

# 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 2000–2009—a strong case for holding a diversified bond portfolio.



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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%	High Yield 57.51%
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%	Emerging Markets 28.18%
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%	Inv. Grade Corporate 16.04%
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%	Municipals 12.91%
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%	U.S. TIPS 11.41%
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%	BCAG 5.93%
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%	Mortgages 5.75%
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%	Unhedged Foreign 1.90%
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%	Short Treasuries 0.78%
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%	T-Bills 0.16%
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%	Int. Treasuries -1.41%
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%	Long Treasury -12.92%

Data as of 12/31/09. ■ 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. ■ Municipals 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.

**A Word About Risks:** 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. In an environment where interest rates may trend upward, rising rates will negatively impact most bond funds, and fixed income securities held by a fund are likely to decrease in value. 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.

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# The Benefits of a Diversified Stock Portfolio

Instead of trying to be in the best-performing stock sector every year, an almost impossible task, diversifying across sectors with a long-term approach may help you smooth out performance spikes and avoid concentrated risks. This chart—which ranks the total returns of ten S&P 500 Index sectors from 1999–2009—helps make the case for a well-rounded stock portfolio.



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
Information Tech. 78.74%	Utilities 57.19%	Materials 3.48%	Consumer Staples -4.26%	Information Tech. 47.23%	Energy 31.54%	Energy 31.37%	Telecom Services 36.74%	Energy 34.40%	Consumer Staples -15.43%	Information Tech. 61.72%
Materials 25.26%	Health Care 37.05%	Consumer Discret. 2.79%	Materials -5.45%	Materials 38.19%	Utilities 24.28%	Utilities 16.83%	Energy 24.21%	Materials 22.53%	Health Care -22.81%	Materials 48.59%
Consumer Discret. 25.18%	Financials 25.70%	Industrials -5.74%	Energy -11.13%	Consumer Discret. 37.42%	Telecom Services 19.85%	Financials 6.50%	Utilities 20.99%	Utilities 19.38%	Utilities -28.98%	Consumer Discret. 41.30%
Industrials 21.50%	Consumer Staples 16.78%	Consumer Staples -6.40%	Financials -14.64%	Industrials 32.20%	Industrials 18.03%	Health Care 6.46%	Financials 19.23%	Information Tech. 16.30%	Telecom Services -30.48%	Industrials 20.93%
Telecom. Services 19.14%	Energy 15.68%	Financials -8.95%	Health Care -18.82%	Financials 31.03%	Consumer Discret. 13.28%	Materials 4.69%	Materials 18.98%	Consumer Staples 14.36%	Consumer Discret. -33.49%	Health Care 19.70%
Energy 18.73%	Industrials 5.88%	Energy -10.40%	Consumer Discret. -23.82%	Utilities 26.26%	Materials 13.23%	Consumer Staples 3.58%	Consumer Discret. 18.64%	Industrials 12.04%	Energy -34.86%	Financials 17.22%
Financials 4.12%	Materials -15.72%	Health Care -11.95%	Industrials -26.34%	Energy 25.63%	Financials 10.88%	Industrials 2.32%	Consumer Staples 14.58%	Telecom Services 11.88%	Industrials -39.92%	Consumer Staples 14.89%
Utilities -9.18%	Consumer Discret. -20.00%	Telecom Services -12.25%	Utilities -29.99%	Health Care 15.06%	Consumer Staples 8.16%	Information Tech. 0.99%	Industrials 13.29%	Health Care 7.32%	Information Tech. -43.14	Energy 13.82%
Health Care -10.66%	Telecom Services -38.81%	Information Tech. -25.87%	Telecom Services -34.11%	Consumer Staples 11.57%	Information Tech. 2.56%	Telecom Services -5.34%	Information Tech. 8.42%	Consumer Discret. -13.21%	Materials -45.66%	Utilities 11.91%
Consumer Staples -15.09%	Information Tech. -40.90%	Utilities -30.44%	Information Tech. -37.41%	Telecom Services 7.09%	Health Care 1.67%	Consumer Discret. -6.37%	Health Care 7.53%	Financials -18.52%	Financials -55.27%	Telecom Services 8.93%

Source: Bloomberg. Data as of 12/31/09.

The Standard & Poor's 500 Composite Index (S&P 500) is an unmanaged index that is generally representative of the U.S. stock market. It is not possible to invest directly in an unmanaged index.

Past performance is no guarantee of future results. The chart is not indicative of the past or future performance of any Allianz Global Investors product. Diversification does not ensure a profit or eliminate the risk of investing.

**A Word About Risks:** Equities have tended to be volatile, involve risk to principal and, unlike bonds, do not offer a fixed rate of return. Concentrating investments in individual sectors may add additional risk and additional volatility compared to a diversified equity portfolio.

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