

The importance of diversification

It is difficult to predict which types of investments will do best in any given year.*

↑ Higher return
Lower return ↓

															2010-2024	
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Annualized returns	Volatility level**
Small Cap 26.85%	TIPS 13.56%	Emerging Market Stocks 18.22%	Small Cap 38.82%	S&P 500 13.69%	Large Growth 5.67%	Small Cap 21.31%	Emerging Market Stocks 37.28%	Bonds 0.01%	Large Growth 36.39%	Large Growth 38.49%	S&P 500 28.71%	Large Value -7.54%	Large Growth 42.68%	Large Growth 33.36%	Large Growth 16.45%	Large Growth 19.32%
Mid Cap 25.48%	Bonds 7.84%	Large Value 17.51%	Mid Cap 34.76%	Large Value 13.45%	S&P 500 1.38%	Large Value 17.34%	Large Growth 30.21%	TIPS -1.26%	S&P 500 31.49%	Small Cap 19.96%	Large Growth 27.6%	High Yield Bond -11.19%	S&P 500 26.29%	S&P 500 25.02%	S&P 500 13.88%	Emerging Market Stocks 16.80%
Emerging Market Stocks 18.88%	High Yield Bond 4.98%	International Stocks 17.32%	Large Growth 33.48%	Mid Cap 13.22%	Bonds 0.55%	High Yield Bond 17.13%	International Stocks 25.03%	Large Growth -1.51%	Mid Cap 30.54%	S&P 500 18.4%	Large Value 25.16%	TIPS -11.85%	International Stocks 18.24%	Mid Cap 15.34%	Mid Cap 12.09%	Small Cap 15.79%
Large Growth 16.71%	Large Growth 2.64%	Mid Cap 17.28%	Large Value 32.53%	Large Growth 13.05%	International Stocks -0.81%	Mid Cap 13.8%	S&P 500 21.83%	High Yield Bond -2.08%	Large Value 26.54%	Emerging Market Stocks 18.31%	Mid Cap 22.58%	Bonds -13.01%	Mid Cap 17.23%	Large Value 14.37%	Large Value 10.75%	Mid Cap 14.57%
Large Value 15.51%	S&P 500 2.11%	Small Cap 16.35%	S&P 500 32.39%	60 & 40 Diversified Portfolio* 6.39%	TIPS -1.44%	S&P 500 11.96%	Mid Cap 18.52%	S&P 500 -4.38%	Small Cap 25.52%	Mid Cap 17.1%	Small Cap 14.82%	International Stocks -14.45%	Small Cap 16.93%	Small Cap 11.54%	Small Cap 10.33%	S&P 500 14.35%
High Yield Bond 15.12%	60 & 40 Diversified Portfolio* 1.41%	S&P 500 16.00%	International Stocks 22.78%	Bonds 5.97%	60 & 40 Diversified Portfolio* -1.46%	Emerging Market Stocks 11.19%	60 & 40 Diversified Portfolio* 15.2%	60 & 40 Diversified Portfolio* -5.61%	International Stocks 22.01%	60 & 40 Diversified Portfolio* 13.48%	60 & 40 Diversified Portfolio* 12.52%	60 & 40 Diversified Portfolio* -15.34%	60 & 40 Diversified Portfolio* 15.03%	60 & 40 Diversified Portfolio* 10.41%	Current 60/40 Diversified Portfolio* 7.78%	International Stocks 13.49%
S&P 500 15.06%	Large Value 0.39%	High Yield Bond 15.81%	60 & 40 Diversified Portfolio* 15.85%	Small Cap 4.89%	Mid Cap -2.44%	60 & 40 Diversified Portfolio* 8.57%	Small Cap 14.65%	Large Value -8.27%	60 & 40 Diversified Portfolio* 20.44%	International Stocks 11.26%	Mid Cap -17.32%	High Yield Bond 13.44%	High Yield Bond 8.19%	High Yield Bond 6.44%	High Yield Bond 6.44%	Large Value 12.38%
60 & 40 Diversified Portfolio* 13.25%	Mid Cap -1.55%	Large Growth 15.26%	High Yield Bond 7.44%	TIPS 3.64%	Large Value -3.83%	Large Growth 7.08%	Large Value 13.66%	Mid Cap -9.06%	Emerging Market Stocks 18.44%	International Stocks 7.82%	TIPS 5.96%	S&P 500 -18.11%	Large Value 11.46%	Emerging Market Stocks 7.5%	International Stocks 5.24%	Current 60/40 Diversified Portfolio* 9.60%
International Stocks 7.75%	Small Cap -4.18%	60 & 40 Diversified Portfolio* 12.96%	Bonds -2.02%	High Yield Bond 2.45%	Small Cap -4.41%	TIPS 4.68%	High Yield Bond 7.5%	Small Cap -11.01%	High Yield Bond 14.32%	Bonds 7.51%	High Yield Bond 5.28%	Emerging Market Stocks -20.09%	Emerging Market Stocks 9.83%	International Stocks 3.82%	Emerging Market Stocks 3.01%	High Yield Bond 8.80%
Bonds 6.54%	International Stocks -12.14%	TIPS 6.98%	Emerging Market Stocks -2.6%	Emerging Market Stocks -2.19%	High Yield Bond -4.47%	Bonds 2.65%	Bonds 3.54%	International Stocks -13.79%	Bonds 8.72%	High Yield Bond 7.11%	Bonds -1.54%	Small Cap -20.44%	Bonds 5.53%	TIPS 1.84%	TIPS 2.86%	TIPS 6.75%
TIPS 6.31%	Emerging Market Stocks -18.42%	Bonds 4.21%	TIPS -8.61%	International Stocks -4.90%	Emerging Market Stocks -14.92%	International Stocks 1.00%	TIPS 3.01%	Emerging Market Stocks -14.58%	TIPS 8.43%	Large Value 2.8%	Emerging Market Stocks -2.54%	Large Growth -29.14%	TIPS 3.9%	Bonds 1.25%	Bonds 2.37%	Bonds 5.50%

Emerging Market Stocks

Large Growth

TIPS

International Stocks

Bonds

Mid Cap

S&P 500

High Yield Bond

Large Value

Small Cap

60/40 Diversified Portfolio

*Source: Data derived from Morningstar DirectSM, Morningstar, Inc., 2024. All data represents total returns for the stated period. Past performance does not guarantee future returns.

**Volatility is defined as standard deviation (2010-2024); the greater the volatility, the greater the variance to the mean return of a given asset.

60/40 Diversified Portfolio assumes annual rebalancing.

Asset allocation: A case for broad portfolio diversification

This table conveys why asset class and style diversification are important when building your investment portfolio. It also shows how difficult it is to predict an outperforming asset class or style for any given year. Sometimes the best performing asset class one year becomes the poorest performer the next year and vice versa—e.g., the Large Cap Growth equity asset class in recent years.

The table also highlights the importance of risk management and portfolio rebalancing. One of the keys to achieving your financial goals is to have a diversified investment strategy based on your risk tolerance and investment time horizon. An appropriate allocation and regular rebalancing may help reduce your portfolio's risk and volatility.

Notes:

- Standard & Poor's 500® Index (S&P 500) is an unmanaged, market cap-weighted index of 500 common stocks selected for their market size, liquidity and industry group representation within the U.S. equity market.
- Large Cap Growth uses the Russell 1000® Growth Index, which measures the performance of Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.
- Large Cap Value uses the Russell 1000® Value Index, which measures the performance of Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.
- Mid Cap uses the Russell Midcap Index, which consists of the smallest 800 companies in the Russell 1000® Index, as ranked by total market capitalization. This Mid Cap index represents approximately 26% of the Russell 1000® total market capitalization.
- Small Cap uses the Russell 2000® Index, which consists of the smallest 2,000 companies in the Russell 3000® Index, representing approximately 8% of the Russell 3000® total market capitalization.
- International Stocks uses the MSCI EAFE NR Index (Europe, Australasia, Far East), which is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the United States and Canada.
- Emerging Markets Equity uses the MSCI Emerging Markets NR Index, which measures equity market performance in global emerging markets. It is a float-adjusted market capitalization index. As of January 31, 2023, it consisted of indexes in 24 emerging economies.
- Bonds use the Bloomberg U.S. Aggregate Bond Index as the benchmark index. It is made up of the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index, and includes securities of investment-grade quality that have at least one year to maturity and an outstanding par value of at least \$100 million.
- TIPS uses the Bloomberg U.S. Treasury Inflation Protected Securities Index (Series L), which measures the performance of the U.S. Treasury Inflation Protected Securities ("TIPS") market. The index includes TIPS with one or more years remaining maturity and total outstanding issue size of \$500 million or more.
- High Yield Bond uses the Bloomberg High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed rate, taxable corporate bond market. Only securities with more than one year to maturity qualify for inclusion in the index.
- 60/40 Diversified Portfolio uses a combination and allocation weighting of the following indices: Bloomberg US Agg Bond TR USD(19%), Bloomberg US Treasury US TIPS TR USD(15%), Russell 1000 Value TR USD(14%), MSCI EAFE NR USD(13%), Russell 1000 Growth TR USD(13%), Russell Mid Cap TR USD(12%), Bloomberg US Corporate High Yield TR USD(6%), MSCI EM NR USD(5%), Russell 2000 TR USD(3%).

Sources: Data derived from Morningstar DirectSM, Morningstar, Inc., 2024. Please note that equity returns have historically been higher than other asset classes but carry considerable risk of principal. Fixed-income returns have historically been less than equity returns, are subject to interest rate risk, but typically bring greater safety of principal. Indexes are unmanaged statistical composites that measure the various financial markets. An investment cannot be made into an index.

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Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against loss. Rebalancing does not protect against losses or guarantee that an investor's goal will be met.

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