

Pyramis Global Advisors®

Helping Pension Sponsors Quantify and Manage Pension Risk

We combine our broad investment resources and our proprietary approach to pension risk to allow plan sponsors to focus on their core business.

Markets Move Faster Than Pension Committees Can

Plan sponsors are experiencing the elevated speed at which markets can move from top to bottom. With the countless factors that regularly influence the markets, corporations that are not in the capital markets daily face the challenge of trying to effectively manage both their business as well as their pension plan.

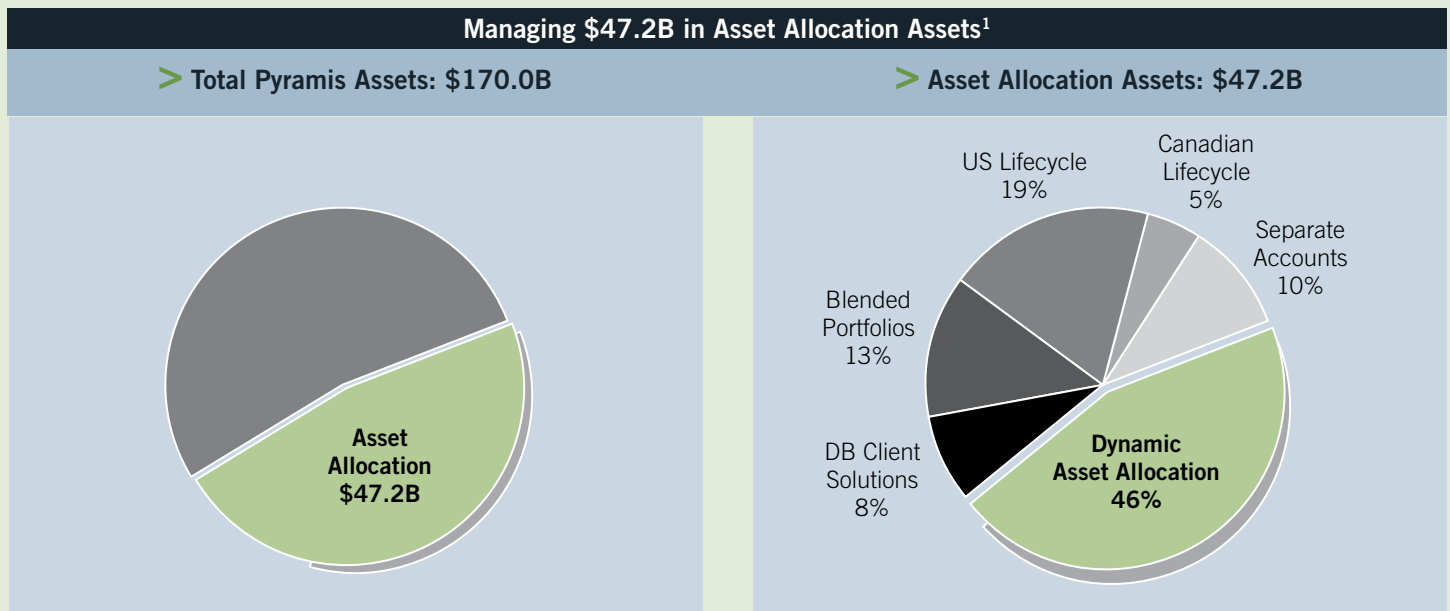
There is a growing recognition that market speed is faster than committee speed. Clients are looking for more than

just portfolio reviews at quarterly meetings; firms are asking their investment managers to partner with their organization in order to meet their pension obligations. Working with an asset manager that focuses on pension risk, who is in the market on a daily basis, will allow companies to focus more time on their core business.

Pyramis Global Advisors

Created with the sole intention of managing institutional assets, Pyramis Global Advisors, Fidelity's institutional

asset management arm, concentrates all of its resources on the investment needs of its institutional clients. Pyramis Global Advisors and Fidelity Investments have a long history of working with plan sponsors and helping investors understand risk in defined benefit and defined contribution plans. Pyramis leverages 30 years of experience, a fully integrated investment research, portfolio management, and equity trading platform, and the global resources of Fidelity to aid its defined benefit clients.



¹ Due to rounding, total may not add up to 100% of total assets.
Source for asset data: Pyramis Global Advisors as of 12/31/2010.

Pyramis' Global Investment Strategies Group

With over \$37.3B in asset allocation assets under management or advisement, the Global Investment Strategies Group's (GISG) primary focus is to understand the level of risk in a pension plan and provide the sponsor with asset allocation solutions to help mitigate that risk. Pension risk is a product of the investment strategy chosen by the sponsor and the structure of the benefits awarded under the plan. The oft stated business maxim, "you can't manage what you don't measure" drives GISG to assist plan sponsors to quantify their pension risk, and develop investment strategies consistent with their risk tolerance.

Plan sponsors have varying long and short term objectives for their pension plan. The intention of some sponsors may be to take risk off the table, add lesser correlated asset classes and strategies, or pursue other strategies (e.g. full funding, plan freeze, etc.).

GISG helps firms understand the range of options they have in reaching their plan objectives. Comprised of 9 investment professionals, with over 150 years of combined industry experience, GISG currently provides asset allocation services to more than 50 institutional clients.

By providing measures and analysis to quantify the risk of the plan in the organizational context, GISG works with

the sponsor to design solutions that may help mitigate the risk of funded status erosion. GISG then manages assets within mutually agreed upon tolerance bands which enables them to allocate among asset classes, based upon market factors (e.g. relative value, volatility, etc.).

What is pension risk? How we believe plan fiduciaries should think about pension risk:

Quite simply, we define pension risk as the **potential erosion of funded status**. Achieving an overall portfolio return that keeps pace with the plan's changing liability is critical. From the fiduciary's perspective, we believe losing funded status weakens benefit security. Under

Sample client objectives.

> Fully fund the plan in 5 to 7 years

> Reduce effort required by client staff to oversee investments of a frozen plan

> Establish a single point of contact by hiring a service provider to oversee plan investments according to client directives

> Hire a manager who understands pensions as well as they understand capital markets

> Hire a manager who can be more nimble in the market than their pension committee

Five factors plan fiduciaries may consider in gauging pension risk.

> **Relative Size of the Plan vs. the Overall Company:** A select set of sponsor-related ratios help identify potential risks of the plan and their dimensions. How would an equity analyst evaluate the pension deficit or the potential deficit?

> **Financial Strength of the Sponsoring Organization:** Will a severe loss of funded status have a detrimental affect on the sponsor's ability to fully fund the plan? How would a rating agency credit analyst view additional deficit?

> **Plan Structure:** A traditional annuity-type plan has very different risk characteristics from those of a cash balance plan and should influence a pension committee's approach to investment strategy.

> **Time Horizon:** Has a timeframe to meet plan objectives been established and what impact may they have on strategies? Shorter horizons are likely to increase sensitivity to risk.

> **Funded Status:** Many pension committees have indicated that they intend to reduce risk as their plan's funded status improves.¹

¹Source: Pyramis Pulse Poll November 2009.

current pension regulations, erosion of funded status can severely limit a plan sponsor's degree of freedom in setting investment policy. Deteriorating funded status increases future funding requirements, drives up pension expense, and likely forces a realignment of cash priorities throughout the organization.

By providing measures and analysis to quantify the risk of the plan in the overall organizational context, the GISG team works with the sponsor to design solutions that potentially may reduce the level of uncertainty associated with the assets and liabilities. Regardless of whether it is a frozen plan where the sponsor is looking to reduce risk over time or an active plan with a long time

horizon, there are risk mitigation factors that may prove more effective as sponsors strive to manage the volatility of their pension liability.

The Pyramis Approach to Asset Allocation

By helping the plan sponsor understand the impact of asset allocation policy on the benefit security of plan participants, a target asset allocation can be crafted to pursue these goals. We combine deep investment resources and years of experience analyzing and understanding pension risk to assist plan sponsors and allow them to focus on their core business.

We categorize pension investments into 2 broad categories.

1. **Liability Hedging**
Investments that behave similar to a plan's liability and serve to reduce the interest rate risk inherent in most plans (e.g. Investment Grade Fixed Income).
2. **Return Seeking**
All asset classes and strategies that do not fit the liability-hedging category, by definition are then labeled "return-seeking." They include:
 - **Equities**
Core to the pension portfolio, these tend to be longer term holdings that can be subject to re-weighting as opportunities emerge
 - **Opportunistic**
Non-core investments that serve to provide diversification and may have attractive return potential at different stages of the capital markets cycle (e.g. High Yield, REITS)
 - **Alternatives**
Strategies with return characteristics that have low correlation with traditional markets (e.g. Market Neutral investments)

> We combine our deep investment resources and years of experience analyzing and understanding pension risk to assist plan sponsors and allow them to focus on their core business.

Five representative DB accounts.

Tech Services	Casualty Insurer	Manufacturer	Industrial	Casualty Insurer
Assets: \$200M¹ Frozen Plan <ul style="list-style-type: none"> • Underfunded • Reducing risk over time US Equity <ul style="list-style-type: none"> • Large Cap • SMidCap International Equity <ul style="list-style-type: none"> • Large Cap • Small Cap • Emerging Markets • Canadian Opportunistic <ul style="list-style-type: none"> • REITs • Emerging Market Debt • High Yield Bonds Investment Grade Fixed Income <ul style="list-style-type: none"> • Long Bonds • Long Corporate 	Assets: \$500M¹ Frozen Plan <ul style="list-style-type: none"> • Underfunded • Reducing risk over time • Get to 20/80 over 3 years US Equity <ul style="list-style-type: none"> • Large Cap • SMidCap International Equity <ul style="list-style-type: none"> • Large Cap • Small Cap • Emerging Markets Investment Grade Fixed Income <ul style="list-style-type: none"> • Long Bonds • Long Corporate • Broad Market Duration 	Assets: \$100M¹ Frozen Plan <ul style="list-style-type: none"> • Underfunded • Reducing risk over time US Equity <ul style="list-style-type: none"> • Large Cap • SMidCap International Equity <ul style="list-style-type: none"> • Large Cap • Small Cap • Emerging Markets Alternatives <ul style="list-style-type: none"> • Equity Market Neutral • Emerging Markets Debt Investment Grade Fixed Income <ul style="list-style-type: none"> • Long Bonds • Long Corporate 	Assets: \$175M¹ Frozen Plan <ul style="list-style-type: none"> • Underfunded • Maintain risk level US Equity <ul style="list-style-type: none"> • Large Cap • SMidCap International Equity <ul style="list-style-type: none"> • Large Cap Alternatives <ul style="list-style-type: none"> • REITs Investment Grade Fixed Income <ul style="list-style-type: none"> • Long Bonds • Market Bonds • Intermediate Bonds 	Assets: \$290M¹ Active Plan <ul style="list-style-type: none"> • Underfunded • Maintaining risk level US Equity <ul style="list-style-type: none"> • Large Cap • SMidCap International Equity <ul style="list-style-type: none"> • Large Cap Alternatives <ul style="list-style-type: none"> • High Yield Bonds Investment Grade Fixed Income <ul style="list-style-type: none"> • Long Bonds • Long Corporate • Broad Market Duration

¹ Amounts are rounded and are as of 12/31/2010.

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This document contains "forward-looking statements," which are based on certain assumptions about future events. Actual events may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual conditions will not be materially different or worse than those presented.

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