

PNC Multi Factor Small Cap Core I PLOIX

A proven quant fund.

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	2.64	-4.74
2016	17.55	6.35
2015	-0.91	1.50
2014	8.12	5.69
2013	50.08	9.17

Data through 4-30-17

4-24-17 | by Alec Lucas, Ph.D.

PNC Multi-Factor Small Cap Core merits a Morningstar Analyst Rating of Bronze for its combination of expert management, an effective quant model, and a relatively modest fee hurdle.

The fund's management team is well qualified. While lead manager Hitesh Patel's doctorate is in medicinal chemistry, he began working with financial risk models in the mid-1990s and in the late 1990s became a founding member of his current structured equity team. Comanager Paul Kleinaitis, whose investing background dates to 1987, was also a founding member of that team.

The fund's quant approach has proven 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 within the resultant universe. Fundamental factors account for 30%-40% of the model's weight, valuation 30%-35%, and momentum 25%-35%.

The fund's 100- to 130-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 but doesn't eliminate it. Inclusion of ADRs, for example, allowed the fund's emerging-markets weighting (including South Korea and Taiwan) to climb to 5.2% of assets in August 2008.

The model struggles if market conditions shift suddenly. 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 2016 amidst a sharp rotation toward value stocks.

Over the long haul, though, the fund has shown it can deliver risk-adjusted outperformance. From Patel's 2005 start date through March 2017, the fund's 8.4% annualized gain beat the index by 0.4 percentage points with less volatility.

Competitive fees should help the fund add to this record.

Process Pillar + Positive | Alec Lucas, Ph.D. 04/24/2017

The fund uses a multifactor quant model that has proven 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 1800-1900 names. Fundamental factors, such as earnings estimates' dispersion, sales growth, and net margin change, account for

30%-40% of the model's weight. Valuation factors, especially cash flow/price, compose 30%-35% of the weight and momentum makes up 25%-35%. Industry-specific factors figure in, too, such as gauging short-interest in biotech.

The fund builds its 100- to 130-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%. The fund rebalances the portfolio monthly or when a big cash inflow or outflow occurs. It sells stocks when their rankings deteriorate, events affect their fundamentals, or because of portfolio constraints, such as staying within 3 percentage points of the benchmark's industry weightings.

Annual portfolio turnover peaked at 189% in 2007, but tends to fall within the 70%-100% range.

Although the fund's multifactor model ensures that its portfolio hews closely to that of the Russell 2000 Index, the model's flexibility still allows the fund to distinguish itself. The fund has often tilted more toward growth stocks than its core benchmark. It had higher rolling three-year correlations with the Russell 2000 Growth Index from its 2005 inception until late 2013. It has also been in the small-cap growth Morningstar Category since May 2009.

Inclusion of ADRs in the fund's investment universe also allows for a hefty weighting in foreign-domiciled companies versus its domestic-oriented boggy. 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%-8%.

Industry exposures stay within 3 percentage points of the benchmark's, but the fund's sector over- and underweightings can be a bit more substantial. In

July 2012, the fund's 9.7% industrials stake was 4.7 percentage points less than the index's.

The quant model primarily drives changes to the portfolio, but human judgment plays a role when necessary. Corporate actions, such as mergers and acquisitions, sometimes require intervention as do idiosyncratic events. In 2007's third quarter, management sold WellCare HealthPlans WCG after a federal raid of its headquarters.

Performance Pillar + Positive | Alec Lucas, Ph.D. 04/24/2017

The fund receives a Positive Performance Pillar rating for its strong risk-adjusted record under lead manager Hitesh Patel. From his late 2005 start date through March 2017, the fund's 8.4% annualized gain beat its Russell 2000 Index and typical small-cap growth category peer by 0.4 and 1.4 percentage points, respectively, with less volatility (as measured by standard deviation) than both.

The multifactor factor, especially its consistent tilt toward growth stocks, has helped the fund outperform in up as well as down markets over the past decade. In 2013's rally, the fund's top-decile 49.6% beat the index by 10.8 percentage points, while its top-third 1.2 loss in 2015 wasn't as severe as the benchmark's 4.4% drop.

The model struggles, though, 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, when those stocks tended to gain the most. 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 amidst 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 percentage points.

People Pillar + Positive | Alec Lucas, Ph.D. 04/24/2017

The fund's management team blends experience with expertise in quantitative investing. It receives 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 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 SAI disclosure, neither had any money in this fund or its growth or value siblings.

Parent Pillar ● Neutral | Alec Lucas, Ph.D. 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 with

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 | Alec Lucas, Ph.D. 04/24/2017

Competitive fees earn the fund a Positive Price Pillar rating. Each of the fund's three share classes ranks in the cheapest quintile of similarly distributed peers'. The I shares' current 0.85% expense ratio applies to nearly three fourths of the fund's assets and is 15 basis points below the small-cap institutional peer median and cheaper than 80% of those peers. Most of the rest of the assets are in the A shares. Their 1.15% expense ratio is 18 basis points below the small-cap front load peer median and cheaper than nearly 90% of peers'.

Trading costs are reasonable, too. In fiscal 2016, brokerage commissions of 0.12% of average net assets matched the small-growth category median.

Performance Summary Returns as of June 30, 2017

Share Class (Inception Date)	3 Mos	Year to Date	1 Year	ANNUALIZED				Since Inception	Max Sales Chg.	Max CDSC	Gross Expense Ratio	Net Exp. Ratio ¹
				3 Years	5 Years	10 Years						
Class I (9/30/05)	1.49%	2.94%	19.88%	8.03%	17.10%	7.97%	8.62%	--	--	1.19%	0.85%	
Class A (9/30/05)	1.42% -4.17%	2.79% -2.87%	19.51% 12.93%	7.73% 5.72%	16.76% 15.46%	7.69% 7.08%	8.33% 7.82%	5.50% 5.50%	-- --	1.49% 1.49%	1.15% 1.15%	
Class C² (9/30/05)	1.24% 0.24%	2.43% 1.43%	19.24% 18.24%	7.15% 7.15%	16.11% 16.11%	7.22% 7.22%	8.00% 8.00%	-- --	1.00% 1.00%	2.19% 2.19%	1.85% 1.85%	
Russell 2000 Index³	2.46%	4.99%	24.60%	7.36%	13.70%	6.92%	--	--	--	--	--	

1 Net operating expenses reflect contractual waivers and expense reimbursements that continue through the end of September 2017. 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 10/3/2016. 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 - 10/2/2016 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>

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Morningstar Ratings as of June 30, 2017



I SHARES



A SHARES

Out of 599 funds in the Small Growth category

3-Year Rating

4 stars out of 599 funds

3-Year Rating

3 stars out of 599 funds

5-Year Rating

5 stars out of 533 funds

5-Year Rating

5 stars out of 533 funds

10-Year Rating

4 stars out of 398 funds

10-Year Rating

4 stars out of 398 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.

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