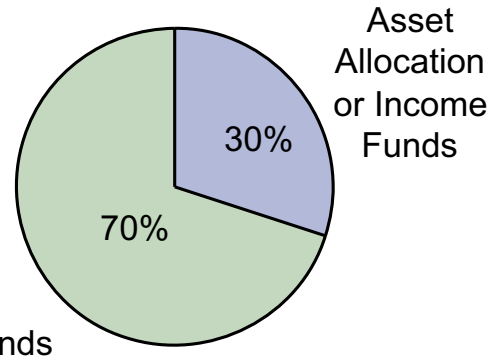


Aggressive Income Portfolio

Number of funds held: 3-6
Relative Volatility: 0.2 to 0.6



The Aggressive Income Portfolio seeks a high level of current income by investing mainly in bond funds. Typically it will hold 3-6 funds, representing over 1000 unique bond positions. Foreign bond exposure will usually range between 0-20%. Bond funds and asset allocation funds from Fidelity’s retail lineup are normally used, but we may opt to hold non-Fidelity funds if a particular category is not well-served under the Fidelity umbrella. The portfolio aims for a low level of risk while keeping ahead of inflation over the long run.

The Aggressive Income Portfolio normally blends domestic bond funds and asset allocation funds, but may substitute high-yield bond funds, real estate income funds, real return funds, emerging market bond funds, convertible funds, dividend stock funds, or other types of income-generating funds in place of the asset allocation portion. The portfolio does not usually invest in municipal bond funds.

To manage bond market risk, we consider the market’s sensitivity to both credit risk and interest-rate risk, while attempting to overweight funds that minimize overall volatility. For example, if we perceive deflation to be the main economic risk, we may overweight our position in government bond funds. If rising interest rates are the primary risk factor, we may emphasize short-term bond funds and high-yield bond funds.

The Aggressive Income Portfolio normally holds actively managed funds, but may invest in bond index funds during periods of high uncertainty, or if we believe market conditions make it difficult for active bond managers to outperform their indexes. Non-traditional bond funds that focus on specific categories – such as floating rate notes, or inflation-hedged bond funds – may be held if we believe their potential performance rivals that of bond traditional funds. We’ll include such funds only if we can do so without significantly increasing overall risk.

During bearish bond market conditions, the portfolio may place some or all of its holdings in money market funds. We may also choose to hold money market positions in the event that bond yields are not high enough to sufficiently compensate investors for their added risk.

Stock funds are not normally included in this portfolio. However, under certain market conditions it may be advantageous to blend investment-grade bond funds with funds that focus on dividend stocks, preferred stocks, convertibles, or equity REITs. We would not expect such holdings to exceed 30% of the portfolio.

Some bond funds that invest in high-yield or emerging market debt may include defaulted securities, foreign bonds with significant political risk, and stocks of debt-heavy companies. Such securities will not usually account for more than 20% of overall portfolio holdings. ■

