

PNC Multi Factor Small Cap Core I PLOIX

A solid quant fund that offers diversified, small-cap exposure.

Morningstar's Take PLOIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

| | | |
|-------------|---|----------|
| Process | + | Positive |
| Performance | + | Positive |
| People | + | Positive |
| Parent | ○ | Neutral |
| Price | + | Positive |

Role In Portfolio

Supporting

Fund Performance PLOIX

| Year | Total Return (%) | +/- Category |
|------|------------------|--------------|
| YTD | 12.53 | -8.97 |
| 2016 | 17.55 | 6.35 |
| 2015 | -0.91 | 1.50 |
| 2014 | 8.12 | 5.69 |
| 2013 | 50.08 | 9.17 |

Data through 12-31-17

1-17-18 | by Linda Abu Mushrefova

We expect PNC Multi-Factor Small Cap Core to offer investors above-average risk-adjusted returns over the long term. Lead manager Hitesh Patel and comanager Paul Kleinaitis have been at the helm since this strategy's September 2005 inception and are founding members of the process that is utilized on this strategy.

The fund's quant approach has proved its worth. Patel and Kleinaitis developed the multifactor model in the late 1990s and have made enhancements along the way. It applies volatility, liquidity, and bankruptcy screens to stocks in the market-cap range of the Russell 2000 Index, including ADRs and master limited partnerships. The model then ranks each stock in the resultant universe. Fundamental factors account for 30% to 40% of the model's weighting, valuation 30% to 35%, and momentum 25% to 35%. It has resulted in impressive risk-adjusted returns from inception through December 2017, landing in

the top quintile of the small-growth Morningstar Category.

The fund's 110- to 150-stock portfolio is built through an optimization process applied to stocks scoring in the model's upper half, though most buys rank in the top quintile. That helps to reduce risk and allows sufficient diversification as well. Parameters limiting large bets further temper the risk profile of the strategy.

The model is not infallible, however, and it struggles if market conditions shift suddenly. It will also tend to lag peers in frothier markets. For example, steering the fund away from stocks with low price/book ratios during the depths of the credit crisis hurt in 2009's sharp rebound, when those stocks tended to gain the most. More recently, the fund struggled in 2017 as more-speculative biotechnology names in the index, but absent in the portfolio, led the charge.

Over the long haul, though, the team has proved that its approach results in performance that beats both bogies on an absolute and risk-adjusted basis. Over the trailing five-, 10-, and since-inception periods, the fund has managed to top its peers by at least 100 basis points and its index by at least 50 basis points annualized. Competitive fees should help the fund add to this record.

Process Pillar + Positive | Linda Abu Mushrefova 01/17/2018

The fund uses a multifactor quant model that has proved its worth over time, earning it a Positive Process Pillar rating. Lead manager Hitesh Patel and his team apply volatility, liquidity, and bankruptcy screens to stocks in the market-cap range of the Russell 2000 Index, including ADRs and MLPs. Their model then ranks each stock within the resultant universe of roughly 1,800-1,900 names. Fundamental factors, such as earnings estimates' dispersion and net margin change, account for 30% to 40% of the model's weighting. Valuation factors, especially

cash flow/price, compose 30%-35% of the weighting, and momentum makes up 25% to 35%. The model is run on a 12- to 18-month time horizon, which results in slightly higher turnover relative to peers.

The fund builds its 110- to 150-stock portfolio through an optimization process applied to stocks scoring in the model's upper half, though most buys rank in the top quintile. It initiates position sizes between 0.5% and 1.5% of assets and trims them at 2.0%. The fund rebalances the portfolio monthly or when a big cash inflow or outflow occurs. It sells or trims stocks when their rankings deteriorate or events affect their fundamentals, or because of portfolio constraints, such as a market cap of \$5.5 billion, which prompts a trimming of 25 basis points.

Annual portfolio turnover peaked at 189% in 2007 but has averaged just over 100% during the fund's lifetime.

Although the fund's multifactor model ensures that its portfolio hews closely to that of the Russell 2000 Index, the model's flexibility and its tracking error target of 4% to 7% still allow the fund to distinguish itself. The fund has often tilted more toward growth stocks than its core benchmark; however, the fund's core-growth placement resulted in subpar returns in 2017, landing in the bottom 10% of its category. These style tilts are a byproduct of the quant model.

The inclusion of ADRs in the fund's investment universe also allows for a hefty weighting in foreign-domiciled companies versus its domestic-oriented boggy at times. The fund's non-U.S. stock exposure peaked at 10% in late 2007, with 4% of those assets then invested in emerging-markets stocks. Overseas exposure has since ranged from 2% to 8% and is currently at about 3%.

Industry exposures stay within 3 percentage points of the benchmark's, but the fund's sector over- and

underweightings can be more substantial. As of November 2017, the largest sector deviation from the bogy's was a 212-basis-point overweighting in technology. Nevertheless, this trailed its average category peer's allocation by nearly 650 basis points.

The team imposes a restriction of 20% of assets under management that can be invested in names that exceed the upper bound of the Russell 2000 Index. Further, the team cannot purchase names priced below \$3.50.

Performance Pillar + Positive | Linda Abu Mushrefova 01/17/2018

The fund receives a Positive Performance Pillar rating for its impressive returns over the long term. From its late-2005 inception through December 2017, the fund's 9.0% annualized gain beat its Russell 2000 Index and typical small-cap growth category peer by 0.5 and 1.2 percentage points, respectively, with less volatility (as measured by standard deviation).

The fund ranks in the top quartile of its peer group over the trailing five- and 10-year periods while looking even more impressive on a risk-adjusted basis. More recently, however, it has struggled to keep pace. In 2017, the largest detractor was the team's underweighting in biotechnology names, which resulted in the fund landing below 90% of its peers for the year and demonstrated that the fund may lag in frothier markets.

The model struggles if market conditions shift suddenly. Steering the fund away from stocks with low price/book ratios helped the fund hold up better than the index and most peers during the 2007-09 credit crisis, but hurt in the subsequent rebound. Indeed, from the credit crisis' March 9, 2009 trough through year-end 2009, the fund's 51.5% gain lagged the index by nearly 30 percentage points. More recently, the fund underperformed in 2016 amid a sharp rotation toward value stocks, especially in the energy and financials sectors. The fund's 17.2% calendar-year gain trailed the benchmark by 4.1%.

People Pillar + Positive | Linda Abu Mushrefova 01/17/2018

The fund is backed by a stable and experienced team. It earns a Positive People Pillar rating.

Lead manager Hitesh Patel's transition from a doctorate in medicinal chemistry to investing began in 1994, when his employer at the time asked him to help build financial risk models. By the late 1990s, Patel had joined Harris Investment Management, where he, current comanager Paul Kleinaitis, Rob Roquitte, and Steven Greiner founded the structured equity team and developed the basic model that the fund still uses today. In April 2005, that four-person team joined the Cleveland-based bank National City, which launched under the Allegiant brand name a suite of quant small-cap core, growth, and value funds as well as related versions of the strategy, including a mid-cap growth fund. PNC acquired National City in late 2008 and subsequently renamed and reduced the number of quant funds, leading to the departure of Roquitte and Greiner.

Patel and Kleinaitis now work as part of a veteran five-person team. Chen Chen, who has a doctorate in business statistics, is the least experienced member and yet she has been in the industry for more than a decade.

Patel and Kleinaitis invest opportunistically in their multifactor small-cap strategies. As of the most recent Statement of Additional Information, neither had any money in this fund or its growth or value siblings.

Parent Pillar ● Neutral | Linda Abu Mushrefova 04/13/2017

PNC Capital Advisors has its origins in the late-2008 acquisition of National City Corporation and its Allegiant fund lineup by PNC Financial Services Group PNC. At year-end 2016, roughly one third of the firm's \$48.7 billion in assets was in money markets, with the rest in small- and large-cap equity strategies--including one S&P 500 fund--taxable- and municipal-bond strategies, and four target-date funds. These assets are managed by six in-house investment teams located in Baltimore, Chicago, Cleveland, Philadelphia, and St. Louis. Boston-based Polaris Capital Management also subadvises half of the assets in PNC International Equity PIUIX with a value-oriented approach.

PNC's CIO Mark McGlone aims to cultivate a shared investment culture out of disparate teams. To do so, he holds a monthly meeting and an annual offsite gathering. The firm closed PNC Small Cap PPCIX to new investors in July 2016 when the strategy had about \$2.5 billion in assets. The overall lineup's results have also been decent, as 11 out of the 20 funds with at least a 10-year track record finished in their peer group's top half over the trailing decade through February 2017. Manager investment could be better, though. As of the most recent Statement of Additional Information, only Polaris' Bernard Horn had more than \$1 million in a fund. Meanwhile, 12 of 18 named managers had no money invested. The firm receives a Neutral Parent Pillar rating.

Price Pillar + Positive | Linda Abu Mushrefova 01/17/2018

Competitive fees earn the fund a Positive Price Pillar rating. Each of the fund's three share classes ranks in the cheapest quartile of similarly distributed peers'. The I shares' current 0.86% expense ratio applies to over three fourths of the fund's assets and is 14 basis points below the small-cap institutional peer median and cheaper than 81% of those peers. Most of the rest of the assets are in the A shares. Their 1.16% expense ratio is 16 basis points below the small-cap front load peer median and cheaper than 85% of peers'.

There is no minimum investment for the I shares. The A and C share classes each require a minimum investment of \$1,000, making all three options accessible to investors.

Performance Summary Returns as of December 31, 2017

| Share Class (Inception Date) | ANNUALIZED | | | | | | | Max Sales Chg. | Max CDSC | Gross Expense Ratio | Net Exp. Ratio ¹ |
|--|-----------------|--------------------|------------------|----------------|------------------|----------------|--------------------|----------------------|----------------|---------------------------|-----------------------------------|
| | 3 Mos | Year to Date | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | | | | |
| Class I (9/30/05) | 3.14% | 12.52% | 12.52% | 9.44% | 16.29% | 9.54% | 9.04% | -- | -- | 0.96% | 0.86% |
| Class A (9/30/05) | 3.06% -2.61% | 12.20% 6.01% | 12.20% 6.01% | 9.12% 7.09% | 15.96% 14.66% | 9.25% 8.64% | 8.75% 8.25% | 5.50% 5.50% | -- -- | 1.26% 1.26% | 1.16% 1.16% |
| Class C² (9/30/05) | 2.85% 1.85% | 11.42% 10.42% | 11.42% 10.42% | 8.53% 8.53% | 15.30% 15.30% | 8.72% 8.72% | 8.40% 8.40% | -- -- | 1.00% 1.00% | 1.96% 1.96% | 1.86% 1.86% |
| Russell 2000 Index³ | 3.34% | 14.65% | 14.65% | 9.96% | 14.12% | 8.71% | -- | -- | -- | -- | -- |
| Morningstar Small Growth Category | 4.70% | 21.50% | 21.50% | 9.97% | 13.96% | 8.42% | -- | -- | -- | -- | -- |

1 Net operating expenses reflect contractual waivers and expense reimbursements that continue through the end of September 2018. For more information on fee waivers or expense reimbursements please see the expense table in the prospectus. If the waivers or reimbursements were not in effect the fund's performance would have been lower.

2 Class C shares of the Fund were initially offered from 9/30/05 (inception) to 06/04/12, after which C shares were terminated. The Fund re-commenced offering Class C shares of the Fund on 10/3/16. Performance shown between 9/30/05 - 6/4/12 represents the C-Share performance net of the original fund fees 1.95%. Performance shown between 06/5/12 - 3/31/16 represents I-Share performance adjusted to reflect the original net fees of 1.95%. Performance between 4/1/15 - 10/2/16 reflect expense caps that were lowered across share all classes, and represents I-Share performance adjusted to reflect the reduced C-Share expense cap of 1.85%. Performance after 10/2/16 represents C-Share performance net of current fund expenses.

3 The Russell 2000 Index, an unmanaged index of companies widely representative of small-capitalization companies based on market capitalization is not available for direct investment. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees, or other expenses.

Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. POP (Public Offering Price) figures reflect maximum sales charge in class A shares of 5.50%. NAV (Net Asset Value) returns do not include the effect of any applicable sales charges. Current performance may be lower or higher than that shown here. Performance data current to the most recent month-end is available at 800-622-FUND (3863) or pncfunds.com.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider numeric and qualitative factors, but the ultimate view on the individual pillars and how they come together is driven by the analyst's overall assessment and overseen by an Analyst Ratings Committee. The approach serves not as a formula but as a robust analytical framework ensuring consistency across Morningstar's global coverage. A fund may receive a Gold rating and still have negative, flat or poor performance.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars-strengths that give the analysts a high level of conviction. A "Bronze" rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one, if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to: <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

©2018 Morningstar, Inc. All Rights Reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Morningstar Ratings as of December 31, 2017



I SHARES



A SHARES

Out of 609 funds in the Small Growth category

3-Year Rating

3 stars out of 609 funds

3-Year Rating

3 stars out of 609 funds

5-Year Rating

4 stars out of 544 funds

5-Year Rating

4 stars out of 544 funds

10-Year Rating

4 stars out of 406 funds

10-Year Rating

4 stars out of 406 funds

The overall Morningstar rating for a fund is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar metrics. The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three, five, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. **Ratings are for the share class shown; other classes may vary.**

INVESTMENT RISKS

Investments in small-capitalization companies present a greater risk of loss than investments in large companies due to greater volatility and less liquidity. Investments in value companies can continue to be undervalued for long periods of time and be more volatile than the stock market in general. Investments in growth companies can be more sensitive to the company’s earnings and more volatile than the stock market in general. International investments are subject to special risks not ordinarily associated with domestic investments, including currency fluctuations, economic, and political change, and differing accounting standards that may adversely affect portfolio securities. These risks may be heightened in emerging markets. To the extent that the Fund invests a significant portion of its assets in a particular industry, the Fund’s performance could depend heavily on the performance of that industry and may be more volatile than less concentrated funds. The portfolio team may choose to invest in initial public offerings (IPOs), the performance of which is unpredictable and the effect of which may not be duplicated during periods in which the Fund does not invest in IPOs.

NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

You should consider the investment objectives, risk, charges, and expenses of PNC Funds carefully before investing. A prospectus or summary prospectus with this and other information may be obtained at 800-622-FUND (3863) or pncfunds.com. Please read the prospectus carefully before investing.

PNC Capital Advisors, LLC, a subsidiary of The PNC Financial Services Group, Inc., serves as investment adviser and co-administrator to PNC Funds and receives fees for its services. PNC Funds are distributed by PNC Funds Distributor, LLC, which is not affiliated with the adviser and is not a bank.

© The PNC Financial Services Group, Inc. All rights reserved.