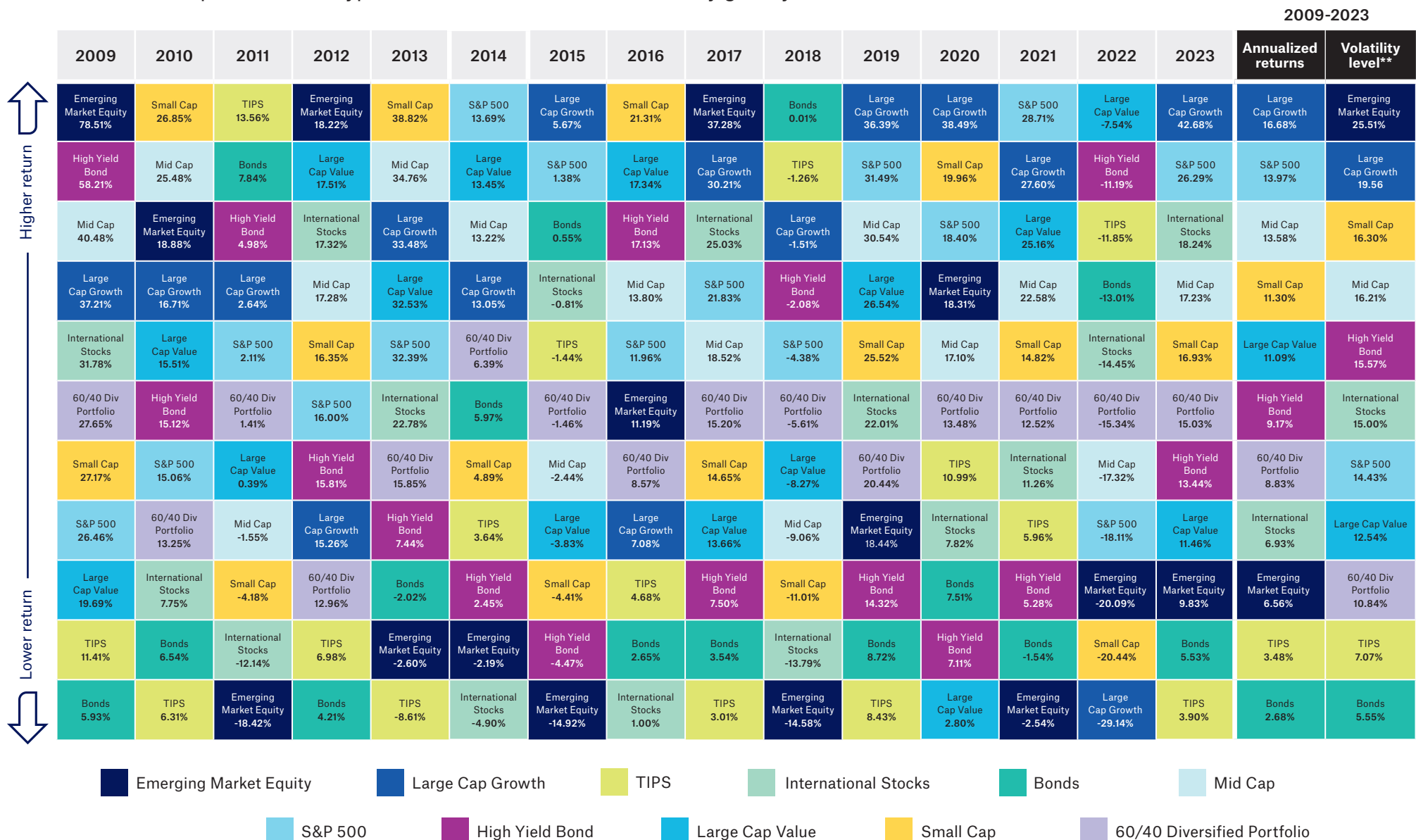


# The importance of diversification

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



Higher return

Lower return

\*\*Source: Data derived from Morningstar DirectSM, Morningstar, Inc., 2023. All data represents total returns for the stated period. Past performance does not guarantee future returns.  
 \*\*Volatility is defined as standard deviation (2009-2023); 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: Russell 1000 Growth TR USD (13%), Russell 1000 Value TR USD (14%), Bloomberg U.S. Aggregate Bond TR USD (19%), Bloomberg U.S. Treasury US TIPS TR USD (15%), Russell Mid Cap TR USD (12%), Russell 2000 TR USD (3%), Bloomberg US Corporate High-Yield TR USD (6%), MSCI EAFE NR USD (13%) and MSCI EM NR USD (5%).

Sources: Data derived from Morningstar Direct<sup>SM</sup>, Morningstar, Inc., 2023. 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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