

# The Importance of Diversification

From year to year, there's no telling which asset classes will be the best performers—a strong argument for portfolio diversification. The chart below ranks the best to worst performing asset classes from top to bottom for the years 2003 to 2013.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD 2013
Small-Cap Growth 48.54%	Real Estate 33.16%	Commodities 21.36%	Real Estate 35.97%	Commodities 16.23%	Long-Term Bonds 24.02%	High-Yield Bonds 57.51%	Small-Cap Growth 29.09%	Long-Term Bonds 29.93%	Small-Cap Value 18.05%	Small-Cap Growth 32.47%
Small-Cap Value 46.03%	Small-Cap Value 22.25%	Real Estate 13.82%	International Stocks 26.34%	Large-Cap Growth 11.81%	International Bonds 11.40%	Convertibles 49.13%	Real Estate 28.60%	Real Estate 9.24%	Real Estate 17.59%	Small-Cap Value 23.07%
International Stocks 38.59%	International Stocks 20.25%	International Stocks 13.54%	Small-Cap Value 23.48%	International Bonds 11.30%	Intermediate-Term Bonds 5.24%	Large-Cap Growth 37.21%	Small-Cap Value 24.50%	Intermediate-Term Bonds 7.84%	Large-Cap Value 17.51%	Large-Cap Growth 20.87%
Real Estate 36.18%	Large-Cap Value 16.49%	Large-Cap Value 7.05%	Large-Cap Value 22.25%	International Stocks 11.17%	Cash 1.80%	Small-Cap Growth 34.47%	Commodities 16.83%	International Bonds 5.91%	International Stocks 17.32%	Large-Cap Value 20.47%
Large-Cap Value 30.03%	Small-Cap Growth 14.31%	Long-Term Bonds 6.50%	Small-Cap Growth 13.35%	Long-Term Bonds 9.81%	High-Yield Bonds -26.39%	International Stocks 31.78%	Convertibles 16.77%	High-Yield Bonds 4.38%	High-Yield Bonds 15.59%	Convertibles 17.83%
Large-Cap Growth 29.75%	International Bonds 12.04%	Large-Cap Growth 5.26%	Convertibles 12.83%	Small-Cap Growth 7.05%	Small-Cap Value -28.92%	Real Estate 28.60%	Large-Cap Growth 16.71%	Large-Cap Growth 2.64%	Large-Cap Growth 15.26%	International Stocks 16.14%
High-Yield Bonds 28.15%	High-Yield Bonds 10.87%	Small-Cap Value 4.71%	High-Yield Bonds 11.72%	Intermediate-Term Bonds 6.97%	Commodities -35.65%	Small-Cap Value 20.58%	Large-Cap Value 15.51%	Large-Cap Value 0.39%	Convertibles 14.96%	High-Yield Bonds 3.79%
Convertibles 27.15%	Convertibles 9.61%	Small-Cap Growth 4.15%	Large-Cap Growth 9.07%	Cash 4.74%	Convertibles -35.73%	Large-Cap Value 19.69%	High-Yield Bonds 15.19%	Cash 0.07%	Small-Cap Growth 14.59%	Real Estate 2.71%
Commodities 23.93%	Commodities 9.15%	Cash 3.00%	International Bonds 6.84%	Convertibles 4.53%	Large-Cap Value -36.85%	Commodities 18.91%	Long-Term Bonds 9.38%	Small-Cap Growth -2.91%	Intermediate-Term Bonds 4.21%	Cash 0.04%
International Bonds 18.63%	Long-Term Bonds 7.71%	High-Yield Bonds 2.74%	Cash 4.76%	High-Yield Bonds 2.24%	Large-Cap Growth -38.44%	Intermediate-Term Bonds 5.93%	International Stocks 7.75%	Convertibles -5.18%	Long-Term Bonds 3.56%	Intermediate-Term Bonds -1.89%
Intermediate-Term Bonds 4.10%	Large-Cap Growth 6.30%	Intermediate-Term Bonds 2.43%	Intermediate-Term Bonds 4.33%	Large-Cap Value -0.17%	Small-Cap Growth -38.54%	International Bonds 3.94%	International Bonds 6.78%	Small-Cap Value -5.50%	International Bonds 0.84%	International Bonds -3.68%
Long-Term Bonds 2.48%	Intermediate-Term Bonds 4.34%	Convertibles 1.01%	Commodities 2.07%	Small-Cap Value -9.78%	Real Estate -39.20%	Cash 0.16%	Intermediate-Term Bonds 6.54%	International Stocks -12.14%	Cash 0.07%	Commodities -8.56%
Cash 1.07%	Cash 1.24%	International Bonds -9.24%	Long-Term Bonds 1.85%	Real Estate -17.55%	International Stocks -43.38%	Long-Term Bonds -12.92%	Cash 0.13%	Commodities -13.32%	Commodities -1.06%	Long-Term Bonds -9.88%

Source: Morningstar Direct. Data as of 9/30/13. **Past performance is no guarantee of future results.** Each Index reflects a group of unmanaged securities. It is not possible to invest directly in an index. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Diversification does not assure a profit or protect against loss. This chart is not indicative of the past or future performance of any Allianz Global Investors product. Please see other side for additional information.

## KEY

- Cash represented by the Citigroup 3-Month T-Bill Index, an index of three-month Treasury bills.
- Commodities represented by the Dow Jones-UBS Commodity Total Return Index, which is composed of futures contracts on physical commodities.
- Convertibles represented by the BofA Merrill Lynch All Convertibles Index, which measures the performance of US dollar-denominated convertible securities not currently in bankruptcy with a total market value greater than \$50 million at issuance.
- International Bonds represented by the J.P. Morgan Global Aggregate Bond Index (ex-US), which is a US dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, excluding the US
- High-Yield Bonds represented by the BofA Merrill Lynch US High Yield Master II Total Return Index, which tracks the performance of below investment grade (BBB), but not in default, US dollar-denominated corporate bonds publicly issued in the domestic market.
- Intermediate-Term Bonds represented by the Barclays US Aggregate Index, which is composed of securities from the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market.
- International Stocks represented by the MSCI EAFE Index. The MSCI Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets.
- Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Long-Term Bonds represented by the Barclays Long-Term Treasury Index, an index of US Treasury obligations with maturities greater than 10 years.
- Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the US
- Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**A Word About Risks:** The 13 asset classes listed in the table involve contrasting risk factors. Cash-equivalent investments have fluctuated the least and have been relatively stable. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. Equities have tended to be volatile, and unlike bonds do not offer a fixed rate of return. Convertible securities involve the added risk that securities must be converted before it is optimal. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes and international economic and political developments. Foreign markets may be more volatile, less liquid, less transparent and subject to less oversight, and values may fluctuate with currency exchange rates; these risks may be greater in emerging markets. Investments in smaller companies may be more volatile and less liquid than investments in larger companies. Real Estate Investment Trusts (REITs) are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income.

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AGI-2013-04-08-6478  
FL-017-0913

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