

Multi-Asset Class Fixed Income

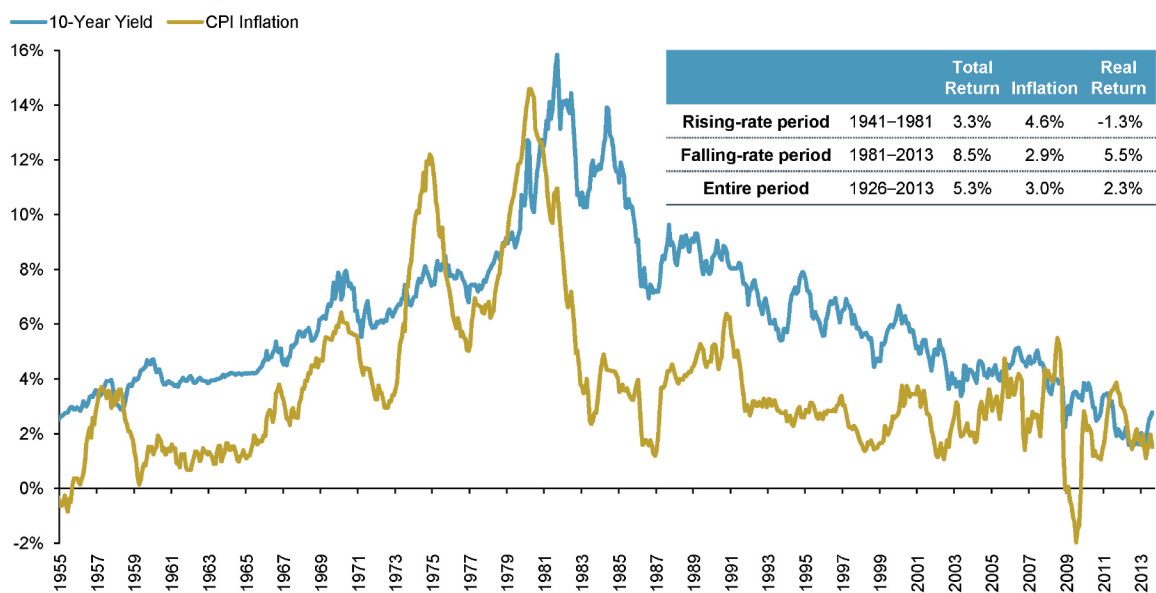
In an environment of historically low interest rates, investors are looking for ways to boost their income potential, but are reluctant to take on significant risk in their portfolios. Using a multi-asset class approach can enhance the income profile of a fixed income portfolio.

Low Interest Rate, Low Yield Environment

- With interest rates on the safest credit categories of the bond universe so low, investors are challenged to find sources of income without taking on some degree of additional risk.
- 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 accelerate, investors would be further challenged; high-quality bonds have delivered poor inflation-adjusted returns during past periods of rising rates and inflation.

Bond Investors Face a Challenging Environment

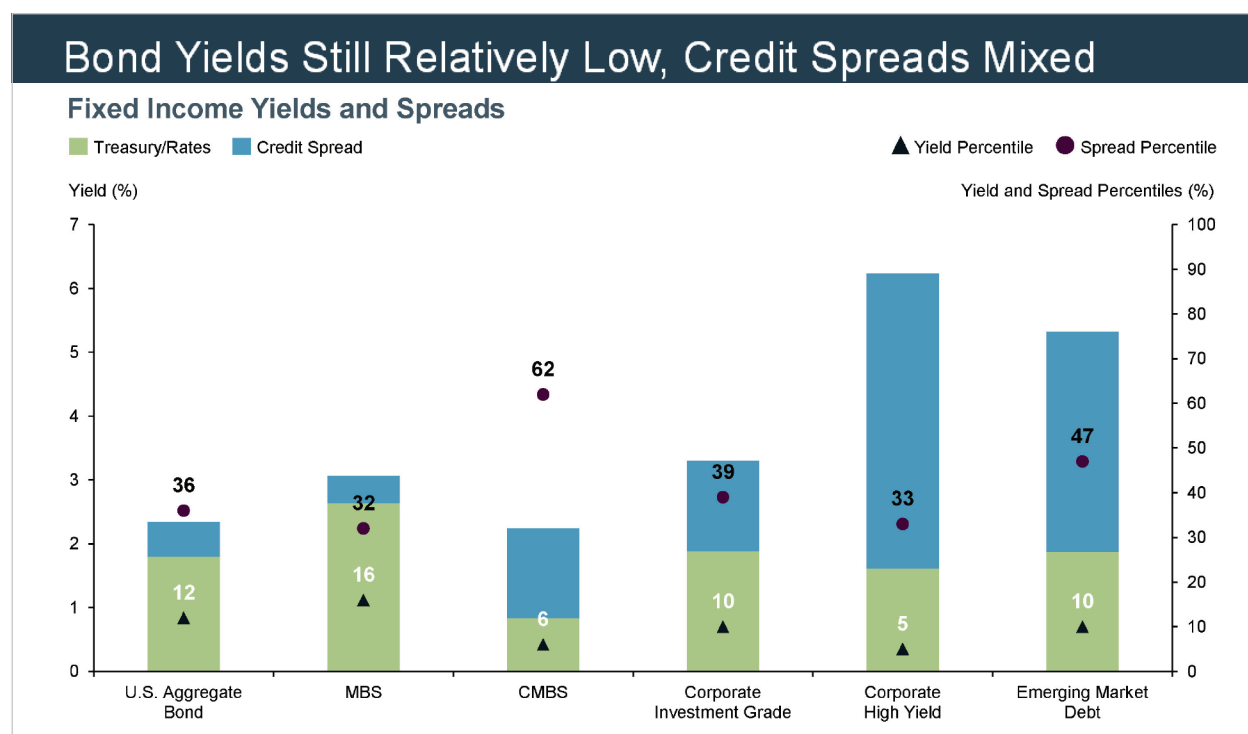
10-Year Treasury Yield and Inflation



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 Aug. 31, 2013. Inflation data through Aug. 31, 2013.

Bond Yields Still Relatively Low, Credit Spreads Mixed

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

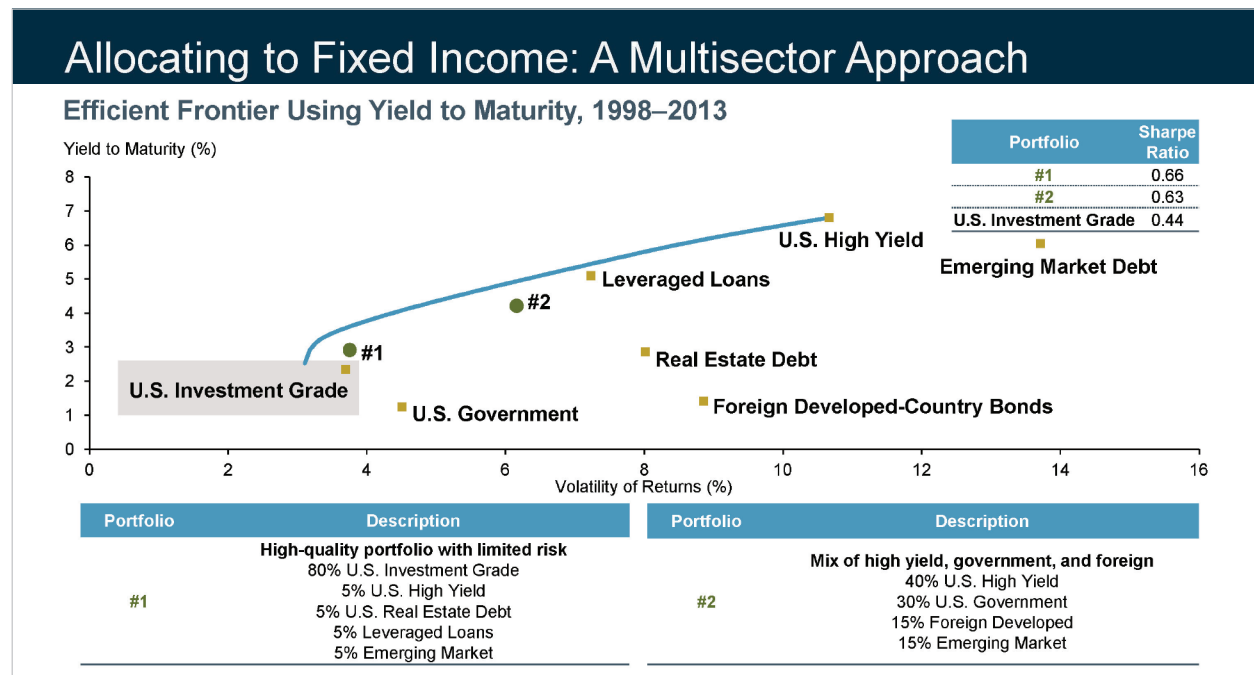


Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Percentile ranks of yields and spreads based on historical period from 2000 to 2013. MBS = Mortgage-Backed Securities; CMBS = Commercial Mortgage-Backed Securities. All categories represented by respective Barclays bond indices. Source: Barclays as of Sep. 30, 2013.

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 U.S. Credit Bond Index is designed to cover publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements; bonds must be SEC-registered to qualify. Barclays CMBS Index is designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch, respectively, with maturities of at least one year. Barclays MBS Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Barclays U.S. Corporate High Yield Bond Index is a market value-weighted index which covers the U.S. non-investment grade fixed-rate debt market. Barclays Emerging Market Bond Index is an unmanaged index that tracks total returns for external-currency-denominated debt instruments of the emerging markets.

Allocating to Fixed Income: A Multisector Approach

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



Sharpe ratio compares portfolio returns above the risk-free rate relative to overall portfolio volatility (a higher Sharpe ratio implies better risk-adjusted returns). Volatility represented by standard deviation, which measures the degree of variation from the average (a low standard deviation means data points are close to average). Yield to maturity is the rate of return anticipated on a bond if it is held until the maturity date. The efficient frontier is at the core of the modern portfolio theory. It represents those portfolios with the highest expected return given a level of risk. Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. All indices are unmanaged. 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 Index; U.S. High Yield – BofA ML High Yield 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. Source: FactSet, Bloomberg, Morningstar EnCorr, Fidelity Investments (AART) as of Sep. 30, 2013.

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Portfolio Implications

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

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

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

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



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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.

Investments in mortgage securities are subject to the risk that principal will be repaid prior to maturity. As a result, when interest rates decline, gains may be reduced, and when interest rates rise, losses may be greater.

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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