

APRIL 2021

The Value of Diversification

Successful Investing Requires Discipline

History shows us that no one asset class has remained the top or bottom performer for long. Trying to time the market and pick the best performers is a risky strategy. Diversifying across a wide range of asset classes enables investors to spread their risk and potentially increase returns, helping smooth what might otherwise be a bumpy ride.

Annual asset class returns (%) - as of 12/31/2020

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Best	Emerging Markets 78.50	Small Growth 31.08	TIPS 13.56	Global REITs 28.65	Small Growth 45.00	Global REITs 15.89	Large Cap Growth 3.54	Small Value 27.68	Emerging Markets 37.28	U.S. Bonds 0.01	Large Cap Growth 35.79	Large Cap Growth 35.36
	High Yield 57.51	Small Value 26.76	U.S. Bonds 7.84	Small Value 21.52	Large Cap Growth 34.95	Large Cap Growth 13.96	U.S. Bonds 0.55	High Yield 17.49	Large Cap Growth 27.71	TIPS -1.26	Small Growth 29.49	Small Growth 29.66
	Small Growth 46.40	Global REITs 20.40	High Yield 4.38	Emerging Markets 18.22	Small Value 33.80	Large Cap Value 13.00	Global REITs 0.05	Small Growth 16.97	International Equity 25.03	Non-U.S. Bonds -2.15	Large Cap Value 27.72	Emerging Markets 18.31
	Global REITs 38.25	Emerging Markets 18.87	Non-U.S. Bonds 4.36	International Equity 17.31	Large Cap Value 30.24	Small Value 9.09	Large Cap Value -0.79	Large Cap Value 15.44	Small Growth 19.55	High Yield -2.25	Small Value 23.08	Diversified Portfolio 12.08
	Small Value 37.45	Commodities 16.83	Large Cap Value 3.74	Large Cap Growth 16.90	International Equity 22.78	U.S. Bonds 5.97	International Equity -0.81	Commodities 11.77	Large Cap Value 16.31	Large Cap Growth -3.58	Global REITs 23.06	TIPS 10.99
	Large Cap Growth 36.88	Large Cap Value 16.56	Diversified Portfolio 0.44	Small Growth 15.69	Diversified Portfolio 14.25	Diversified Portfolio 5.67	Diversified Portfolio -1.35	Emerging Markets 11.18	Diversified Portfolio 14.92	Global REITs -4.74	International Equity 22.01	Non-U.S. Bonds 10.11
	International Equity 31.77	High Yield 15.19	Large Cap Growth -0.66	High Yield 15.58	High Yield 7.42	Small Growth 4.23	TIPS -1.44	Large Cap Growth 8.97	Global REITs 11.42	Diversified Portfolio -5.10	Diversified Portfolio 19.54	International Equity 7.81
	Diversified Portfolio 24.35	Large Cap Growth 15.02	Small Growth -1.64	Large Cap Value 14.56	Global REITs 4.39	TIPS 3.64	Small Value -4.36	Diversified Portfolio 7.18	Non-U.S. Bonds 10.51	Large Cap Value -5.94	Emerging Markets 18.43	U.S. Bonds 7.51
	Commodities 18.91	Diversified Portfolio 11.89	Small Value -5.34	Diversified Portfolio 12.35	U.S. Bonds -2.02	High Yield 2.50	High Yield -4.64	Global REITs 4.99	High Yield 7.45	Small Growth -9.71	High Yield 14.41	Large Cap Value 7.37
	Large Cap Value 16.98	International Equity 7.75	Global REITs -5.82	TIPS 6.98	Emerging Markets -2.60	Emerging Markets -2.19	Small Growth -5.28	TIPS 4.68	Small Value 7.42	Commodities -11.25	U.S. Bonds 8.72	High Yield 6.17
	TIPS 11.41	U.S. Bonds 6.54	International Equity -12.14	U.S. Bonds 4.22	Non-U.S. Bonds -3.08	Non-U.S. Bonds -3.08	Non-U.S. Bonds -6.02	U.S. Bonds 2.65	U.S. Bonds 3.54	Small Value -12.04	TIPS 8.43	Small Value 6.16
	Non-U.S. Bonds 7.53	TIPS 6.31	Commodities -13.32	Non-U.S. Bonds 4.09	TIPS -8.61	International Equity -4.90	Emerging Markets -14.92	Non-U.S. Bonds 1.49	TIPS 3.01	International Equity -13.79	Commodities 7.69	Commodities -3.12
Worst	U.S. Bonds 5.93	Non-U.S. Bonds 4.94	Emerging Markets -18.42	Commodities -1.06	Commodities -9.52	Commodities -17.01	Commodities -24.66	International Equity 1.00	Commodities 1.70	Emerging Markets -14.58	Non-U.S. Bonds 5.09	Global REITs -8.18

The chart on the previous page shows the annual returns for twelve different asset classes and a diversified portfolio comprised of nine asset classes over the last ten years. No single asset class has stayed at the top or the bottom of the pack for a meaningful period of time. Varying economic and market conditions cause asset classes to perform well at different times, presenting challenges for investors who seek to pick just the top performers.

A well-diversified portfolio helps investors form a solid foundation on which to weather unpredictable markets. Diversification is the process of investing across a wide range of asset classes with the goal of smoothing performance and reducing portfolio risk.

The red-orange box in the middle of the chart represents the performance of a “Diversified Portfolio” using a combination of indexes to illustrate the potential value of diversification over the long term. During the ten-year period ending December 31, 2020, the annualized return for the Diversified Portfolio was 7.73%. The Diversified Portfolio has consistently remained in the middle of the pack during the ten-year period, not the top performer, but not the bottom performer either.

The asset classes on the previous page are represented by the following indices:

Large Value: Wilshire U.S. Large Value IndexSM

Large Growth: Wilshire U.S. Large Growth IndexSM

Small Value: Wilshire U.S. Small Value IndexSM

Small Growth: Wilshire U.S. Small Growth IndexSM

U.S. Bonds: Bloomberg Barclays U.S. Aggregate Bond Index

High Yield: Bank of America Merrill Lynch - U.S. High Yield Index

TIPS: Bloomberg Barclays Capital U.S. TIPS Index

Non-U.S. Bonds: Bloomberg Barclays Capital Global Aggregate ex U.S. Bond Index

International Equities: MSCI EAFE Index

Emerging Markets: MSCI Emerging Markets Index

Global REITs: FTSE EPRA NAREIT Developed Index

Commodities: Bloomberg Commodity - Commodity Index (Total Return)

Diversified Portfolio: Domestic equity is represented by 35% Russell 3000 Index; international equity is represented by 15% MSCI EAFE Index, 4% MSCI - Emerging Markets Index, 4% FTSE EPRA/NAREIT - Developed Index; commodities is represented by 2% Bloomberg Commodity - Commodity Index; fixed income is represented by 28% Barclays U.S. Aggregate Index, 4% Barclays - U.S. TIPS Index, 4% Barclays - U.S. High Yield Index, 4% Citi - Non U.S. Govt Bond Index.

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Diversification does not ensure a profit or protect against loss. Past performance is not indicative of future results.

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