

The Benefits of a Diversified Bond Portfolio

Various sectors of the bond market react differently to changes in the economy and interest rates. The chart below ranks the total return of twelve sectors from best to worst from 1999–2008—a strong case for holding a diversified bond portfolio.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Emerging Markets 24.18%	Long Treasuries 20.27%	Inv. Grade Corporate 10.39%	Unhedged Foreign 22.99%	High Yield 28.15%	Unhedged Foreign 12.04%	Emerging Markets 10.73%	High Yield 11.77%	U.S. TIPS 11.63%	Long Treasury 24.03%
T-Bills 4.74%	Emerging Markets 14.41%	BCAG 8.44%	Long Treasuries 16.79%	Emerging Markets 25.65%	Emerging Markets 11.73%	Long Treasuries 6.50%	Emerging Markets 9.88%	Unhedged Foreign 10.81%	Unhedged Foreign 12.00%
Short Treasuries 3.06%	U.S. TIPS 13.17%	Short Treasuries 8.30%	U.S. TIPS 16.57%	Unhedged Foreign 18.63%	High Yield 10.87%	Municipals 3.51%	Unhedged Foreign 5.94%	Long Treasuries 9.81%	Int. Treasuries 11.35%
High Yield 2.51%	Municipals 11.68%	Mortgages 8.22%	Emerging Markets 13.12%	U.S. TIPS 8.40%	U.S. TIPS 8.46%	T-Bills 3.00%	Mortgages 5.22%	Int. Treasuries 8.83%	Mortgages 8.52%
U.S. TIPS 2.40%	BCAG 11.63%	Int. Treasuries 8.16%	Inv. Grade Corporate 10.53%	Inv. Grade Corporate 7.70%	Long Treasuries 7.70%	U.S. TIPS 2.84%	Municipals 4.84%	Short Treasuries 7.32%	Short Treasuries 6.61%
Mortgages 1.86%	Mortgages 11.16%	U.S. TIPS 7.90%	BCAG 10.26%	Municipals 5.31%	Inv. Grade Corporate 5.24%	High Yield 2.74%	T-Bills 4.76%	BCAG 6.97%	BCAG 5.24%
Int. Treasuries 0.41%	Int. Treasuries 10.26%	Municipals 5.13%	Municipals 9.60%	BCAG 4.10%	Mortgages 4.70%	Mortgages 2.61%	BCAG 4.33%	Mortgages 6.96%	T-Bills 1.80%
BCAG -0.82%	Inv. Grade Corporate 9.39%	High Yield 4.48%	Int. Treasuries 9.28%	Mortgages 3.07%	Municipals 4.48%	BCAG 2.43%	Inv. Grade Corporate 4.26%	Emerging Markets 6.28%	U.S. TIPS -2.35%
Inv. Grade Corporate -1.96%	Short Treasuries 7.99%	Long Treasuries 4.21%	Mortgages 8.75%	Long Treasuries 2.48%	BCAG 4.34%	Inv. Grade Corporate 1.96%	Short Treasuries 3.96%	Inv. Grade Corporate 5.11%	Municipals -2.47%
Municipals -2.06%	T-Bills 5.95%	T-Bills 4.09%	Short Treasuries 5.76%	Int. Treasuries 2.11%	Int. Treasuries 2.02%	Short Treasuries 1.67%	Int. Treasuries 3.51%	T-Bills 4.74%	Inv. Grade Corporate -3.08%
Unhedged Foreign -6.19%	Unhedged Foreign -2.48%	Emerging Markets 1.36%	T-Bills 1.70%	Short Treasuries 1.90%	T-Bills 1.24%	Int. Treasuries 1.56%	Long Treasuries 1.85%	Municipals 3.36%	Emerging Markets -10.91%
Long Treasuries -8.74%	High Yield -5.12%	Unhedged Foreign -3.58%	High Yield -1.89%	T-Bills 1.07%	Short Treasuries 0.91%	Unhedged Foreign -9.24%	U.S. TIPS 0.41%	High Yield 2.19%	High Yield -26.39%

■ T-Bills represented by the Citigroup 3-Month T-Bill, an index of three-month Treasury bills. ■ Short Treasuries represented by the Merrill Lynch 1–3 Year Treasury Index, an index consisting of US Treasury obligations having maturities from 1 to 2.99 years. ■ High Yield represented by the Merrill Lynch U.S. High Yield Master II 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. ■ Mortgages represented by the Barclays Capital Mortgage Backed Securities Index, which is composed of mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). ■ Inv. Grade Corporate Bonds represented by the Barclays Capital Credit Index, which tracks publicly issued, fixed-rate, non-convertible investment grade corporate debt. ■ BCAG, the Barclays Capital Aggregate Bond Index, represents the domestic, investment-grade, fixed-rate, taxable bond market. ■ Int. Treasuries represented by the Barclays Capital Intermediate Treasury Index, which is composed of Treasury bonds with maturities between 1 and 9.9 years. ■ Unhedged Foreign is represented by the JPMorgan Non-U.S. Global Government Bond (Unhedged) Index, an index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets. ■ Municipal represented by the Barclays Capital Municipal Bond Index, which tracks investment-grade, tax-exempt, fixed-rate municipal bonds with maturities greater than two years. ■ Long Treasuries represented by the Barclays Capital Long Treasury Index, which is composed of Treasury bonds with maturities greater than 10 years. ■ Emerging Markets represented by the JPMorgan Emerging Markets Bond Index Global, which tracks total return for U.S.-dollar-denominated debt instruments issued by selected emerging market countries. ■ U.S. TIPS represented by the Barclays Capital Global Real U.S. TIPS Index, an index made up of U.S. Treasury Inflation Protection securities.

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The 12 asset classes listed in the table involve contrasting risk factors. Cash-equivalent investments have fluctuated the least and have been relatively stable. Fixed-income securities—including TIPS—fluctuate in value in response to changes in interest rates, with lower-rated bonds possibly being speculative and involving higher risk of default. Mortgage-backed securities involve prepayment risk, and the value of some mortgage-related securities may be particularly sensitive to interest rate changes, and there is no assurance that private insurers of the underlying mortgages will meet their obligations. Non-U.S. securities markets involve possibly greater risk of political instability and greater currency risk in addition to having been more volatile. Commodities investments are speculative and involve special risks related to weather and international political and economic developments. Allianz Global Investors Distributors LLC, 1345 Avenue of the Americas, New York, NY 10105-4800 ©2009.

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