# Asset Allocation

## Consistently investing in a broad range of asset classes and securities may offer the opportunity for greater returns over the long term.

No one can predict which asset class will be next year's top performer. Over time, different investments produce a range of returns as markets and economic conditions change. Investors may experience less volatility through portfolio diversification by combining asset classes that react in different ways to the same economic and market stimuli. In doing so, you avoid tying your own portfolio's performance to the ups and downs of any one asset class.

### Which Asset Class Will Be Next Year's Best?

In the table below, notice which asset class had the highest return in 2009. How did that asset class perform in 2011?

**ANNUAL RETURNS FOR KEY ASSET CLASSES 2007 – 2016**

Best

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Emerging Markets 39.42% | Government Bonds 12.39% | Emerging Markets 78.51% | Small Cap Growth 29.09% | Government Bonds 9.02% | Emerging Markets 18.22% | Small Cap Growth 43.30% | Real Estate Investment Trusts 30.14% | Large Cap Growth 5.67% | Small Cap Value 31.72% |
| Foreign Stocks 16.65% | Corporate Bonds -2.76% | High Yield Bonds 58.21% | Real Estate Investment Trusts 27.96% | Real Estate Investment Trusts 8.29% | Real Estate Investment Trusts 18.06% | Mid Cap 34.76% | Large Cap Value 13.45% | Real Estate Investment Trusts 2.29% | Large Cap Value 17.33% |
| Large Cap Growth 11.81% | High Yield Bonds -26.15% | Foreign Stocks 41.45% | Mid Cap 25.48% | Corporate Bonds 5.37% | Small Cap Value 18.05% | Small Cap Value 34.52% | Mid Cap 13.22% | Corporate Bonds 0.90% | High Yield Bonds 17.13% |
| Government Bonds 8.66% | Small Cap Value -28.92% | Mid Cap 40.48% | Small Cap Value 24.50% | High Yield Bonds 4.98% | Large Cap Value 17.51% | All Cap 33.55% | Large Cap Growth 13.05% | Government Bonds 0.86% | Mid Cap 13.78% |
| Small Cap Growth 7.05% | Large Cap Value -36.85% | Large Cap Growth 37.21% | Emerging Markets 18.88% | Large Cap Growth 2.64% | Mid Cap 17.28% | Large Cap Growth 33.48% | All Cap 12.56% | All Cap 0.48% | All Cap 12.74% |
| All Cap 5.14% | All Cap -37.31% | Small Cap Growth 34.47% | All Cap 16.93% | All Cap 1.03% | Foreign Stocks 16.83% | Large Cap Value 32.53% | Small Cap Growth 5.60% | Small Cap Growth -1.38% | Small Cap Growth 11.28% |
| Corporate Bonds 5.60% | Real Estate Investment Trusts -37.73% | All Cap 28.34% | Large Cap Growth 16.71% | Large Cap Value 0.39% | All Cap 16.42% | Foreign Stocks 15.29% | Government Bonds 4.92% | Mid Cap -2.44% | Emerging Markets 11.19% |
| Mid Cap 5.60% | Large Cap Growth -38.44% | Real Estate Investment Trusts 27.99% | Large Cap Value 15.51% | Mid Cap -1.55% | High Yield Bonds 15.81% | High Yield Bonds 7.44% | Small Cap Value 4.22% | Large Cap Value -3.83% | Real Estate Investment Trusts 9.50% |
| High Yield Bonds 1.88% | Small Cap Growth -38.54% | Small Cap Value 20.58% | High Yield Bonds 15.12% | Small Cap Growth -2.91% | Large Cap Growth 15.26% | Real Estate Investment Trusts 2.47% | Corporate Bonds 2.52% | High Yield Bonds -4.47% | Large Cap Growth 7.07% |
| Large Cap Value -0.17% | Mid Cap -41.46% | Large Cap Value 19.69% | Foreign Stocks 11.15% | Small Cap Value -5.50% | Small Cap Growth 14.59% | Corporate Bonds -0.17% | High Yield Bonds 2.46% | Foreign Stocks -5.66% | Foreign Stocks 4.50% |
| Small Cap Value -9.78% | Foreign Stocks -45.53% | Corporate Bonds 15.93% | Corporate Bonds 7.76% | Foreign Stocks -13.71% | Corporate Bonds 8.10% | Emerging Markets -2.60% | Emerging Markets -2.19% | Small Cap Value -7.47% | Corporate Bonds 3.68% |
| Real Estate Investment Trusts -15.69% | Emerging Markets -53.33% | Government Bonds -2.20% | Government Bonds 5.52% | Emerging Markets -18.42% | Government Bonds 2.02% | Government Bonds -2.60% | Foreign Stocks -3.87% | Emerging Markets -14.92% | Government Bonds 1.05% |

Worst

Small-cap growth stocks are represented by the Russell 2000 Growth Index; Small-cap value stocks are represented by the Russell 2000 Value Index; Mid-cap stocks are represented by the Russell Midcap Index; Foreign stocks are represented by the MSCI ACWI ex USA Index; Real estate investment trusts are represented by the NAREIT Index; Large-cap value stocks are represented by the Russell 1000 Value Index; Large-cap growth stocks are represented by the Russell 1000 Growth Index; High yield bonds are represented by the Bloomberg Barclays High Yield Bond Index; Corporate bonds are represented by the Bloomberg Barclays Capital U.S. Intermediate Credit Index; Government bonds are represented by the Bloomberg Barclays Government Bond Index; All Cap is represented by the Russell 3000 Index; Emerging Markets is represented by the MSCI Emerging Markets Index.

*Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss.*

Returns supplied by PNC Capital Advisors, LLC and Zephyr StyleADVISOR, 2017. *Indices are unmanaged and should not be considered indicative of any PNC Funds investment. It is not possible to invest directly in an index. Unlike a mutual fund, the performance of an index does not reflect the effects of taxes, transaction costs, management fees, or other expenses.*

## Why Diversify?

PNC offers funds in a variety of asset classes, geographic exposures, investment styles, market capitalizations, and maturity ranges. With this broad selection, investors can build/construct a diversified investment portfolio that has exposure to opportunities, while spreading risk.

### WHAT IS ASSET ALLOCATION?

Asset allocation is the process that determines how your assets are divided among different assets classes of stocks (equities), bonds (fixed income), and cash (money markets) and can balance an investor's need for growth through capital appreciation (growth) and capital preservation with his or her risk tolerance.

Investing in a broad range of asset classes may enhance portfolio diversification, reduce portfolio volatility, and offer opportunity for greater returns over the long-term. An investor can increase portfolio diversification in two ways:

- First, adding an additional asset with a low correlation to the existing asset provides greater portfolio diversification.
- Second, the investor can increase the number of assets in the portfolio. More assets mean greater diversification benefits, however, the benefits diminish with each additional asset unless the correlations are lower.

For example, if you have a portfolio with a large-cap growth strategy, and you add a small-cap growth strategy, you may not necessarily have increased portfolio diversification as much as if you had added an international equity index or even a REIT (real estate investment trust).

Forecasting the returns for a different asset class year-to-year is extremely difficult, even for the most seasoned investment professionals. The best-performing asset class one year, may be the worst-performing asset class the following year. Investment professionals construct investment portfolios by analyzing the risk and reward characteristics of different asset classes to find the optimal mix or asset allocation for an individual's risk tolerance and return expectations.

Investors may also opt to invest in a bundled asset allocation portfolio through a mutual fund. Life-cycle funds, also known as target-date funds, are an example of a unique investment product that has become popular during the last decade. Lifestyle funds, also known as target-risk funds are another example of bundled asset allocation options. Life-cycle and lifestyle funds have additional risk factors and you should discuss them with your financial advisor to ensure they meet your needs.

**ASSET ALLOCATION**

The active process of allocating investments across broad asset classes.

| STOCKS | BONDS | CASH |
|---|---|---|
| • Growth/Value<br>• Large/Small Cap<br>• International<br>• Emerging Markets | • Corporate<br>• Mortgage<br>• U.S. Government<br>• Municipals | • Money Market<br>• CDs<br>• Treasury Bills |

## To Learn More About PNC Funds:

- CONSULT YOUR FINANCIAL ADVISOR
- VISIT PNCFUNDS.COM
- CALL 800-622-FUND (3863)

***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 it carefully before investing.***