April 2021

Procyclical Equity Sector Model Portfolios Methodology

What is a Model Portfolio?

A model portfolio is an investment strategy that attempts to closely match the asset allocation of a selected Target Asset Mix (TAM). A TAM is one of several different asset allocations among stocks (domestic and foreign), bonds, and short-term investments. TAMs are created based on historical risk and return characteristics for stock, bond, and short-term investment asset classes. A model portfolio may attempt to match a selected TAM in a way that emphasizes a unique investment goal (e.g. generating income, reducing volatility, etc.). The investments included in a model portfolio often consist of mutual funds, or in the case of variable annuities "subaccounts", selected by an investment adviser. Model portfolios are intended to be used as examples investors can consider when attempting to choose investments that will align with a selected TAM. While a model portfolio is intended to be consistent with the asset allocation of a selected TAM, it may not match that TAM exactly. Model portfolios are not designed to maximize returns or predict the highest-performing fund or group of funds.

Keep in mind that as with all investments, there is risk that a model portfolio may not achieve its stated objective.

Overview

The Fidelity Personal Retirement Annuity ("FPRA") Procyclical Equity Sector Model Portfolios ("the Model Portfolios") are intended to serve as examples of how, based on an identified TAM, assets could be allocated by FPRA contract owners who are seeking to gain exposure to procyclical sectors, or sectors that have historically performed well during periods of strengthening corporate profits. For purposes of our analysis, a period of strengthening corporate profits is defined as a year in which, based on publicly available data, US corporate profits 1) grew from the previous year, and 2) this year-over-year profit growth exceeded the year-over-year profit growth (if any) experienced in the previous year.

The equity market is composed of the stock of thousands of companies. To analyze and better understand market dynamics, the financial services industry often group companies based on their types of business. These groups are typically called sectors. Investing in sectors can provide investors with targeted investment exposure. The most common classification – the Global Industry Classification Standard (GICS®) – breaks the equity universe into 11 different sectors. Some sectors have low correlations to each other, and in many cases very low correlations to each other. Correlation is a statistical measure of the degree to which two securities or basket of securities move in relation to each other. Low correlation means various sectors offer differentiated exposure to the market.

Differentiation in this context refers to varied risk and return profiles as well as economic sensitivities. This differentiation means that over time certain sectors have significantly different risk profiles and, when studied historically, different sensitivities to varying economic environments. For example, interest rate sensitive sectors — such as consumer discretionary and financials — historically have performed well during times of increased borrowing.

A sector fund is designed to track the companies in a given sector. By investing a portion of a broadly diversified portfolio's equity allocation in a combination of sector funds, each focusing on a different procyclical sector, one can achieve a portfolio that may have a stronger correlation to the business cycle than simply investing in one procyclical sector or the broader stock market (which would exhibit exposure across all sectors). For the right client, leveraging traditionally procyclical sectors within the stock portion of a portfolio may offer an opportunity to increase a portfolio's exposure to those sectors that have historically had strong relative performance compared to the broader US equity market during a period of strengthening corporate profits. Individuals investing in these sectors should be aware and comfortable with the risk that they may underperform the broader market during periods of declining corporate profits. It's also important to keep in mind that, because of their narrow focus, some sectors can be more volatile than diversified equity funds and that a sector fund may not accurately track its given sector.

Note that FPRA is a low-cost tax deferred variable annuity, and that the Model Portfolios were created specifically with tax deferral and low-cost in mind; implementing a similar strategy in a higher cost annuity or in a taxable account may not be appropriate. For additional FPRA product information (e.g., fees, subaccounts), please review the FPRA product prospectus.

About the Model Portfolios' Developers

Fidelity Management & Research Company LLC, the investment adviser for Fidelity's family of mutual funds, is responsible for the development of the portfolios. Fidelity Management & Research Company LLC created the Model Portfolios based on a subset of the Target Asset Mixes (TAMs) developed by Strategic Advisers, Inc. ("SAI"). SAI is a registered investment adviser that provides a range of asset allocation offerings to help its clients' meet their investment objectives. These include managed accounts, wealth management, trust services, and financial planning tools. Fidelity Management & Research Company LLC and SAI are Fidelity Investments companies.

These Model Portfolios were developed for FPRA, which is issued by Fidelity Investments Life Insurance Company and in New York, only by Empire Fidelity Investments Life Insurance Company. Fidelity Brokerage Services and Fidelity Insurance Agency, Inc. are the distributors.

What are the Procyclical Equity Sector Model Portfolios?

The Model Portfolios represent four distinct procyclical model portfolios comprised of funds available in Fidelity Personal Retirement Annuity as of the date of this document. Each Model Portfolio consists of the same six funds (four sector funds, a stock index fund, and a bond fund), which are weighted differently for each Model Portfolio according to the TAM the Model Portfolio is attempting to match. The Model Portfolios were created with the primary goal of offering exposure to procyclical sectors within the stock portion of each Model Portfolio's TAM.

The Model Portfolios are intended to be used with FPRA's annual automatic rebalance feature to help address portfolio drift. If you choose to implement a Model Portfolio, it is your responsibility to elect this feature, and when doing so to choose the fund allocations that align with the selected Model Portfolio.

What Are the Asset Mixes of the Portfolios?

In order to help control the risk one assumes, it is critical that your portfolio provides an appropriate mix of investments.

A more aggressive portfolio (one with a higher stock allocation) generally represents higher risk, especially in the short term, but higher potential long-term returns. Conversely, a less aggressive portfolio (with a lower allocation to stock and higher bond allocation) generally represents less short-term risk, but potentially lower long-term returns. When evaluating the appropriateness of different asset mixes, you should take into consideration your investment horizon, financial situation, risk tolerance and any other factors you consider important. While past performance does not guarantee future results, history has shown that diversifying your assets among different asset classes can potentially improve the long-term performance of your portfolio. However, it is important to remember that certain asset types involve greater risk than others. Diversifying your investments across asset classes, industry sectors, and international funds helps minimize your overall exposure to sudden market swings that may cause sudden changes in the price of investments. However, it does not ensure a profit or guarantee against loss.

A TAM is one of several different asset allocations among stocks (domestic and foreign), bonds, and short-term investments. TAMs are created based on historical risk and estimates of long-term asset class returns. The TAMs developed by SAI represent nine significantly different allocations that are intended for different investor profiles with different investment objectives, risk tolerances, and time horizons. Each TAM defines a target level of long-term risk. Four of the nine TAMs developed by SAI are shown in the table below.

Asset Class Target Asset Mix (TAM)	**Domestic Stock**	**Foreign Stock**	**Bonds**	**Short Term**
Balanced	35%	15%	40%	10%
Growth	49%	21%	25%	5%
Aggressive Growth	60%	25%	15%	0%
Most Aggressive	70%	30%	0%	0%

In developing the Model Portfolios, Fidelity Management & Research Company LLC established a set of model benchmark weights (hereafter referred to as “Asset Mixes”) designed to reflect the risk/return characteristics of a corresponding TAM. The four Asset Mixes for the Procyclical Equity Sector Model Portfolios are defined below.

Asset Mixes	**Stock**	**Bonds**
Balanced	50%	50%
Growth	70%	30%
Aggressive Growth	85%	15%
Most Aggressive	100%	0%

How the Model Portfolio Is Generated

The Model Portfolio construction process is composed of a series of three well-defined steps, based in part on each TAM:

Step 1: Fidelity Management & Research Company LLC identified the years since 1962 that the US market was experiencing strengthening corporate profits, based on publicly available data from the National Income and Product Accounts (NIPA) from the Bureau of Economic Analysis (BEA). The specific data point used is the corporate profits after tax with inventory valuation adjustment and capital consumption adjustment. Fidelity Management & Research Company LLC analyzes the relative returns of the US sectors in years of strengthening corporate profits, or more specifically in years that corporate profits 1) grew from the previous year, and 2) this year-over-year profit growth exceeded the year-over-year profit growth (if any) experienced in the previous year. The table below provides an example of how Fidelity Management & Research Company LLC defined a procyclical environment:

Year	Corporate Profit growth from previous year	Rising Corporate Profits (Y/N)
2000	-9.69%	N – profits contracted
2001	6.71%	Y – profits grew and increased
2002	29.8%	Y – profits grew and increased
2003	13.67%	N – profits grew, but did not increase

Step 2: For each procyclical period, Fidelity Management & Research Company LLC calculated the odds of a sector outperforming the S&P 500® Index (“S&P 500”) (odds of outperformance) and the relative outperformance of each sector versus the S&P 500 (severity of outperformance). Sectors were then ranked based on a composite score using a 50% weight to their odds of outperformance and a 50% weight to their severity of outperformance.

Step 3: Fidelity Management & Research Company LLC chose the 4 sectors, which are not already in the defensive sector model portfolios, with the highest composite score and equally weights them. In the case of a composite score tie, the tie-breaker would go to the sector with the higher odds of outperformance.

Resulting Portfolio:

Optimization and Model Portfolio Construction

1. Equally weight the four sectors with the highest composite scores.
2. Modify resulting portfolio weights so that sector funds do not individually exceed 10% of the portfolio or when combined, equal more than 30% of the total allocation (whole percentages are used to make portfolios easier to implement). For example, instead of allocating approximately 21% to each of the four sector funds within the Aggressive Growth portfolio, 7% is allocated to each fund (30% Max Sector fund weight/ 4 sector funds = 7.25%).
3. Combine sector weights with investment in Fidelity VIP Index 500 fund to scale stock exposure up to meet Asset Mix weights. For example, 57% is allocated to the Fidelity VIP Index 500 Fund in the Aggressive Growth Portfolio so that the total allocation to stock equals 85% (28% + 57%)[1].
4. Use balance of portfolio to satisfy bonds allocation needs prescribed by appropriate asset mix. For example, in the Aggressive Growth Asset Mix listed below, a 15% weighting to bonds. Using the Fidelity VIP Investment Grade Bond fund provides exposure to high quality fixed income securities, adding proper diversification to the portfolio.

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[1] Note that each Model Portfolio's combined allocation to the four sector funds is intended to be as equally weighted as possible to the Model Portfolio's Fidelity VIP Index 500 fund allocation. Therefore, the Balanced Model Portfolio is allocated 24% to Fidelity VIP sector funds and 26% to Fidelity VIP Index 500 fund, as opposed to 28% to Fidelity VIP sector funds and 22% to Fidelity VIP Index 500 fund, which the methodology would otherwise allow.

The Asset Mixes and Fund Allocations for the Procyclical Equity Sector Model Portfolios are defined below:

Asset Mixes	**Stock**	**Bonds**
Balanced	50%	50%
Growth	70%	30%
Aggressive Growth	85%	15%
Most Aggressive	100%	0%

Source: Fidelity Management & Research Company LLC

Fund Allocations	**Fidelity Sector VIP Funds**	**Fidelity VIP Index 500**	**Fidelity VIP Investment Grade Bond**
Balanced	24%	26%	50%
Growth	28%	42%	30%
Aggressive Growth	28%	57%	15%
Most Aggressive	28%	72%	0%

Source: Fidelity Management & Research Company LLC

Sector Fund Allocations	**Fidelity VIP Consumer Discretionary**	**Fidelity VIP Financial Services**	**Fidelity VIP Materials**	**Fidelity VIP Real Estate**
Balanced	6%	6%	6%	6%
Growth	7%	7%	7%	7%
Aggressive Growth	7%	7%	7%	7%
Most Aggressive	7%	7%	7%	7%

Source: Fidelity Management & Research Company LLC

The model portfolio construction process uses an optimization approach to select and weight a set of candidate investment options whose overall risk characteristics, when viewed as a portfolio, are similar to those of the TAM.

Limitations and Risks

When evaluating if specific funds and allocation weights in a Model Portfolio may be appropriate for your FPRA contract, be sure to consider other assets, income and investments (e.g., savings accounts or other retirement accounts). You should also consider other funds, including non-Fidelity funds, which are available within FPRA.

Investing in a variable annuity involves risk of loss — investment returns and contract value are not guaranteed and will fluctuate.

As you consider whether these Model Portfolios are appropriate for your situation, keep in mind that stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. A sector fund may have additional volatility because it can invest a significant portion of assets in securities of a small number of individual issuers. Each sector fund is also subject to the additional risks associated with its particular industry.

Past performance does not guarantee future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. We cannot guarantee that the Model Portfolios will meet any of your goals.

Updates to the Model Portfolios

The Model Portfolios displayed are current as of the date of this document. Fidelity Management & Research Company LLC periodically reviews the allocations, and it is possible it may make changes to the allocations in the future. It is your responsibility to return periodically to see if Fidelity Management & Research Company LLC has changed the allocations of the Model Portfolio you have selected, and if there are changes, to rebalance your portfolio and, if selected, update your FPRA automatic rebalance elections accordingly. Fidelity will not proactively contact you if a Model Portfolio changes nor will it update your FPRA automatic rebalance elections to align with any changes to a Model Portfolio.

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IMPORTANT ADDITIONAL INFORMATION

Before investing, consider the investment objectives, risks, charges, and expenses of the variable annuity and its investment options. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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