

Lessons In Lifecycle Investing Target Date Funds

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September 2010

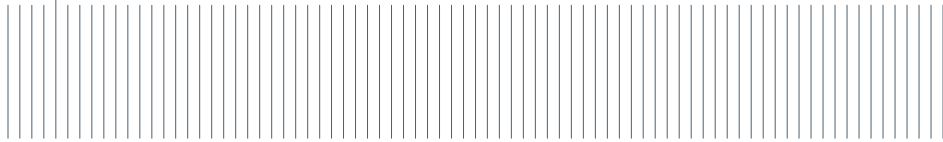


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See "Important information" for a discussion of performance data, some of the principal risks involved in the investment strategies referred to in this presentation and other information related to this presentation.

The Target Date Industry



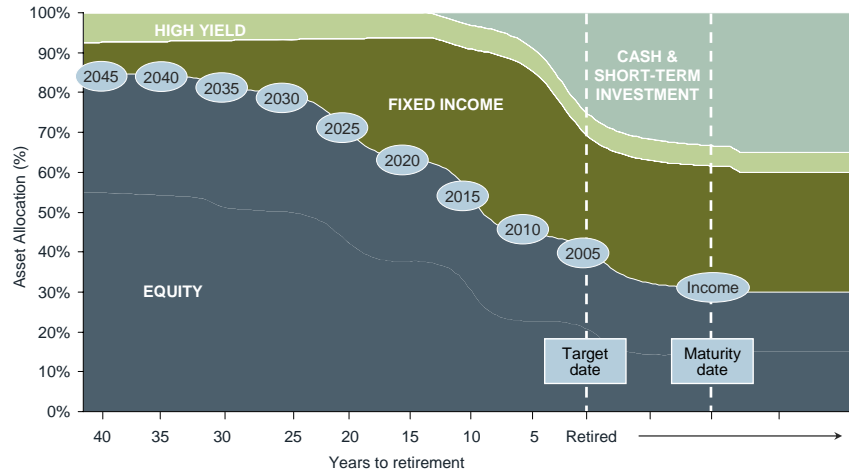
Target Date Funds

DEFINITION:

A single portfolio designed to provide an investment solution where the asset mix becomes more conservative as the target date (usually retirement) approaches

- Evolution
- Active/passive
- Proprietary/custom

Example: How Target Date Funds Work



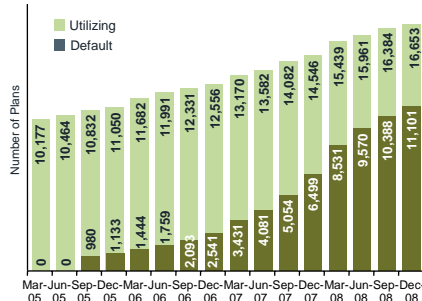
For illustrative purposes only. Above graph illustrates the approximate allocations for the Fidelity ClearPath™ mutual fund and institutional strategies. The actual allocations will vary from this approximate illustration. Source: Fidelity Investments.

Reasons Behind The Growth In The U.S.

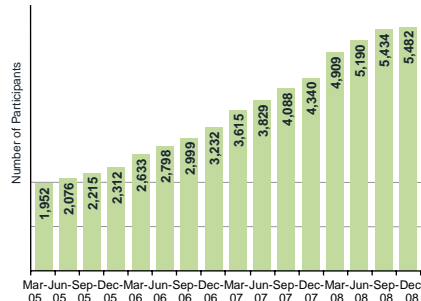
- The 2001 bear market
- Defined benefit plans moving to defined contribution plans
- The failure of the “do-it-yourself ” model:
 - Member inertia
 - Too many investment options
 - Buying and selling at the wrong time
- The Pension Protection Act

US DC Plans Are Using Target-Date As The Default Option

Number Of Plans Utilizing A Lifecycle Option



Number Of Participants Utilizing A Lifecycle Option (000's)



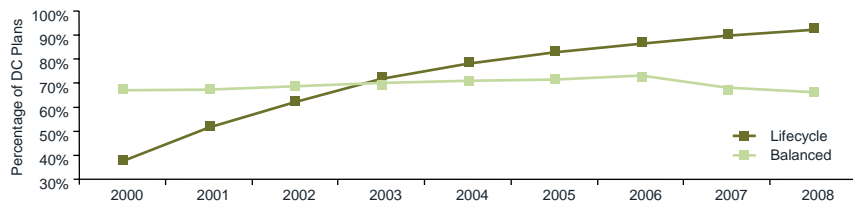
- Fidelity is recordkeeper for over 18,000 plans in the US
- Over 90% of plans have target-date funds
- 67% of plans using target-date have made it their default option

Source: Fidelity, PWI DC Active Plans as of 12/31/2008.

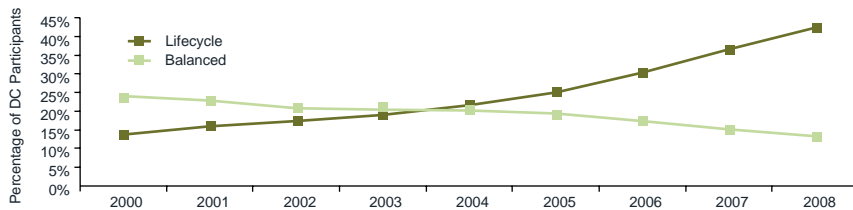
Target Date Vs. Balanced Funds In The U.S.:

Balanced On Secular Decline, While Target-Date Growing

PCT DC Plans Utilizing Lifecycle, Or Balanced Options



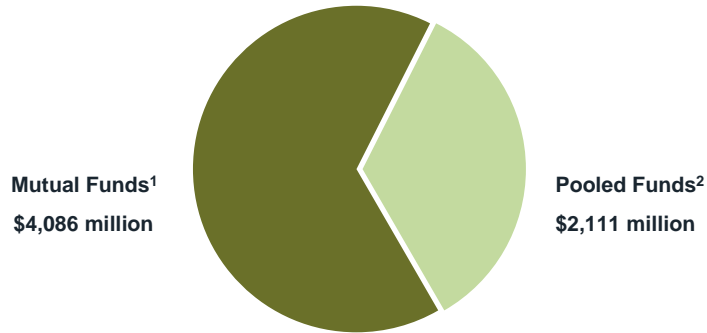
PCT OF DC Participants Holding Lifecycle, And Balanced Options In Plans That Utilize



Source: Fidelity.

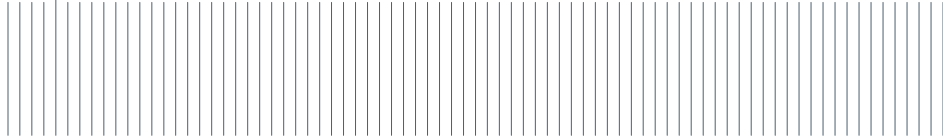
Canadian Target Date Market Over \$6 Billion

Canadian Target Date Assets



Source: Morningstar. Assets in Canadian dollars. As of March 31, 2010.
¹ Represents the combined assets within Morningstar Paltrak and the following categories: Target Date 2010 Portfolio, Target Date 2015 Portfolio, Target Date 2020 Portfolio, and Target Date 2020+ Portfolio. ² Represents the combined assets within Morningstar Principia and the following categories: Target Date 2010 Portfolio, Target Date 2015 Portfolio, Target Date 2020 Portfolio, and Target Date 2020+ Portfolio.

Evaluating Target Date Funds



Multifaceted Responsibilities Of Your Target Date Manager



Evaluation:

Beyond Performance

- **Challenges**
 - Lack of a single target date benchmark
 - Short track records The Pension Protection Act
- **Also need to evaluate**
 - Firm stability
 - Portfolio management team
 - Glidepath
 - Portfolio construction

Firm Stability

- Target date investing requires a very long commitment (2045 and beyond)
- Two Canadian managers announced recent target date closures
- Signs of stability to look for:
 - Significant amount of target date AUM
 - Large portfolio management team dedicated to target date
 - Robust target date fund lineup

Portfolio Management Team

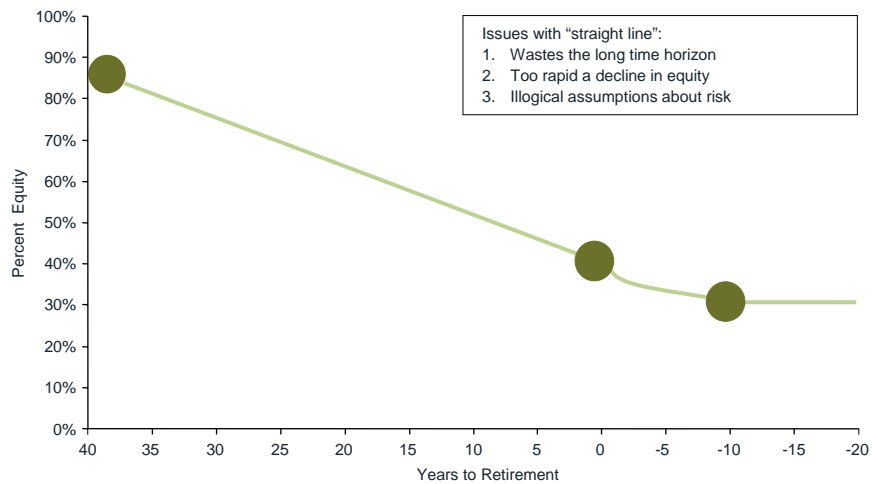
- Target date investing requires more than just investment skills and experience
- Look for a portfolio management team that:
 - Has managed target date funds through multiple bull and bear markets
 - Understands the issues facing today's retirees
 - Analyzes real participant data and behaviour
 - Employs a team with a diverse set of skills: actuarial, economic/market forecasting, manager selection, alternative investing, etc

Glidepath

Multiple Methods Of Reducing Equity Over Time Exist, Each With Their Own Pros And Cons:

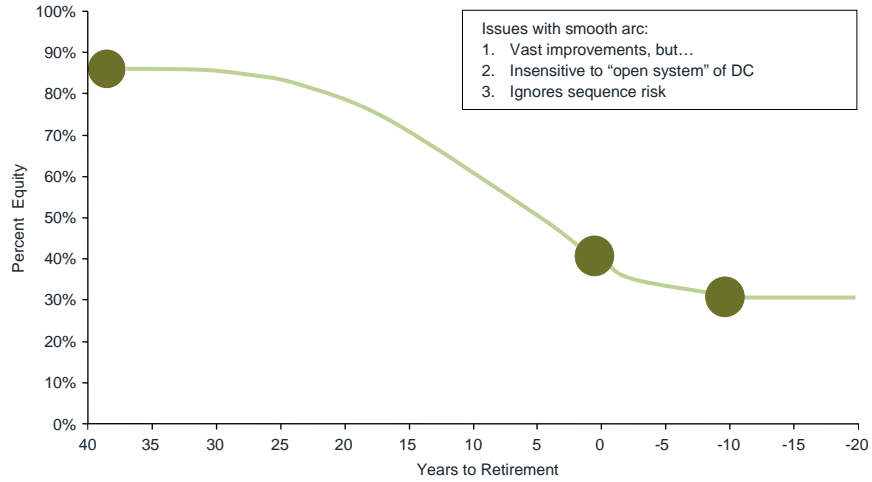
- A. Linear
- B. Smooth arc
- C. Non-linear

A. Linear Or Straight Line



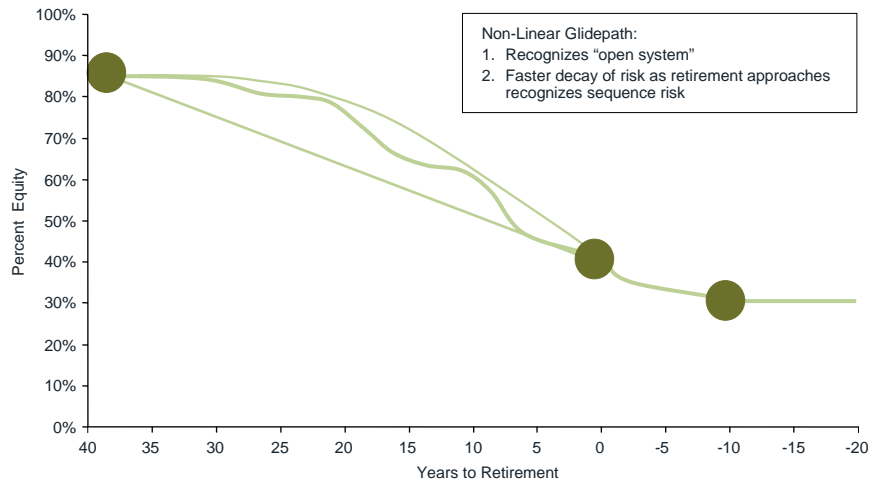
For illustrative purposes only. This illustration is not a Glidepath for any product, in particular, just a representation of a theoretical one.

B. Smooth Arc



For illustrative purposes only. This illustration is not a Glidepath for any product, in particular, just a representation of a theoretical one.

C. Non-Linear Glidepath

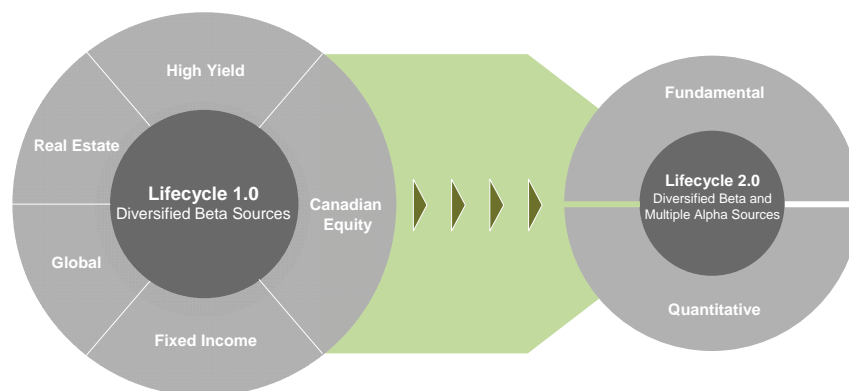


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Portfolio Construction

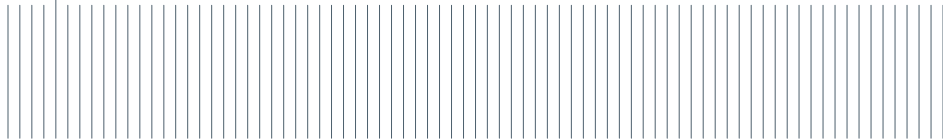
- Quality portfolio construction goes beyond simply including flagship funds
- Well constructed portfolios should have:
 - Multiple managers with multiple sources of excess return
 - Consistent risk and return
 - Excess return and tracking error targets
 - Access to extended asset classes (i.e. high yield bonds, real estate)

The Evolution Of Institutional Lifecycle Portfolio Management



For illustrative purposes only.

Active or Passive?



Active Or Passive?

- **Key question**
 - Participant funding status
- **Other considerations**
 - Fiduciary consistency
 - Efficiency of markets
 - Availability
 - Pricing

Active/Passive:

The Impact Of Even Small Active Returns Are Profound

	Passive	Active
Starting age & retirement age	22 to 62	Same
Salary information	\$30,000, increasing 3% annually	Same
Contributions	5% of salary	Same
Company match	100% match, up to 5% of salary	Same
Historical index returns®	Canadian Equity: 9.2% Global Equity: 6.9% Canadian Bonds: 9.9% Cash (90 day T-bill): 6.1%	Same
Glidepath	Most common in the industry today	Same
Fees*	20 bps	35 bps
Assumed active return	0 bps	100 bps for pre-retirement funds, declining to 40 bps post retirement
Simulations	Stochastic modeling: 10,000	Same
Expected account balance at retirement	\$1,420,880	\$1,593,765

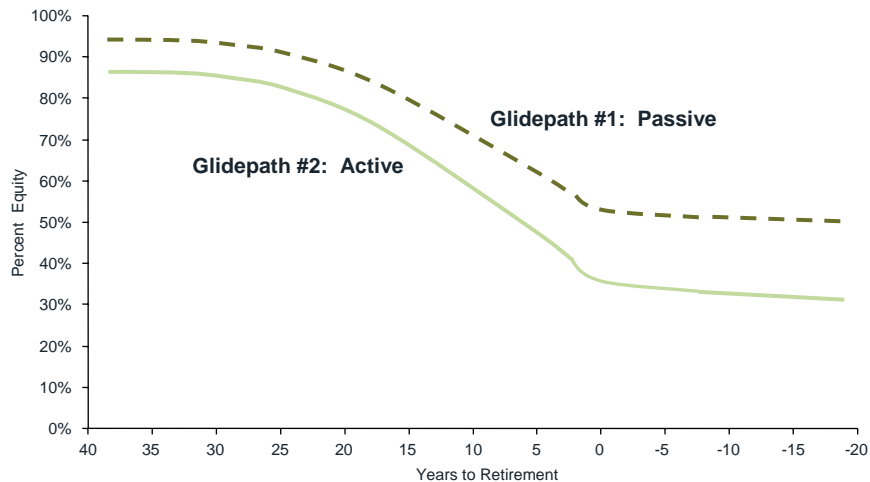
+\$172,886

For illustrative purposes only. Hypothetical example.
*Source: Canadian Equity: S&P TSX Composite (Feb 1956 - Mar 2010); Canadian Bonds: DEX Universe (Feb 1980 - Mar 2010); Canadian 90-Day T-Bills: DEX 90 Day T-Bill (Feb 1953 - Mar 2010); International Equity: 50% MSCI EAFE CAD Hedged/50% S&P 500 CAD Hedged (Feb 1986 - Mar 2010)

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Don't Assume Passive Is Less Risky



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A Backtest:

How Lifecycle May Have Performed In The Depression

Date	S&P 500%	Bond Returns%	Cash Returns%	Lifecycle Hypothetical Growth of \$100 Including 4% Annual Withdrawals (Gross)*
Dec-1929	-8.4	3.4	4.7	100.0
Dec-1930	-24.9	4.7	2.4	93.8 year 1
Dec-1931	-43.3	-5.3	1.1	80.6 year 2
Dec-1932	-8.2	16.8	1.0	58.9 year 3
Dec-1933	54.0	-0.1	0.3	56.4 year 4
Dec-1934	-1.4	10.0	0.2	65.4 year 5
Dec-1935	47.7	5.0	0.2	63.3 year 6
Dec-1936	33.9	7.5	0.2	71.9 year 7
Dec-1937	-35.0	0.2	0.3	78.2 year 8
Dec-1938	31.1	5.5	0.0	65.6 year 9
Dec-1939	-0.4	5.9	0.0	68.6 year 10
Dec-1940	-9.8	6.1	0.0	65.9 year 11
Dec-1941	-11.6	0.9	0.1	61.7 year 12
Dec-1942	20.3	3.2	0.3	56.4 year 13
Dec-1943	25.9	2.1	0.3	55.4 year 14
				54.7 year 15

Methodology: For annual returns, we assumed benchmark returns of the Standard & Poor's 500 Composite Index, Barclays Capital Long-Term Government Bond Index, And the U.S. 3-Month Treasury Bills as those indices were comprised from each of those respective time periods. All Index return data is from Ibbotson Associates. Pyramis 2008 lifecycle rolldown allocations at the point of retirement date were utilized. International and High yield asset classes were grouped into S&P and Bond returns. Rolldown weights were reset annually to align with the new year's glidepath weight. Growth of \$100 assumes a lump sum investment of \$100 at the beginning of 1929, and including 4% annual withdrawals (4% of the year 1 balance). Hypothetical back-tested data has inherent limitations due to the retroactive application of a model designed with the benefit of hindsight and may not reflect the effect that any material market or economic factors may have had on Pyramis' use of the model during the periods shown. Thus, Lifecycle hypothetical performance is speculative and of extremely limited use to any investor and should not be relied upon in any way. Hypothetical performance is no guarantee of future results.

*Gross withdrawal amounts and Hypothetical Growth of \$100 do not reflect the deduction of fees and expenses which when deducted will reduce these amounts

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A Backtest:

How Lifecycle May Have Performed In The 1970's And 1980's

Date	Cash%	S&P 500%	US Lt Bonds%	Lifecycle Hypo with 4% Inflation Adjusted Withdrawal (Gross)*		
				Growth of \$100,000 Account balanced*	Inflation	Dollar Payments
Dec-1973	6.9	-14.7	-1.1	88,937	8.8	4,352
Dec-1974	8.0	-26.5	4.4	75,045	12.2	4,883
Dec-1975	5.8	37.2	9.2	80,598	7.0	5,225
Dec-1976	5.1	23.8	16.8	90,277	4.8	5,477
Dec-1977	5.1	-7.2	-0.7	81,611	6.8	5,848
Dec-1978	7.2	6.6	-1.2	81,642	9.0	6,375
Dec-1979	10.4	18.4	-1.2	82,183	13.3	7,224
Dec-1980	11.2	32.4	-3.9	86,472	12.4	8,119
Dec-1981	14.7	-4.9	1.9	76,466	8.9	8,845
Dec-1982	10.5	21.4	40.4	74,233	3.9	9,188
Dec-1983	8.8	22.5	0.7	71,482	3.8	9,537
Dec-1984	9.8	6.3	15.5	65,344	4.0	9,914
Dec-1985	7.7	32.2	31.0	59,558	3.8	10,287
Dec-1986	6.2	18.5	24.5	52,386	1.1	10,404
Dec-1987	5.5	5.2	-2.7	42,665	4.4	10,862

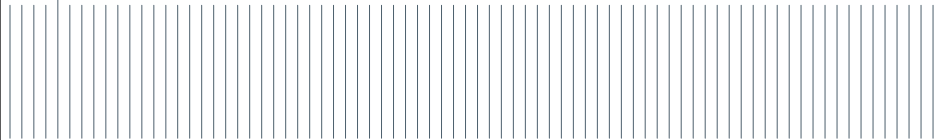
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Appendix



Important notice

For registered investment professional use only.

Read a fund's prospectus before investing.

Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated.

Investors will pay management fees and expenses, may pay commissions or trailing commissions, and may experience a gain or loss.

Effective November 6, 2006 Fidelity introduced a 5% T-SWP and created Series T5 (DSC, LL, LL2) and S5 (ISC).

The Series name for 8% T-SWP changed to T8 (DSC, LL, LL2) and S8 (ISC). The monthly cash flow distributions on Fidelity T-SWP™ are not guaranteed, will be adjusted from time to time, and may include income. We will aim to keep cash flow between 7.5% and 9.0% of the NAV each year on T-SWP balanced funds on T8 and S8 as well as 4.5% and 5.5% of the NAV on T5 and S5 balanced funds. For equity funds, we will aim to keep cash flow between 6.0% to 10.0% of the NAV each year on T8 and S8, and between 4.0% to 6.0% of the NAV each year on T5 and S5.

A return of capital reduces an investor's adjusted cost base. Capital gains taxes are deferred until units/shares are sold or until the ACB goes below zero. Investors should not confuse this cash flow distribution with a fund's rate of return or yield. While investors in Series T8/S8 and/or T5/S5 will be able to defer some personal capital gains, they must still pay tax on capital gains distributions that arise from the sale of individual holdings by fund managers, and on interest and dividend distributions. T-SWP will also pay a distribution that must be reinvested in December, consisting of income and capital gains. Before January 10, 2005, we offered Series A and Series T initial sales charge (ISC) units and deferred sales charge (DSC) units. Starting January 10, 2005, we stopped offering Series A and T in ISC units and we introduced Series B and S, which are only offered in ISC units. The Series B and S management fees are 0.25% lower than Series A and T for fixed-income funds (excluding Fidelity American High Yield Fund) and 0.15% lower for all other funds.

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Biographies

Peter T. Walsh
Institutional Portfolio Manager

Peter Walsh is an Institutional Portfolio Manager within the Investment Strategy and Asset Allocation group at Pyramis Global Advisors, a unit of Fidelity Investments. In this role he is involved in the asset allocation, investment design, and portfolio management of multi-strategy platforms, including the Pyramis Lifecycle Commingled Pools.

Prior to joining Pyramis, he served as an Investment Consultant with Fidelity Investments servicing large plan clients and prospects with fund analysis and plan design.

Prior to joining Fidelity, Peter held Treasury/Investment positions at EG&G, (now PerkinElmer), a Fortune 500 company.

Peter earned an undergraduate degree from Northeastern University and a Master degree in Business Administration from Suffolk University. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 7, 24 and 63 licenses.

Thank You!

