

DIVERSIFICATION IS KEY TO MANAGING RISK

Diversification entails allocating your investments across various asset classes, industries, companies and countries, and is often used to reduce portfolio risk. Since different asset classes and investment types tend to move in different cycles and respond to different market events, diversifying your portfolio across various sectors, industries and entities—at home and abroad—can help reduce the chances of having the majority of your assets in investments that are performing poorly, and increase the chances of having some of your assets in investments that is doing well.

A globally diversified multi-asset class investment portfolio, represented by the black boxes labeled “MAC,” can help grow assets in a risk-managed fashion—and potentially provide consistency in expected investment performance.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 YEAR CAGR
Higher Returns	Global RE 20.0	TIPS 13.6	Global RE 29.8	U.S. Equities 32.6	Global RE 14.7	U.S. Equities 1.3	Natural Res. 31.6	EM Equities 37.8	Cash 1.8	U.S. Equities 31.6	U.S. Equities 13.5
	EM Equities 19.2	Inv. Grade 7.8	EM Equities 18.6	Dev. ex-U.S. 21.6	U.S. Equities 13.4	Inv. Grade 0.5	High Yield 17.1	Dev. ex-U.S. 24.8	Inv. Grade 0.0	Infrastructure 27.0	Global RE 8.9
	Natural Res. 18.6	High Yield 5.0	Dev. ex-U.S. 17.0	Infrastructure 15.0	Infrastructure 13.0	Cash 0.0	Infrastructure 12.4	U.S. Equities 21.9	TIPS -1.3	Global RE 23.8	Infrastructure 7.7
	U.S. Equities 15.4	U.S. Equities 2.0	U.S. Equities 16.1	MAC 9.1	Inv. Grade 6.0	Global RE -0.4	U.S. Equities 11.6	Infrastructure 20.1	High Yield -2.1	Dev. ex-U.S. 23.2	High Yield 7.5
	High Yield 14.9	Cash 0.1	High Yield 15.8	High Yield 7.4	MAC 4.5	TIPS -1.4	EM Equities 11.6	Natural Res. 18.9	U.S. Equities -4.5	EM Equities 18.9	MAC 6.7
	MAC 12.3	MAC 0.0	MAC 12.4	Global RE 2.2	TIPS 3.6	Dev. ex-U.S. -2.6	MAC 7.8	Global RE 15.0	Global RE -5.5	MAC 17.6	Dev. ex-U.S. 5.8
	Dev. ex-U.S. 9.4	Infrastructure -0.4	Infrastructure 11.9	Cash 0.0	High Yield 2.5	MAC -2.7	TIPS 4.7	MAC 14.2	MAC -5.7	Natural Res. 17.2	EM Equities 4.0
	Inv. Grade 6.5	Global RE -8.1	Natural Res. 9.0	Natural Res. -0.3	Cash 0.0	High Yield -4.4	Global RE 4.6	High Yield 7.5	Infrastructure -9.5	High Yield 14.3	Inv. Grade 3.7
	TIPS 6.3	Dev. ex-U.S. -11.8	TIPS 7.0	Inv. Grade -2.0	EM Equities -1.8	Infrastructure -11.5	Dev. ex-U.S. 3.3	Inv. Grade 3.5	Natural Res. -12.6	Inv. Grade 8.7	TIPS 3.4
	Infrastructure 5.8	Natural Res. -12.5	Inv. Grade 4.2	EM Equities -2.3	Dev. ex-U.S. -3.9	EM Equities -14.6	Inv. Grade 2.6	TIPS 3.0	Dev. ex-U.S. -13.6	TIPS 8.4	Natural Res. 1.6
Lower Returns	Cash 0.1	EM Equities -18.2	Cash 0.1	TIPS -8.6	Natural Res. -7.2	Natural Res. -24.0	Cash 0.3	Cash 0.8	EM Equities -14.2	Cash 2.2	Cash 0.5

Source: Northern Trust Investment Strategy, Bloomberg. Gross total returns in USD. See list of indices used in this exhibit on page 27. MAC (Multi-Asset Class) = Northern Trust Investment Policy Committee Strategic Asset Allocation decisions for global asset allocation model, tracked using preferred Investment Policy Committee asset class index proxies. CAGR = Compound Annual Growth Rate (trailing 10 years through 12/31/19). Past performance is no guarantee of future results. Periods greater than one year are annualized except where indicated. Returns reflect the reinvestment of dividends and other earnings and are shown before the deduction of investment management fees, unless indicated otherwise. Returns of the indexes also do not typically reflect the deduction of investment management fees, trading costs or other expenses. It is not possible to invest directly in an index. Indexes are the property of their respective owners, all rights reserved.

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Indices used in the exhibit include:

EM Equities: MSCI Daily Total Return Gross EM USD

Dev. ex-U.S.: MSCI Daily Total Return Gross World Ex US Total Return Index

Global RE: FTSE EPRA/NAREIT Global Index

High Yield: Bloomberg Barclays US High Yield 2% Issuer Cap

U.S. Equities: MSCI Daily Total Return Gross USA USD

TIPS: Bloomberg Barclays US Treasury Inflation Notes Total Return

Infrastructure: S&P Global Infrastructure Total Return

Natural Res.: Morningstar Global Upstream Natural Resources

MAC: (Multi-Asset Class) Northern Trust Investment Policy Committee Strategic Asset Allocation decisions for global asset allocation model, tracked using preferred Investment Policy Committee asset class index proxies.

Inv. Grade: Bloomberg Barclays US Agg Total Return

Cash: Bloomberg Barclays U.S. Treasury Bill

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