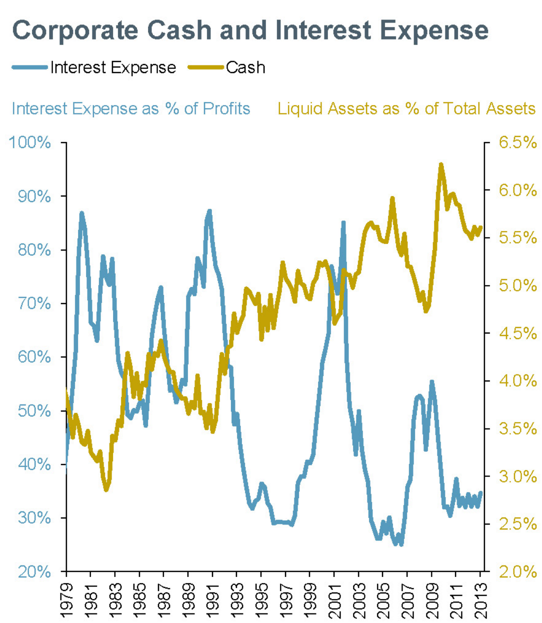
Seeking Yield in Equities

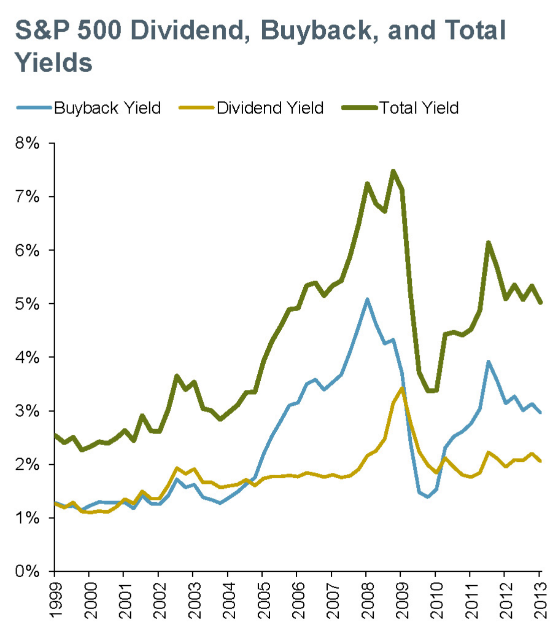
With U.S. interest rates near historically low levels, and an aging population seeking income, investors are looking for ways to boost portfolio income potential, while managing the volatility added by riskier assets.

Corporate Balance Sheets Are Healthy, Enabling a Focus on Investor Returns

- Low interest rates have benefited corporations by allowing them to de-lever and reduce interest expenses. Corporations have shored up their balance sheets and currently have one of the highest levels of liquid assets in recent history.
- U.S. corporations have been willing and able to focus on shareholders: The S&P 500 had a dividend yield of 2.1% as of March 31, 2013, and companies have bought back 3.0% of their market value during the past four quarters, bringing the total yield to 5.1% for the year.

Healthy Balance Sheets Enable Focus on Investor Returns





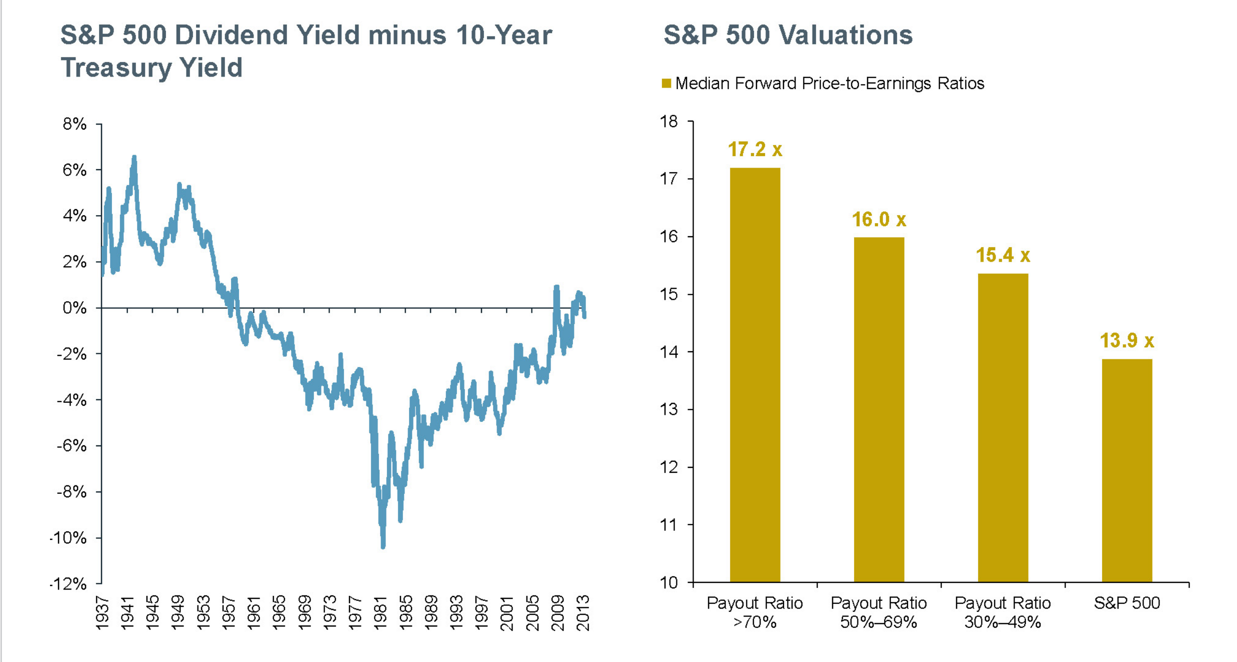
LEFT: Interest expense for all nonfinancial U.S. firms as defined by Bureau of Economic Analysis. Source: Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART) as of 3/31/13. RIGHT: Buyback and dividend yields are 12-month sums divided by S&P 500 market capitalization. Source: Standard & Poor's, Fidelity Investments (AART) through 3/31/13.

Fidelity INVESTMENTS

Opportunities for Equity Income as Market Revalues Dividends

- The current market environment of historically high equity yields relative to bond yields provides attractive opportunities for generating income from equities and other non-bond investment categories.
- Stocks with higher payout ratios have enjoyed higher valuations as the market has paid a premium for the stability of distributed earnings, indicating a potential long-term shift in investor preferences. Many stocks still have low payout ratios and may benefit from raising their dividends.

Opportunities for Equity Income as Market Revalues Dividends



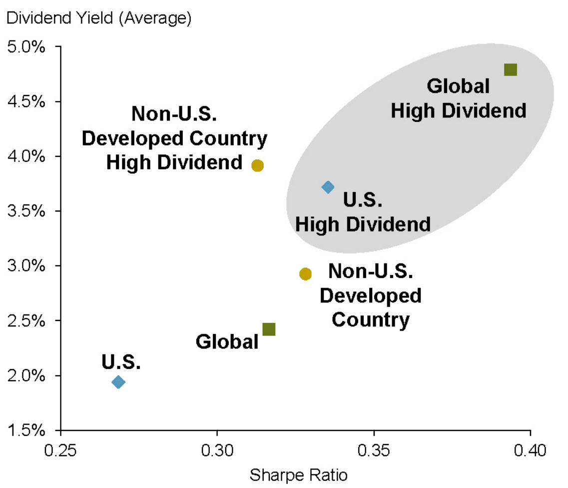
Payout ratio is the dividend paid out over the year divided by the earnings over the year (a low payout ratio indicates dividend growth potential, while a high payout ratio indicates less cash to increase dividends). Past performance and dividend rates are historical and do not guarantee future results. LEFT: Source: Standard & Poor's, Federal Reserve Board, Haver Analytics, Fidelity Investments (AART) through 6/30/13. RIGHT: Source: FactSet, Fidelity Investments (AART) as of 6/30/13.

Equity Income and Non-Bond Opportunities to Boost Yield

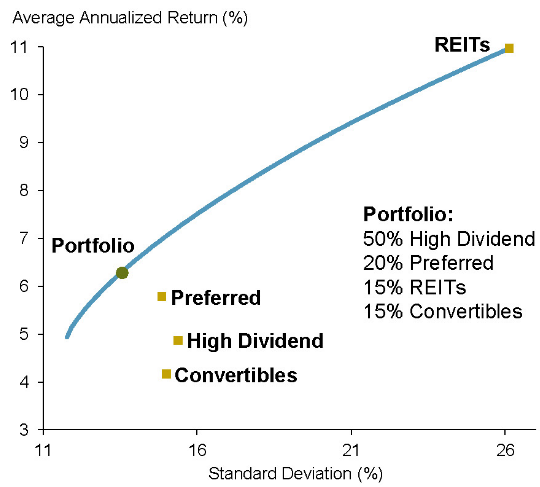
- During the past decade, high dividend-paying stocks have delivered average dividend yields and higher risk-adjusted returns than several other equity categories.
- By taking a global approach and combining various non-bond sources of income with different risk and return characteristics, portfolio yields and Sharpe ratios have been boosted even further.
- When combined, these categories may create diversification benefits by lowering the potential volatility and raising the expected risk-adjusted return profile of the entire portfolio.

Non-Bond Opportunities to Diversify Income Sources

Dividend Yield and Sharpe Ratio, 2001–2012



Efficient Frontier, 1999–2013



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 measures the degree of variation from the average (a low standard deviation means data points are close to average). 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. LEFT: High dividend stocks are subsets of their respective indices containing securities with greater than average dividend yields and reasonable dividend per share growth and dividend payouts. Index returns represented by: U.S. Stocks – MSCI USA Index; Non-U.S. Developed-Country Stocks – MSCI EAFE Index; Global Stocks – MSCI All-Country World Index. Source: Morningstar Encorr, Fidelity Investments (AART). Left chart as of 12/31/12. RIGHT: Efficient frontier represents the optimal risk-return combinations of the four assets. Index returns represented by: High dividend stocks – MSCI USA High Dividend Index; Preferred stocks – BofA ML U.S. Fixed Rate Preferred Securities Index; Real Estate Investment Trusts (REITs) – FTSE NAREIT Equity REIT Index; Convertibles – BofA ML All U.S. Convertibles Index. Portfolio allocation is 50% High Dividend Stocks, 20% Preferred Stocks, 15% Convertibles, and 15% REITs. Source: Morningstar EnCorr, Fidelity Investments (AART) as of 3/31/13.

MSCI® USA Index is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of the United States. MSCI Europe, Australasia, Far East Index (EAFE) is an unmanaged market capitalization-weighted index designed to represent the performance of developed stock markets outside the U.S. and Canada. MSCI All-Country World Index is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of developed and emerging markets. MSCI USA High Dividend Index is an unmanaged index that tracks the performance of U.S. high dividend-yield equities. Bank of America Merrill Lynch (BofA ML) U.S. Fixed Rate Preferred Securities Index is an unmanaged index that tracks the performance of fixed-rate preferred securities publicly issued in the U.S. domestic market. FTSE NAREIT Equity REIT Index is a market value-weighted index based on the last closing price of the month for tax-qualified REITs listed on the NYSE. BofA ML All U.S. Convertibles Index is an unmanaged index that tracks the performance of all U.S. convertible securities.

Portfolio Implications

- Interest rates and inflation are currently near historical lows but are unlikely to stay there indefinitely. Investors can look beyond fixed income for higher yields to help meet their income needs, while also managing overall portfolio risk.
- Dividend-paying stocks have generally offered not only higher yields but also potentially steady revenue streams to help keep volatility relatively low.
- Diversifying a portfolio by including global equity and other non-bond sources of income may help boost income potential and risk-adjusted returns.

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 seeking yield in equities, please refer to the *Quarterly Market Update*.

Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the author and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

Past performance, dividend rates, and share buybacks are historical and do not guarantee future results.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Investing involves risk, including risk of loss.

Neither asset allocation nor diversification ensures a profit or guarantees against a loss.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, industry, political, regulatory, market, or economic developments.

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

Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market or economic developments, all of which are magnified in emerging markets.

Indices are unmanaged. It is not possible to invest directly in an index.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC.

If receiving this piece through your relationship with Fidelity Financial Advisor Solutions (FFAS), this publication is provided to investment professionals, plan sponsors, institutional investors, and individual investors by Fidelity Investments Institutional Services Company, Inc.

If receiving this piece through your relationship with Fidelity Personal & Workplace Investing (PWI), Fidelity Family Office Services (FFOS), or Fidelity Institutional Wealth Services (IWS), this publication is provided through Fidelity Brokerage Services LLC, Member NYSE, SIPC.

If receiving this piece through your relationship with National Financial or Fidelity Capital Markets, this publication is **FOR INSTITUTIONAL INVESTOR USE ONLY**. Clearing and custody services are provided through National Financial Services LLC, Member NYSE, SIPC.

654530.1.0