real Estate Bonds	Cash
	74%	55%	77%	84%	74%	75%	45%

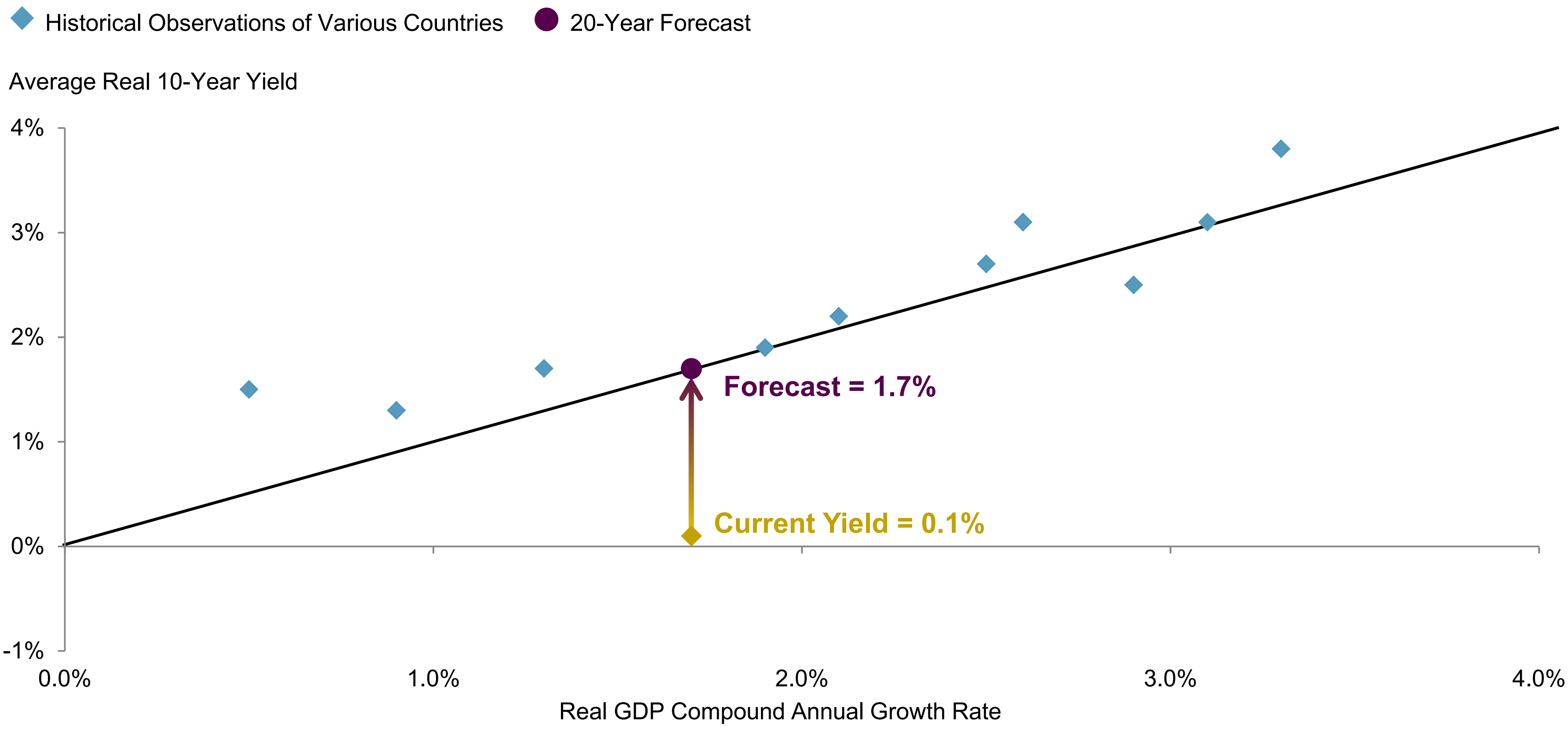
Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Please see appendix for important index information. Inflation rate: year-over-year change in the consumer price index. Asset classes represented by: Cash – IA SBBI U.S. 30 Day Treasury Bill Index; Commodities – Bloomberg Commodity Index; Composite portfolio – 30% TIPS, 25% leveraged loans, 25% commodities, 10% real estate equity, 10% real estate income; Leveraged Loans – S&P/LSTA Leveraged Performing Loan Index; Real Estate Bonds – BofA ML U.S. Corporate Real Estate Index; Real Estate Stocks – Dow Jones U.S. Select Real Estate Securities Index; TIPS (Treasury Inflation Protected Securities) – Barclays U.S. TIPS Index. Source: Morningstar, Fidelity Investments (AART), as of 12/31/15.

Fidelity INVESTMENTS

Secular Yield Trend: Higher than Current, Lower than History

Over the long term, yields tend to gravitate toward the pace of GDP growth, so we expect real yields to rise over time to average closer to our 1.7% GDP forecast over the next 20 years. While the upward move in yields may provide a headwind for bond prices, this yield level would be significantly lower than the long-term historical average.

Secular Rate Outlook



Real: inflation-adjusted. The average real 10-year yield and real GDP compound annual growth rates are calculated since the inception dates of the inflation-adjusted government securities for the following countries: United Kingdom (Jan. 1985), Australia (Jun. 1985), Canada (Nov. 1991), United States (Apr. 1998), and Japan (Apr. 2004). Source: Countries' statistical organizations, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

Myopic Loss Aversion Prompts Risk-Averse Behavior

Myopic loss aversion describes a common bias in which greater sensitivity to losses than to gains is compounded by the frequent evaluation of outcomes. Investors who review their portfolios more frequently have tended to shift toward more conservative exposures, as increased monitoring raises the likelihood of seeing (and reacting to) a loss.

Impact of Feedback Frequency on Investment Decisions

In the study, subjects were assigned simulated conditions that were similar to making portfolio decisions on a monthly or yearly basis. Source: Thaler, R.H., A. Tversky, D. Kahneman, and A. Schwartz. "The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test." *The Quarterly Journal of Economics* 112.2 (1997), used by permission of Oxford University Press, Fidelity Investments (AART), as of 3/31/16.

Performance Rotations Underscore Need for Diversification

The performance of different assets has fluctuated 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 potential benefits of diversification.

Periodic Table of Returns

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
35%	35%	66%	32%	14%	26%	56%	32%	35%	35%	40%	5%	79%	28%	8%	20%	39%	28%	5%	6%
33%	29%	34%	26%	8%	10%	47%	26%	21%	33%	16%	-20%	58%	27%	8%	19%	34%	14%	3%	6%
29%	21%	27%	12%	5%	4%	39%	21%	14%	27%	12%	-26%	37%	19%	4%	18%	33%	13%	1%	3%
24%	20%	24%	8%	2%	-2%	37%	18%	12%	22%	11%	-34%	32%	18%	4%	18%	32%	12%	1%	3%
22%	14%	21%	-1%	-2%	-6%	31%	17%	7%	18%	7%	-36%	28%	17%	2%	16%	23%	11%	1%	2%
20%	9%	21%	-3%	-4%	-9%	31%	11%	5%	16%	6%	-36%	27%	16%	2%	16%	19%	6%	0%	2%
13%	3%	12%	-5%	-4%	-15%	29%	11%	5%	12%	5%	-37%	26%	15%	0%	16%	7%	5%	-4%	1%
10%	-3%	7%	-9%	-12%	-16%	28%	9%	5%	11%	2%	-38%	20%	15%	-4%	15%	3%	3%	-4%	0%
2%	-18%	3%	-14%	-20%	-20%	24%	8%	4%	9%	-1%	-38%	19%	12%	-12%	11%	-2%	-2%	-5%	0%
-3%	-25%	-1%	-22%	-20%	-22%	19%	7%	3%	4%	-2%	-43%	18%	8%	-13%	4%	-2%	-4%	-15%	-2%
-12%	-27%	-5%	-31%	-21%	-28%	4%	4%	2%	2%	-16%	-53%	6%	7%	-18%	-1%	-10%	-17%	-25%	-3%

Legend
Real Estate Stocks
Emerging-Market Stocks
High-Yield Bonds
Investment-Grade Bonds
60% Large Cap 40% IG Bonds
Value Stocks
Large Cap Stocks
Commodities
Growth Stocks
Small Cap Stocks
Foreign-Developed Country Stocks

*2016 as of 3/31/16. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Asset classes represented by: Commodities – Bloomberg Commodity Index; Emerging-Market – MSCI Emerging Markets Index; Foreign-Developed Country – MSCI EAFE Index; Growth – Russell 3000 Growth Index; High Yield – Bank of America Merrill Lynch U.S. High Yield Index; Investment-Grade – Barclays U.S. Aggregate Bond Index; Large Cap – S&P 500 Index; Real Estate – FTSE NAREIT Equity Index; Small Cap – Russell 2000 Index; Value – Russell 3000 Value Index. Source: Morningstar, Standard & Poor's, Haver Analytics, Fidelity Investments (AART), as of 3/31/16.

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 authors and not necessarily those of Fidelity Investments or its affiliates. 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.

Fidelity does not provide legal or tax advice and the information provided herein is general in nature and should not be considered legal or tax advice. Consult with an attorney or a tax professional regarding your specific legal or tax situation.

Past performance and dividend rates are historical and do not guarantee 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 non-U.S. 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 from other types of stocks, and can be more volatile than other types of stocks. Value stocks can perform differently from 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.

Floating-rate loans generally are subject to restrictions on resale, and sometimes trade infrequently in the secondary market; as a result, they may be more difficult to value, buy, or sell. A floating-rate loan may not be fully collateralized and therefore may decline significantly in value.

The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Interest income generated by municipal bonds is generally expected to be exempt from federal income taxes and, if the bonds are held by an investor resident in the state of issuance, from state and local income taxes. Such interest income may be subject to federal and/or state alternative minimum taxes. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets. 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 restrictions between countries.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

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.

Market Indices

BofA ML Corporate Real Estate Index, a subset of BofA ML U.S. Corporate 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. 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. **BofA ML U.S. Real Estate Index** is a subset of the BofA ML Real Estate Corporate Index; qualifying securities must have an investment grade rating and an investment grade-rated country of risk. **BofA ML U.S. High Yield Bond Index** is a market capitalization-weighted index of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. **The 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.

Appendix: Important Information

Market Indices (continued)

Barclays U.S. 1-3 (1-5) Year Government Credit Index includes all publicly issued U.S. government and corporate securities that have a remaining maturity between one and three (five) years and are rated investment grade. **Barclays U.S. 1-5 Year Credit Index** is designed to cover publicly issued U.S. corporate and specified non-U.S. debentures and secured notes with a maturity between one and five years and meet the specified liquidity and quality requirements; bonds must be SEC-registered to qualify. **Barclays U.S. 1-5 Year Municipal Index** covers the one- to five-year maturity, U.S. dollar-denominated, tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

Barclays 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. **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 Emerging Market Bond Index** is an unmanaged index that tracks total returns for external-currency-denominated debt instruments of the emerging markets. **Barclays Euro Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, euro-denominated, fixed rate bond market, including treasuries, government-related, corporate and securitized issues. **Barclays Long U.S. Government Credit Index** includes all publicly issued U.S. government and corporate securities that have a remaining maturity of 10 or more years, are rated investment grade, and have $250 million or more of outstanding face value. **Barclays Municipal Bond Index** is a market value-weighted index of investment-grade municipal bonds with maturities of one year or more. **Barclays U.S. Agency Bond Index** is a market value-weighted index of U.S. Agency government and investment-grade corporate fixed-rate debt issues. **Barclays U.S. Aggregate Bond** is a broad-based, market-value-weighted benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Barclays U.S. Corporate High Yield Bond Index** is a market value-weighted index that covers the universe of dollar-denominated, fixed-rate, non-investment grade debt. **Barclays U.S. Credit Bond Index** is a market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more. **Barclays U.S. Government Index** is a market value-weighted index of U.S. Government fixed-rate debt issues with maturities of one year or more. **Barclays U.S. MBS Index** is a market value-weighted index of fixed-rate securities that represent interests in pools of mortgage loans, including balloon mortgages, with original terms of 15 and 30 years that are issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC). **Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L)** is a market value-weighted index that measures the performance of inflation-protected securities issued by the U.S. Treasury. **Barclays U.S. Treasury Bond Index** is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more.

Bloomberg 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 Non-USD Group-of-seven (G7) Equal Weighted Index is designed to measure the unhedged performance of the government bond markets of Japan, Germany, France, Britain, Italy, and Canada. The index is equal-weighted by country. Issues included in the index have fixed-rate coupons and maturities of one year or more.

The CBOE Volatility Index® (VIX® Index) is a barometer of equity market volatility. The VIX Index is based on real-time prices of options on the S&P 500® Index (SPX) and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.

The Conference Board Leading Economic Index® (LEI) for the U.S. is a series of composite economic indexes that are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

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 100 Index is a market capitalization-weighted index of the 100 most highly capitalized blue chip companies listed on the London Stock Exchange. **FTSE National Association of Real Estate Investment Trusts (NAREIT) All REITs Index** is a market capitalization-weighted index that is designed to measure the performance of all tax-qualified REITs listed on the NYSE, the American Stock Exchange, or the NASDAQ National Market List. **FTSE NAREIT Equity REIT** Index is an unmanaged market value-weighted index based on the last closing price of the month for tax-qualified REITs listed on the New York Stock Exchange (NYSE).

The Global Financial Data (GFD) World x/USA Return Index is a multi-country composite index with constituents weighted by relative GDP and stock market capitalizations; it is designed to approximate continuous and comparable world ex-U.S. equity returns from 1919 to 1969. **GFD Emerging Markets Index** is a composite of various regional EM indices in use before 1987 using a qualitatively selected weighting of constituent countries; it is designed to approximate continuous and comparable EM equity returns from 1920 to 1987.

Market Indices (continued)

The IA SBBI U.S. Small Cap Stock Index is a custom index designed to measure the performance of small capitalization U.S. stocks. **IA SBBI U.S. Intermediate-Term Government Bond Index** is an unweighted index that measures the performance of five-year maturity U.S. Treasury bonds. Each year, a one-bond portfolio containing the shortest non-callable bond having a maturity of not less than five years is constructed. **IA SBBI U.S. Long-Term Corporate Bond Index** is a custom index designed to measure the performance of long-term U.S. corporate bonds**. IA SBBI U.S. 30-Day Treasury Bill Index** is an unweighted index that measures the performance of 30-day maturity U.S. Treasury bills.

JPM® EMBI Global Index, and its country sub-indices, total returns for the U.S. dollar-denominated debt instruments issued by Emerging Market sovereign and quasi-sovereign entities, such as Brady bonds, loans, and Eurobonds. **JPM® EMBI Global Investment Grade Index**, and its country sub-indices, tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities rated investment grade.

MSCI® All Country (AC) Europe Index is a market capitalization-weighted index that is designed to measure the equity market performance of Europe; it consists of the following developed and emerging-market country indices: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, and United Kingdom. **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets. **MSCI Europe Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of the developed markets in Europe. **MSCI North America Index** is a market capitalization-weighted index designed to measure the performance of large and mid cap segments of the U.S. and Canada markets**. MSCI Pacific ex Japan Index** is a market capitalization-weighted index that is designed to measure the equity market performance of four of the five developed market countries in the Pacific region including Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed markets. **MSCI World ex USA Index** is a market capitalization-weighted index designed to measure the equity market performance of developed markets excluding the U.S.

MSCI Emerging Markets (EM) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in emerging markets. **MSCI EM Asia Index** is a market capitalization-weighted index designed to measure equity market performance in Asia. **MSCI EM Europe, Middle East, and Africa (EMEA) Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in the emerging-market countries of Europe, the Middle East, and Africa. **MSCI EM Latin America Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in the emerging-market countries of Latin America. **MSCI EM Large Cap Index** is composed of those securities in the MSCI EM Index that are defined as large-capitalization stocks.

MSCI Europe, Australasia, Far East Index (EAFE) is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada. **MSCI EAFE Small Cap Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance of small cap stocks for global investors in developed markets, excluding the U.S. and Canada.

MSCI Canada Index is a market capitalization-weighted index designed to measure equity market performance in Canada. **MSCI China Index** is a market capitalization-weighted index designed to measure equity market performance in China. **MSCI Japan Index** is a market capitalization-weighted index designed to measure equity market performance in Japan. **MSCI USA Index** is a market capitalization-weighted index designed to measure the equity market performance of the U.S.

MSCI REIT Preferred Index is a preferred stock market capitalization-weighted total return index of certain exchange-traded perpetual preferred securities issued by U.S. Equity and U.S. Hybrid REITs.

Russell 2000® Index is a market capitalization-weighted index designed to measure the performance of the small-cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index. **Russell 3000® Index** is a market capitalization-weighted index designed to measure the performance of the 3,000 largest companies in the U.S. equity market. **Russell 3000 Growth Index** is a market capitalization-weighted index designed to measure the performance of the broad growth segment of the U.S. equity market. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. **Russell 3000 Value Index** Russell 2500 Value Index is a market capitalization-weighted index designed to measure the performance of the small to mid-cap value segment of the U.S. equity market. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth rates. **Russell Midcap® Index** is a market capitalization-weighted index designed to measure the performance of the mid-cap segment of the U.S. equity market. It contains approximately 800 of the smallest securities in the Russell 1000 Index.

The **S&P 500® Index** is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. The **S&P 500 Total Return Index** represents the price changes and reinvested dividends of the S&P 500® Index. **The S&P SmallCap 600** is a market capitalization-weighted index of 600 small-capitalization stocks. **The S&P GSCI® Commodities Index** provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

Appendix: Important Information

Market Indices (continued)

The **Sectors and industries** defined by Global Industry Classification Standards (GICS®), except where noted otherwise. **S&P 500 sectors** are defined as follows: 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 services and equipment, including seismic data collection; or the exploration, production, marketing, 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 and services and technology hardware and 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.

Standard & Poor's/Loan Syndications and Trading Association (S&P/LSTA) 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.

Other Indices

The China Home Price Diffusion Index—70 Cities is a price index for existing residential buildings in 70 cities in China.

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

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The London Bullion Market Association (LBMA) publishes the international benchmark price of gold in USD, twice daily. The **LBMA Gold price** auction takes place by ICE Benchmark Administration (IBA) at 10:30 and 15:00 with the price set in U.S. dollars per fine troy ounce.

A 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 Institute for Supply Management ® reports the U.S. manufacturing PMI ®. Markit compiles non-U.S. PMIs.

Trade-Weighted $ (Broad) Index: The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares. Countries whose currencies are included in the Broad index are the Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia. The Euro Area includes Germany, France, Italy, Netherlands, Belgium/Luxembourg, Ireland, Spain, Austria, Finland, Portugal, and Greece.

Trade-Weighted $ (Major) Index: The major currencies index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived by rescaling the currencies' respective weights in the broad index so that they sum to 1 in each sub-index. Countries whose currencies are included in the Major index are the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden. The Euro Area includes Germany, France, Italy, Netherlands, Belgium/Luxembourg, Ireland, Spain, Austria, Finland, Portugal, and Greece.

Definitions

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 Price-to-Earnings (P/E) ratio is the ratio of a company's current share price to its current earnings, typically trailing 12-months earnings per share. A Forward P/E calculation will typically use an average of analysts' published estimates of earnings for the next 12 months in the denominator.

Sharpe ratio compares portfolio returns above the risk-free rate relative to overall portfolio volatility. A higher Sharpe ratio implies better risk-adjusted returns.

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. A higher standard deviation represents greater relative risk.

Excess return: the amount by which a portfolio's performance exceeds its benchmark, net (in the case of the analysis in this article) or gross of operating expenses, in percentage points.

Appendix: Important Information

Definitions (continued)

Methodology for excess returns (Slide 37): Our analysis focused on all U.S. large-cap, foreign (international) large-cap growth/value/blend equity mutual funds tracked by Morningstar between Jan. 1, 1992, and Dec. 31, 2014, including all core, value, and growth funds within each category and including actively managed funds and passive index funds. We included funds that did not exist for the entire period (closed or merged funds) to reduce survivorship bias. For passive index funds, we eliminated funds that were labeled as "enhanced index," and funds with tracking error greater than 1% (which are unlikely to be actual passive index strategies despite their identification in the database). For international large-cap funds, we eliminated funds benchmarked to a price index, for greater comparability. We selected the oldest share class for each fund as representative; where more than one share class was oldest, we chose the class labeled as "retail." Total fund counts for international large-cap equity funds: active 397, passive 25; average fund counts for performance calculation: active 213, passive 9. Averaging excess returns: We used Morningstar data on returns from Jan. 1, 1992, through Dec. 31, 2014. We calculated each fund's excess returns on a one-year rolling basis, relative to each fund's primary prospectus benchmark and net of reported expense ratio, for each month, using monthly excess return data from Morningstar. We used an equal-weighted average to calculate overall industry one-year returns for each month. (We chose to equal weight the averages in order to represent the average performance of the range of individual funds available to investors, rather than asset weighting, which may introduce bias into the analysis.) Funds in the study included active and passive funds tracked by Morningstar and benchmarked to the following indices: Foreign (international) large-cap equity (all in USD): MSCI ACWI Ex USA; MSCI ACWI Ex USA Growth; MSCI ACWI Ex USA Value; MSCI EAFE; MSCI EAFE Growth; MSCI EAFE Value; MSCI World Ex USA; MSCI World Ex USA Growth; MSCI World Ex USA Value. Index definitions: MSCI ACWI (All Country World Index) ex USA Index is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of large and mid-cap stocks in developed and emerging markets, excluding the United States. MSCI ACWI (All Country World Index) ex USA Growth (Value) Index is a market capitalization-weighted index designed to measure the investable equity market performance of growth (value) stocks for global investors of large- and mid-cap stocks in developed and emerging markets, excluding the United States. MSCI EAFE Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada. MSCI EAFE Growth (Value) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance of growth (value) stocks for global investors in developed markets, excluding the U.S. and Canada. MSCI World ex USA Index is a market capitalization weighted index that is designed to measure the investable equity market performance for global investors of developed markets, excluding the United States. MSCI World ex USA Growth (Value) Index is a market capitalization weighted index that is designed to measure the investable equity market performance of growth (value) stocks for global investors of developed markets, excluding the United States.

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