

Multi-Asset Class Fixed Income

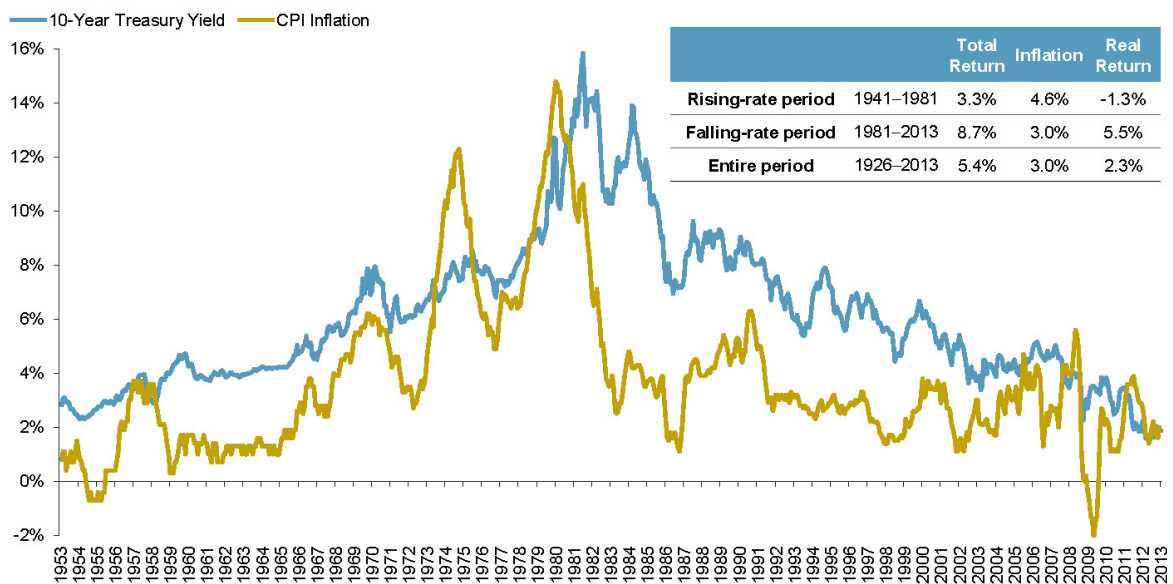
In an environment of historically low interest rates, investors are looking for ways to boost their income potential, but are reluctant to take on significant risk in their portfolios. Using a multi-asset class approach may enhance the income profile of a fixed income portfolio.

Low Interest Rate, Low Yield Environment

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

Bond Investors Face a Challenging Environment

10-Year Treasury Yield and Inflation

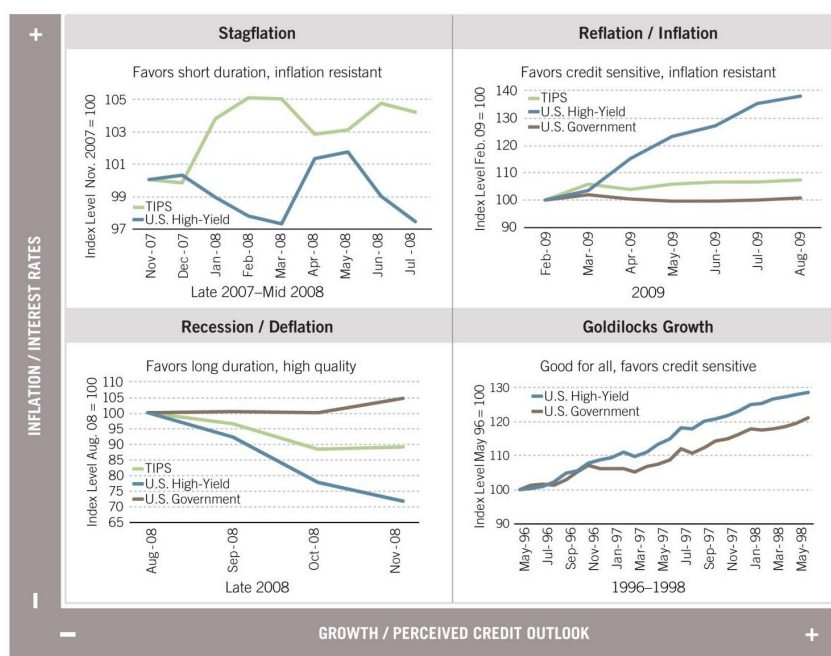


CPI = Consumer Price Index, an inflationary indicator published monthly that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. Past performance is no guarantee of future results. Total returns are average annual, represented by IA SBBI U.S. Intermediate-Term Government Bond Index, a custom index designed to measure the performance of intermediate-term U.S. government bonds. Real returns are adjusted by rates of inflation; differences are due to rounding. Source: U.S. Treasury, Federal Reserve Board, Haver Analytics, Morningstar EnCorr, Fidelity Investments (AART) as of 3/31/13. Inflation data through 2/28/13.

Uncertainty Drives Need for Multisector Bond Exposure

- During the past several years, the U.S. economy's abrupt shifts through varying macro conditions have affected the relative performance of different fixed income sectors, forcing investors to focus on the sources of bond risk—particularly inflation.
- An exposure to traditional, high-quality assets should continue to anchor a portfolio and provide some safety during periods of market turbulence, while active management of risk exposures may become even more important amid high levels of indebtedness and macroeconomic uncertainty.

Uncertainty Drives Need for Multisector Bond Exposure



Stagflation involves weak economic and income growth with relatively high inflation. Reflation/Inflation is an environment of high or accelerating inflation with at least moderate economic growth. Deflation/Recession generally involves a deceleration in inflation, while a more extreme version would be outright deflation or falling prices. Goldilocks Growth is an environment of solid economic growth with mild or decelerating inflation.

Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. U.S. Treasury Inflation-Protected Securities (TIPS) are Treasury bonds whose principal value is adjusted semiannually based on changes in the CPI. Index returns represented by: TIPS – Barclays TIPS Index; U.S. High-Yield – BofA ML High Yield Master II Index; U.S. Government – Barclays U.S. Government Bond Index.

Barclays® TIPS Index is an unmanaged market index made up of U.S. Treasury inflation-linked index securities. Bank of America Merrill Lynch (BofA ML) High Yield 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. Barclays U.S. Government Bond Index is a market value-weighted index of U.S. government fixed-rate debt issues with maturities of one year or more.

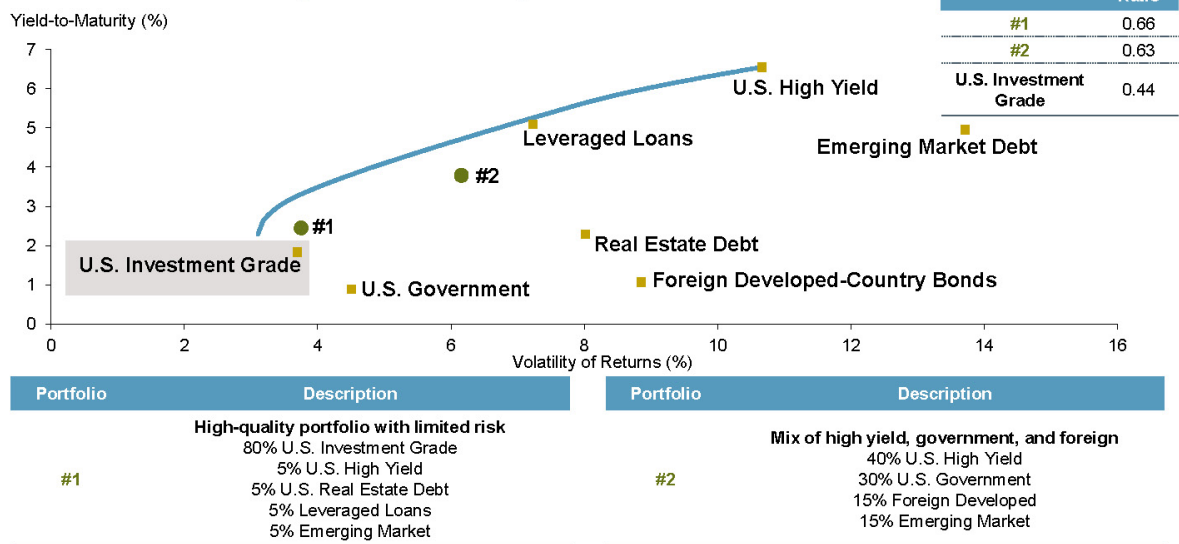
Source: Morningstar EnCorr, Fidelity Investments (AART) as of 3/31/13.

Allocating to Fixed Income: A Multisector Approach

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

Allocating to Fixed Income: A Multisector Approach

Efficient Frontier Using Yield-to-Maturity, 1998–2013



Sharpe Ratio compares portfolio returns above the risk-free rate relative to overall portfolio volatility (a higher Sharpe Ratio implies better risk-adjusted returns). Volatility represented by standard deviation, which measures the degree of variation from the average (a low standard deviation means data points are close to average). Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. You cannot invest directly in an index. Index returns represented by: U.S. Investment-Grade – Barclays U.S. Aggregate Bond Index; U.S. Government – Barclays U.S. Government Bond Index; U.S. High-Yield – BofA ML High Yield Master II Index; Real Estate Debt – 50% Barclays CMBS Index and 50% BofA ML Corporate Real Estate Index; Leveraged Loans – S&P/LSTA Performing Loan Index; Emerging Market Debt – JP Morgan (JPM) EMBIG Composite Index; Foreign Developed-Country Bonds – Citigroup G-7 non-USD Bond Index.

Barclays U.S. Aggregate Bond Index is an unmanaged, market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. Barclays CMBS Index is designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch, respectively, with maturities of at least one year. BofA ML Corporate Real Estate Index is a market capitalization-weighted index of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market by real estate issuers. S&P/LSTA 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. JP Morgan (JPM) EMBIG Composite Index tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities. Citigroup G-7 non-USD Bond Index is designed to measure the unhedged performance of the government bond markets of the Group of 7, excluding the U.S., which are Japan, Germany, France, Britain, Italy, and Canada; issues included in the index have fixed-rate coupons and maturities of one or more years.

Source: FactSet, Bloomberg, Morningstar EnCorr, Fidelity Investments (AART) as of 3/31/13.

Portfolio Implications

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

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

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

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



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Past performance is no guarantee of 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.

In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

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.

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