



September 23, 2015

TO: ALL OFFERS

FROM: MICHAEL G. GREEN
FINANCIAL INVESTMENT PROGRAM MANAGER

SUBJECT: ADDENDUM TO INVITATION TO BID – CONTRACT NO. OEO16002-DEF_COMP
REQUEST FOR PROPOSAL FOR DEFERRED COMPENSATION
RECORDKEEPING SERVICES ISSUED BY THE STATE OF DELAWARE
OFFICE OF THE STATE TREASURER

ADDENDUM #1

This addendum is issued to provide answers to questions received from vendors. All other terms and conditions remain the same.

If you have any questions, please contact:

Michael Green
Office of the State Treasurer
820 Silver Lake Blvd., Suite 100, Dover, DE 19904
Mike.Green@state.de.us
302.672.6704

STATE OF DELAWARE
RESPONSES TO VENDOR QUESTIONS

1. **Are there grandfathered life insurance policies in the 457 plan? If so, please confirm the number of participants who have the policies, and if there are contributions being made to the policies. Please also advise which insurance company currently maintains the life insurance policies.**

ANSWER: There are no grandfathered life insurance policies in the 457(b) plan.

2. **Are deemed IRAs a part of the 457 plan? If so, please identify the number of participants with deemed IRAs.**

ANSWER: Deemed IRAs are not a part of the Plan.

3. **Can you please confirm that there is a limit on the number of unforeseeable emergency withdrawals that are permitted per participant under the current plan?**

ANSWER: There is no limit but more than one is an exception to the norm.

4. **How many public school district active and in-active employees have 403b and 457 account(s)?**

ANSWER: This information is not readily available. Bidders should assume that there are individuals who contribute to both plans and that this will continue post implementation.

5. **Can you provide the participation and average deferral rate for each of the 20 public school districts?**

ANSWER: This information is not readily available.

6. **What is the current administrative set up internally today at State of Delaware to manage current program. (i.e. number of employees, roles and responsibilities)**

ANSWER: The administrative team consists of a Deferred Comp Program manager, a specialist, and an administrative support person; all under guidance of the Director of Finance and Investments.

7. **How many individual one-on-one counseling sessions are performed currently across all plans and employees?**

ANSWER: The number and frequency of the individual counseling sessions vary by vendor. As part of its proposals, bidders should consider all the details in the RFP and develop a service model that will achieve the goals and objectives of the DCC and the OST to improve the retirement readiness of State employees.

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8. What is the average attendance for group seminars/meetings performed?

ANSWER: The attendance at group seminars/meetings varies by vendor and is dependent upon the schedules of the different working groups within the organization. As part of its proposals, bidders should consider all the details in the RFP and develop a service model that will achieve the goals and objectives of the DCC and the OST to improve the retirement readiness of State employees.

9. Can you provide current CSR staffing commitment in terms of number of representatives serving the Plan(s), both on-site and administratively?

ANSWER: The number of field representatives varies by vendor. As noted above, the OST and the DCC are looking for each bidder to assess the current Plan demographics and determine a service model that best supports the Organization's goals and objectives with respect to retirement readiness.

10. Scenario 1 – exclusive provider for all plans including the 403(b) plan. Please confirm that for this scenario, all contributions from all plan participants will be stopped to all current/existing providers and that participants will need to contribute to the new approved vendor only. Also, that the group controlled assets/participants will be moved to the new approved provider. If the above description is not the case, please identify how future employee contributions will be directed. This information is critical to develop accurate plan assumptions and pricing.

ANSWER: In this scenario all new contributions would be directed to the new vendor(s), but it would be up to the selected vendor(s) to develop campaigns to attract legacy assets. As part of the process, the DCC intends to determine whether to move existing assets in the group contracts to the new providers.

11. To significantly simplify plan administration going forward, is the OST contemplating only allowing loans and hardship withdrawals from the approved exclusive provider?

ANSWER: The plan documents allow for a variety of distributions, rollovers, and transfers. Per the document, the plans do not offer loans. Hardship and unforeseen emergency distributions are permitted. OST intends to allow hardships and unforeseen emergency distributions from the exclusive provider or providers as well as from legacy vendors assuming those vendors enter into information sharing agreements. It is expected that one of the selected vendor(s) will be selected to provide an aggregation service to determine available balances for withdrawal.

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RESPONSES TO VENDOR QUESTIONS**

12. Scenario 2 – “...as one of no more than three vendors offered under the 403(b) plan...” Concerning the multiple provider 403(b) scenario, if there is more than one 403(b) approved provider as a result of the RFP process:

a) Will all new participants be required to select one of the approved vendors?

ANSWER: The requirement to re-enroll at one of the approved vendors has not yet been determined.

b) Will all existing plan participants be required to select or move to one of the approved providers, or will existing plan participants be allowed to continue to contribute to their existing 403(b) product/contract?

ANSWER: Participants will only be able to contribute to the new vendor (s). All existing contracts will be frozen to new contributions.

c) Will the assets/participants in group/sponsor controlled contracts be moved to the approved providers? If so, how will it be determined which provider will receive the “group” assets?

ANSWER: As part of the process to select a new recordkeeper(s), the DCC intends to determine whether to move existing assets in the group contracts to the new providers.

13. Please confirm what types of licenses and certifications the OST is requiring as proof at the time of RFP submission?

ANSWER: State of Delaware Business License and Certificate of Good Standing in state of incorporation.

14. Please provide asset breakdown by fund and asset class for each plan?

ANSWER: The OST is only able to provide the information that was previously listed in the RFP.

15. Please provide plan details on the total number of unique participants with an account balance between the plans as well as those actively contributing or terminated for each plan?

ANSWER: Please see the available details for each plan in Appendix B, D, and D of the RFP. Data on terminated participants is unavailable.

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16. Can you provide a breakdown of the number of unforeseeable emergencies, QDROs, and distribution checks processed in 2014 for each plan?

ANSWER: The 2014 breakdown of the aforementioned items is as follows:

2014 Data for:	457b	401a	403b
Unforeseeable emergencies/ Hardships	143	0	50
QDROs	10	1	2
Distributions Checks	2251	804	440

17. Please provide the number of education representatives that are utilized today for each plan?

ANSWER: Please see the answer to number 9 above.

18. Can you please provide details about your stable value product (general account, separate account, pooled fund, etc.) and product information?

ANSWER: Please see the attached fund fact sheet for the Managed Income Portfolio.

19. What is the current fixed account rate?

ANSWER: The current crediting rate net of fees is 1.25%.

20. Are there any contract restrictions if Arlington County were to terminate their current contracts?

ANSWER: It does not apply.

21. Is there any contingent deferred sales charge (CDSC)? If so what percentage and dollar amount (or schedule)?

ANSWER: This information is not available.

22. Are there any restrictions on the transition of the Stable Value/Fixed Account assets:

- a) CDSC - % and or \$
- b) Spread payout option – termination payments over a period of time (example, 5 payments over 5 years).
- c) Market Value Adjustment contractual formula or market value payout? If so, what is the current market value adjustment % and/or \$?
- d) 12-month Put or other delay of distribution of book value of participant assets?

ANSWERS (a-d): This information is not available.

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23. **The OST requires that the provider has “The ability to accommodate multiple payroll remittance sources with differing payroll processing schedules (e.g., weekly and semi-monthly).” Please confirm that there are three payroll files transmitted for the 457 and that the 403(b) has one payroll file transmitted.**

ANSWER: Confirmed.

24. **It is the expectation of OST that the successful bidder(s) must be able to accommodate file formats being used today to submit payroll files to Fidelity (the 457(b)) plan, and to VALIC’s Retirement Manager (the 403(b) plan) as opposed to OST designing new formats to submit files that conform with the successful bidder’s specifications?**

ANSWER: The selected vendor(s) will be expected to work with the State’s technology group (“DTI”) and the payroll department to review existing file transfer protocol and ascertain if a more efficient process can be implemented in this transition.

25. **Page 2, Section II, last paragraph: Are the two State quasi-agencies that participate in the 457(b) plan administered by the same plan document as the State’s 457 plan, or does each have its own plan document?**

ANSWER: Both quasi agencies are administered under the same plan document.

26. **Page 3, Section III: Currently under the 403(b) plan, does the State utilize the services of a vendor or vendors to provide common remitter and compliance services? If yes, which firm provides these services?**

ANSWER: The State uses a common remitter service called Retirement Manager provided by VALIC.

27. **Page 38, Participant Education section, #13: Will the State allow the vendor to use the State’s seal or logo as part of the branding strategy?**

ANSWER: This will be considered as part of the pre and post transition/implementation communications and education strategies.

28. **Page 54, Section 1 Administration & Recordkeeping: How do OST and the Consultant envision converting the 403(b) plan from 13 active vendors to 3 vendors? Would each participant have to elect and enroll with one of the three new vendors or would some form of mapping strategy to determine vendor and future investment allocation.**

ANSWER: Please see the answer to question number 12 above.

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29. **Page 60, Appendix B and Page 72, Source Code Key: Can the State please explain what the “Recapture Option” is.**

ANSWER: The “Recapture Option” is administered the same as the 3-year catch-up provision allowed under IRS code section 457(b).

30. **Page 121, Appendix I, section 2.4: Will the invoicing process described in section 2.4 of the State’s Agreement apply to this arrangement or will any such fees be deducted from participant accounts?**

ANSWER: The payment of plan services either through revenue sharing or directly billed to participants will be determined as part of the RFP selection process.

31. **General question: Does the State offer Advice and Managed Account services today?**

ANSWER: No.

32. **Who is the current service provider and how many participants are currently enrolled in managed accounts and what are the total assets under management?**

ANSWER: Please see the information referenced in the RFP document for information related to participant demographics as well as fund and service usage.

33. **Page 2, Section: II Background “Total Assets”. Are there any transfer restrictions and/or charges (deferred sales charges, market value adjustments) that will apply upon termination of the current providers’ contracts in addition to those already disclosed in Appendix C? If so, please describe.**

ANSWER: Please see the RFP for any plan related specifics. Any Contingent Deferred Sales Charges, liquidation penalties or redemption fees vary by vendor. As part of the delivery of services, the selected vendor(s) will be asked to highlight the new investment and service structure to participants and to explain the impact of such charges to the participant’s account. The selected vendor MUST act in the best interest of the participant when assisting through this decision making process.

- a) **Please explain the last statement under Scenario 2. Specifically, is it the intent if the Plan decides to award under Scenario 2 that all providers will have the same investment line up?**

ANSWER: Yes

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- b) Will the Plan select one stable value fund, or will each of the selected providers have their own fund?**

ANSWER: The selection of the investment line up, including the fixed or stable value fund will be made following the selection of the recordkeeper. As part of the RFP, vendors may propose a fixed investment that will be reviewed and evaluated separately by the DCC and its investment consultant, Cammack Retirement Group.

- 34. Appendix 1 Page 120 (Professional Service Agreement for Deferred Compensation): The agreement in Appendix 1 references only 457(b). Please clarify whether the 403(b) agreement terms and conditions would be the same as the agreement provided.**

ANSWER: Yes, it is anticipated that the 403(b) would have a similar services agreement. However, if more than one vendor is selected, modifications to the agreement may include the incorporation of an aggregator service and definitions regarding compliance coordination functions.

- 35. How many loans are outstanding at each of the vendors?**

ANSWER: Please see the answer to question 11 above. However, due to vendor oversight, there are approximately 20 loans that have been issued post 2009.

- 36. Can VALIC, as Retirement Manager of all participants, or State of Delaware provide data on those participants with a balance at the legacy vendors as part of the conversion?**

ANSWER: This information is not readily available. It is the OST's position that vendors selected or de-selected will cooperate in the implementation of the new service model, and include information needed to ensure a smooth plan transition.

- 37. Can you please provide the Delaware Department of Technology and Information security requirements? Link is as follows:**

ANSWER: General information regarding security requirements can be found here <http://dti.delaware.gov/information/standards-policies.shtml>. DTI will work with the selected vendor(s) to provide specifics requirements before the transition period.

- 38. Who is aggregating the annual audit information currently?**

ANSWER: Baker Tilly Virchow Krause, LLP performs compilation of Management's Financial Statements and Belfint Lyons Shuman is the independent auditor.

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39. Can detail be provided on the DB provider and number of plans that may be considered for interface with participant DC statements?

ANSWER: This information is not available. Additional information about the State's defined benefit system may be found at the following site: <http://www.delawarepensions.com/>.

40. How many annual on-site education days are required?

ANSWER: As previously noted above, the OST looks forward to each vendor proposing an education strategy including a number of on-site days designed to enroll and engage participants. Each vendor's proposal should take into account the population across the state and determine how many days are appropriate.

41. Please confirm if this is net contribution totals? If possible, can you provide total net cash flow for the 403(b) plan?

ANSWER: Please see details below.

Table No. 1 Net Position Available for Plan Benefits

457(b) Plan	2013	2012	2011
Additions:			
Employee Contributions	36,161,572	36,062,193	35,781,135
Net Transfers In	\$1,742,704	\$1,178,364	\$802,145
Net Investment Income	\$80,482,091	\$44,573,713	(\$7,730,903)
Deductions:			
Participant Distributions	\$30,144,710	\$33,323,959	\$27,577,302
Administrative & Investment Fees	\$56,586	\$54,137	\$54,105
Change In Net Position	<u>\$88,185,071</u>	<u>\$48,436,174</u>	<u>\$1,220,970</u>
401(a) Plan	2013	2012	2011
Additions:			
Employee Contributions	\$0	\$0	\$0
Net Transfers In	\$34,831	\$237,071	\$341,749
Net Investment Income	\$3,553,163	\$2,149,284	(\$402,070)
Deductions:			
Participant Distributions	\$996,412	\$1,066,213	\$1,051,771
Administrative & Investment Fees	\$35,564	\$34,780	\$34,215
Change In Net Position	<u>\$2,556,018</u>	<u>\$1,285,362</u>	<u>(\$1,146,307)</u>

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403(b) Plan	2013	2012	2011
Additions:			
Employee Contributions	\$24,048,794	\$21,472,360	\$20,978,586
Net Transfers In	\$1,916,667	\$1,677,898	\$3,359,193
Net Investment Income	\$51,852,395	\$28,526,162	(\$3,803,578)
Deductions:			
Participant Distributions	\$30,526,515	\$21,213,346	\$15,858,440
Administrative & Investment Fees	\$290,418	\$207,511	\$137,717
Change In Net Position	<u>\$47,000,923</u>	<u>\$30,255,563</u>	<u>\$4,538,044</u>

42. Not knowing which vendors will be retained, makes it difficult to assume transfer amounts. Are you requesting each vendor to make their own assumptions or would you be providing a consistent transfer assumption for vendor responses?

ANSWER: Each vendor should make their own assumptions.

43. If 457/401(a) assets are mappable, would they be transferred to a selected provider or solicited on an individual basis?

ANSWER: Please see the answer to question number 10 above.

44. Who is the current designated TPA for State of Delaware's 403(b) plan?

ANSWER: VALIC provides the common remitter service for the 403(b) program. The State does not use a TPA.

45. Beyond their RFP consulting role, what will Cammack's role and responsibilities be going forward?

ANSWER: Post selection of the vendor, Cammack Retirement Group will assist the OST in finalizing the final terms, reviewing service agreements and contracts, and in developing the final investment array for the Plans.

46. Page 37, question 7 – Is a local office a mandatory requirement?

ANSWER: No.

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47. **General education question: How many days of onsite support does Fidelity provide currently?**

ANSWER: Please see the answer to question 9 above.

48. **Page 39, question 7: We are to propose a separate account stable value/fixed fund for the Plans. Do you have the flexibility to accept a general account stable value fund?**

ANSWER: Yes

49. **Appendix B 457(b) Plan Information: What percentage of the \$558.8 M in total assets is the Managed Income Portfolio account?**

ANSWER: There is approximately \$10.9 million or 1.9% of Plan assets in the Fund.

50. **Appendix C 403(b) Plan Information: Is there a default vendor for the 403(b) plan?**

ANSWER: No

51. **Appendix C 403(b) Plan Information: Can the 403(b) participant only contribute to one carrier at a time?**

ANSWER: No, a participant may remit contributions to multiple vendors.

52. **Appendix C 403(b) Plan Information: Can you provide the asset allocation by vendor for the 403(b) plan assets?**

ANSWER: Please see the answer to question number 14 above.

53. **Appendix C 403(b) Plan Information: Can you provide by vendor the plan assets broken down by active participants vs. those held by terminated and retired participants?**

ANSWER: This information is not currently available.

54. **Appendix C 403(b) Plan Information: What are the transfer restrictions on the various fixed account offerings of the 403(b) vendors?**

ANSWER: Information about the Plan, products and services is provided in the RFP, responses to vendor questions and on the State's web site.

55. **Appendix C 403(b) Plan Information: Are there surrender charges associated with any of the fixed account assets for the 403(b) plan?**

ANSWER: Please see the answer to question number 33 above.

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- 56. Section – Appendix B, Page – 60, Paragraph – 1, Please provide the unique number of participants for the 457, 403(b) and 401(a) plan**

ANSWER: Please see the answer to question 15 above.

- 57. Section – Appendix B, Page – 60, Paragraph – 1, Please provide the sample participant and employer statements from Fidelity.**

ANSWER: This information is not available.

- 58. Section – Appendix B, Page – 60, Paragraph – 1, Please provide the plan documents and service agreements for Fidelity.**

ANSWER: The Plan documents may be found at the following location:

http://treasurer.delaware.gov/deferred_compensation/docforms.shtml

Current administrative agreements and contracts with Fidelity will not be provided.

- 59. Section – Appendix C, Page – 63, Paragraph – 1, Please provide the sample participant and employer statements from each vendor.**

ANSWER: This information will not be provided.

- 60. Section – Appendix C, Page – 63, Paragraph – 1, Please provide the plan documents and service agreements form each vendor.**

ANSWER: Please see the answer to question number 58 above.

- 61. Section – Appendix D, Page – 66, Paragraph – 1, Please provide the plan documents and service agreements for the 401(a) plan.**

ANSWER: Please see the answer to question number 58 above.

- 62. Section – Appendix A, Page – 53, Paragraph – 2, Please describe the termination provisions for the fixed assets in the 457, 403(b) and 401(a) plans for each provider OST will not provide**

ANSWER: This information is not available as the provisions differ by product and by vendor. Please see the answer to question 33 above.

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63. **Section – Appendix A, Page – 53, Paragraph – 2, What is the current and minimum crediting rate for each vendor’s fixed option? How are the crediting rates determined for each vendor’s fixed option?**

ANSWER: The OST is unable to provide specific details on the fixed options offered by vendors in the 403(b) plan. Additional information may be found on the State’s and the vendor websites.

64. **Section – Appendix A, Page – 53, Paragraph – 2, What are the current investment management and wrap fees for each vendor’s fixed option?**

ANSWER: Please see the answer to questions 62 and 63 above. Please note that the majority of the fixed options used in the 403(b) are general account products that do not disclose a distinct expense ratio and/or wrap fee.

65. **Section – Appendix A, Page – 53, Paragraph – 2, Can you provide the wrap contract and investment guideline for the Fidelity contract?**

ANSWER: A fund fact sheet for the Fidelity Managed Income Portfolio is included with the answers to vendor questions.

66. **Section – Appendix A, Page – 53, Paragraph – 2, What is the target cash position of this account?**

ANSWER: Please see the answer to question 65 above.

67. **Section – Appendix A, Page – 53, Paragraph – 2, What is the current duration for each vendor’s fixed option?**

ANSWER: Please see the answer to questions 63 and 65 above.

68. **Section – Appendix A, Page – 53, Paragraph – 2, Can you provide any additional holdings information for each vendor’s fixed option?**

ANSWER: Please see the answer to questions 63 and 65 above.

69. **Section – Appendix A, Page – 53, Paragraph – 2, What is the monthly cash flow for each vendor’s fixed option?**

ANSWER: This information is not readily available.

70. **Section – Appendix C, Page – 65, Paragraph – 3, Can you provide a distribution of assets by participant age?**

ANSWER: This information is not available.

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71. **Section – Appendix A, Page – 53, Paragraph – 2, What is the current market-to-book ratio for each vendor’s fixed option?**

ANSWER: Information regarded to the Fidelity Managed Income Portfolio is provided with the response to vendor questions.

72. **Section – Appendix A, Page – 53, Paragraph – 2, How many participants have assets in each vendor’s fixed option?**

ANSWER: This information is not readily available.

73. **Section – Investment Management, Page – 44, Paragraph – 39, Who is the current SDBA provider?**

ANSWER: The Plan currently uses the SDBA services offered by Fidelity.

74. **Section – Participant Experience, Page – 34, Paragraph – 6, Please clarify what is meant by “OST is interested in providing participants with a way to see their DB and all DC information together –side by side”?**

ANSWER: This is a goal for OST to provide participants a total picture of their retirement assets and assist them in forecasting their own retirement readiness.

75. **Does side by side mean that a statement contains both balances?**

ANSWER: Yes

76. **Section - II Background, Page 3, Paragraph 3, If New York Life is not one of the chosen 403(b) providers, and the OST selects 3 providers for the 403(b) plan, will all 3 providers be responsible for the insurance contracts? Or will the OST select one of the 3 to be responsible?**

ANSWER: Regardless of which vendor(s) are selected to provide recordkeeping and administrative services to the 403(b) plan, OST will continue to remit legacy life insurance premiums (approximately \$135,000/year) to New York Life.

77. **Section – Appendix B, Page – 60, Paragraph – 1, What is the current price Fidelity charges?**

ANSWER: This information is not available.

78. **Section – Appendix C, Page – 63, Paragraph – 1, What is the current price each vendor charges?**

ANSWER: This information is not available.

Fact Sheet

As of June 30, 2015

Portfolio Facts

Portfolio Manager	Rob Chan
Tenure on product	Since 7/2012
Management Fee*	Class 1: 0.55% Class 2: 0.35%
Market-to-Book Ratio	101.42%
Total Net Assets	\$ 6.2 B
Number of Holdings	443
Duration (Years)	2.62

*Management fee does not include wrap fees, which are paid to third-party wrap providers and do not result in any additional compensation to Fidelity. The wrap fees are not separately stated, but do reduce the investment options' return.

If portfolio has multiple share classes, Total Net Assets includes the net assets of all share classes. Duration estimates how much a bond's price fluctuates with changes in comparable interest rates. Other factors can also influence a bond fund's performance and share price.

Managed Income Portfolio (MIP)

Objective

The Portfolio seeks to preserve principal while earning interest income. The Portfolio is a commingled pool managed by Fidelity Management Trust Company (FMTC). It is not a mutual fund. MIP seeks to maintain a stable net asset value (NAV) of \$1 per share, but it cannot guarantee that it will be able to do so. The yield of MIP will fluctuate.

Strategy

The Portfolio invests in short-term bonds and other fixed income securities such as U.S. treasury bonds, government agency securities, corporate bonds, mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and derivative instruments, including futures, options and swaps. The Portfolio also purchases third party wrap contracts designed to permit the use of book value accounting to maintain a constant NAV and to provide for the payment of participant-directed withdrawals and exchanges at book value under most circumstances. Interest is credited to the Portfolio under the wrap contracts; there is no immediate recognition of gains and losses. Instead, gains or losses are recognized over time by adjusting the interest rate credited to the Portfolio. The Portfolio may also invest in investment contracts offered by insurance companies and other approved financial institutions that provide for the payment of a specified rate of interest to the Portfolio and the repayment of principal at maturity. All investment contracts and fixed income securities purchased for the Portfolio must satisfy the credit quality standards of FMTC.

Quarterly Fixed Income Review as of 6/30/2015

U.S. taxable investment-grade bonds declined for the second quarter of 2015 amid an uneven economic recovery. The Barclays® U.S. Aggregate Bond Index fell 1.68%, giving back all of its gains made in the first quarter. Interest rates as well as credit spreads - the yield premiums demanded by investors for holding riskier bonds - finished the period higher. Only short-term bonds in the one-to-three-year maturity range managed a slight gain during the quarter. All the other maturities suffered declines. Yield-advantaged sectors suffered performance declines for the period. The investment-grade credit portion of the Barclays® U.S. Aggregate Bond Index returned -1.68%, underperforming the -1.58% return of U.S. Treasuries. Industrials and financials, the two largest corporate sectors, posted meaningfully lower excess returns than similar-duration Treasuries, reversing a first-quarter trend. Among other components of the Barclays index,

Asset-Backed Securities managed a small gain. Commercial Mortgage-Backed Securities (CMBS), as well as Mortgage-Backed Securities and Government-Agency Securities, slightly outperformed the broader market, although each declined.

Portfolio Review as of 6/30/15

For the quarter, the portfolio modestly underperformed the benchmark on a market value basis (gross of fees).

The portfolio's overweight to Corporate contributed the most to the underperformance as credit spreads were wider on the quarter. Industrials and financials, the two largest corporate sectors, posted meaningfully lower excess returns than similar-duration Treasuries, reversing a first-quarter trend. Among other sectors, Asset-Backed Securities and Commercial Mortgage-Backed Securities (CMBS), slightly outperformed and contributed favorably to relative performance.

Security selection and the additional income earned by overweighting corporate debt, ABS and CMBS over Treasuries helped performance.

Quarter End Positioning as of 6/30/15

At quarter-end, slight under half of the portfolio was held in Treasuries and Government-related debt. However, the portfolio was meaningfully underweight these sectors relative to the benchmark on a market value basis.

The Portfolio continued to heavily favor investment grade corporate bonds over Treasury securities, as we believe corporate bonds continued to offer not only better yields, but better overall rewards relative to their risks. Within corporates, the fund continued to favor the financials sector over industrials. Our thesis is that financial firms remain committed to strong balance sheets, which benefits bondholders. Conversely, some industrial firms are seeking to unlock shareholder value through increased dividends and share buybacks. While credit fundamentals remain strong these actions and an increase in M&A activity could negatively impact bond investors.

The fund maintained out-of-benchmark allocations to short-dated ABS, CMBS and a variety of mortgage securities including traditional agency pass-throughs (MBS), hybrid adjustable-rate (ARMs) and collateralized mortgage obligations (CMO's) for added diversification and yield pickup over Treasuries.

Managed Income Portfolio (MIP)

As of June 30, 2015

Top 5 Issuers/Positions

UNITED STATES TREASURY
FANNIE MAE
FEDERAL NAT MTG ASN GTD REM PA
FREDDIE MAC
FNMA GTD MTG PASS THRU CTF

% of TNA: 48.32%.

The Top Five Issuers/Positions are as of the date indicated and are represented in the portfolio's holdings. They may not be representative of the portfolio's current or future investments. An Issuer is a legal entity that has the power to issue and distribute financial instruments. An issuer may be a bank, a corporation (including limited partnerships), a sovereign government, a municipality, or a mutual fund. To determine the Top Issuers, the legal entities associated with the portfolio's holdings are identified; common issues of an entity are then aggregated and sorted by descending portfolio weight.

Yields

Book-Value 7 Day Yield	Class 1: 1.17%
	Class 2: 1.35%
Market-Value Yield	1.41%

The current Book-Value 7 Day Yield of the fund reflects the current earnings of the fund, while the total return refers to a specific past holding period. The Book-Value 7 Day Yield is the yield on the book-value portfolio and is net of all expenses. The Market-Value Yield is the yield on the market-value portfolio and is gross of all expenses.

Crediting Rate	Effective Period
1.73%	6/1/15 – 6/30/15

Crediting rate is for the wrapped portion of the portfolio and applies for the stated period. Crediting rate is net of premiums on wrap contracts and gross of management fees. This does not represent current earnings of the fund which is reflected above in the Book-Value 7 Day Yield.

Wrap Providers	Percent (Book Value)	S&P Rating
Fidelity STIF (Fund 59)	1.25%	NA
AGL	12.65%	A+
Bank of Tokyo-Mitsubishi	19.56%	A+
JPMorgan	17.67%	A+
Nationwide	3.66%	A+
Prudential	10.77%	AA-
State Street Bank	13.98%	AA-
Transamerica	20.48%	AA-

Book Value Performance	Cumulative Returns (%)				Average Annual Returns (%)			
	YTD	3-Month	6-Month	1 Yr	3 Yr	5 Yr	10 Yr	LOF
Class I	0.57	0.29	0.57	1.09	1.04	1.17	2.21	4.45
Class II	0.66	0.34	0.66	1.29	1.20	1.26	2.26	4.47

Portfolio Inception: 09/07/89.

Book-value performance is net of management and wrap fees.

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated. Life of Fund figures are reported as of the inception date to the period indicated. These figures do not include the effect of sales charges, if any, as these charges are waived for contributions made through your company's employee benefit plans. If sales charges were included, returns would have been lower. Past performance is no guarantee of future results. Indices are unmanaged and you cannot invest directly in an index.

Market Value Performance	Cumulative Returns (%)			Average Annual Returns (%)			
	1-Month	3-Month	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Market Value Portfolio	(0.21)	(0.09)	0.88	1.33	1.29	1.97	2.91
Barclays 1-5 Gov/Credit > A	(0.15)	(0.02)	0.90	1.32	1.07	1.64	3.23

Market-value performance is gross of fees and expense which when deducted, will reduce returns.

Portfolio Composition (as of 6/30/15)	MIP - Percent (%)	Barclays 1-5 Gov/Credit > A
U.S. Treasury	36.67	66.82
U.S. Agency	7.35	7.78
Other Govt Related (U.S. and Foreign)	0.61	7.55
Corporate	25.57	17.86
MBS Passthrough	3.04	0.00
ABS	10.74	0.00
CMBS	9.58	0.00
CMO	4.48	0.00
Cash	1.23	0.00
Net Other Assets	0.73	(0.01)

Source: FMRCo.

Portfolio composition data is as of the date indicated. It should not be construed as a recommendation for any sector and may not be representative of the Portfolio's current or future investments. Barclays 1-5 Government/Credit Index, A or Better is a subset of the Barclays 1-5 Government/Credit Index. It is a market value-weighted index of government and investment-grade corporate fixed-rate debt issues with maturities between one and five years and rated A or better by S&P, Moody's, or Fitch.

Quality Ratings (as of 6/30/15)	MIP - Percent (%)	Barclays 1-5 Gov/Credit > A
U.S. Government	51.54	74.57
AAA	20.44	5.94
AA	9.29	7.26
A	13.05	12.18
BBB	3.72	0.00
BB	0.00	0.00
B	0.00	0.00
CCC & Below	0.00	0.00
Short-Term Rated	0.00	0.00
Not Rated/Not Available	0.00	0.05
Cash & Net Other Assets	1.96	0.00
Total	100.00	100.00

Credit ratings for a rated issuer or security are categorized using the highest credit rating among the following three Nationally Recognized Statistical Rating Organizations ("NRSRO"): Moody's Investors Service (Moody's); Standard & Poor's Rating Services (S&P); or Fitch, Inc. If none of these three NRSROs publishes a rating, then the security is categorized as Not Rated. All U.S. government securities are included in the U.S. Government category. The table information is based on the combined investments of the fund and its pro rata share of any investments in other Fidelity funds.

Managed Income Portfolio (MIP)

As of June 30, 2015

Important Information

Investment Risks

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 risk and credit and default risks for both issuers and counterparties.

Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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.

Source: FMR Co.

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Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

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