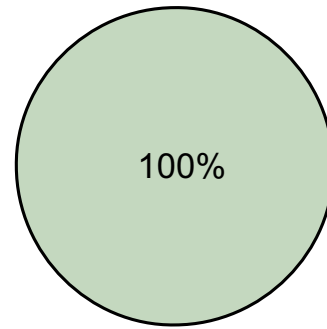


Income Portfolio

Number of funds held: 3-6
Relative Volatility: 0.0 to 0.4



Income Funds

The Income Portfolio seeks a high level of current income by investing in bond funds. Typically it will hold 3-6 funds, representing over 1000 unique bond positions. Foreign bond exposure will usually range between 0-15%. Bond funds from Fidelity’s retail lineup are normally used, but we may opt to hold non-Fidelity income funds if a particular category is not well-served under the Fidelity umbrella. The portfolio aims for a low level of risk while keeping up with inflation over the long run.

The Income Portfolio normally blends government bond funds, investment grade bond funds, high income funds, and short-term funds, striving for a degree of balance through diversification of credit risk and interest-rate sensitivity. We try to realize some capital appreciation, but the primary focus is to generate income. 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 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 income funds that focus on specific categories – such as real estate income, floating rate notes, or inflation-hedged bond funds – may be held if we believe their potential performance rivals that of traditional bond funds. We 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 excluded from this portfolio to limit overall risk. However, some income funds and conservative asset allocation funds include a small amount of equity exposure to help reduce their overall volatility. As a result, the Income Portfolio may carry a small amount of stock exposure. The overall stock weighting is not expected to exceed 10%.

Some bond funds that invest in high-yield or emerging market debt may include defaulted securities or bonds with significant political risk. Such securities will usually account for only a small portion of holdings. ■

