

Importance of Diversification in Your Income Allocation

The below table ranks select income-oriented indexes by absolute return from highest to lowest for the last 15 calendar years, with the S&P 500 shown as a broad market comparison. As illustrated in the table and charts on the following page:

- Market leadership changes frequently from year to year, making it difficult to determine the top performers; a well-diversified portfolio has the potential to smooth volatility and possibly increase risk-adjusted returns.
- Income-oriented investments generally outperformed in volatile environments and when the broad US equity market declined (2000–2002, 2008, 2011, 2018 and 2022).
- Low correlations among income-oriented indexes indicate that diversification within your income allocation may be beneficial to your overall portfolio.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
MLPs 76.41	BDCs 51.91	Utilities 19.91	BDCs 33.81	S&P 500 32.39	REITs 30.26	Preferred Stock 4.87	BDCs 24.18	S&P 500 21.83	Utilities 4.11	S&P 500 31.49	S&P 500 18.40	REITs 43.05	MLPs 30.92	BDCs 27.58
US High Yield Bonds 58.21	MLPs 35.85	MLPs 13.88	Preferred Stock 24.31	Dividend Payers 29.06	Utilities 28.98	Municipal Bonds 3.30	Dividend Payers 21.98	Dividend Payers 15.44	Municipal Bonds 1.28	BDCs 28.16	International Bonds 10.11	MLPs 40.17	Dividend Payers 2.31	MLPs 26.56
BDCs 56.46	REITs 28.47	Dividend Payers 12.42	REITs 17.99	MLPs 27.58	Dividend Payers 15.36	REITs 2.54	MLPs 18.31	Utilities 12.11	US Treasuries 0.82	Utilities 26.35	US Treasuries 8.33	BDCs 37.42	Utilities 1.57	S&P 500 26.29
Preferred Stock 50.83	Dividend Payers 18.32	Municipal Bonds 10.70	S&P 500 16.00	BDCs 17.07	S&P 500 13.69	S&P 500 1.38	US High Yield Bonds 17.13	International Bonds 10.51	US High Yield Bonds -2.08	REITs 24.45	Preferred Stock 7.95	Dividend Payers 32.24	Preferred Stock -1.16	REITs 13.77
REITs 28.60	US High Yield Bonds 15.12	US Treasuries 9.90	US High Yield Bonds 15.81	Utilities 13.21	Preferred Stock 13.50	US Treasuries 0.80	Utilities 16.29	Preferred Stock 10.35	International Bonds -2.15	Dividend Payers 23.11	US High Yield Bonds 7.11	S&P 500 28.71	Municipal Bonds -8.53	US High Yield Bonds 13.44
S&P 500 26.46	S&P 500 15.06	REITs 8.48	Dividend Payers 10.84	US High Yield Bonds 7.44	Municipal Bonds 9.05	Dividend Payers -1.64	S&P 500 11.96	US High Yield Bonds 7.50	Preferred Stock -3.44	Preferred Stock 14.48	Municipal Bonds 5.21	Utilities 17.67	BDCs -9.39	Preferred Stock 12.28
Municipal Bonds 12.91	US Treasuries 5.82	US High Yield Bonds 4.98	Municipal Bonds 6.78	REITs 2.40	US Treasuries 6.11	BDCs -3.68	REITs 8.49	Municipal Bonds 5.45	REITs -3.79	US High Yield Bonds 14.32	Utilities 0.48	Preferred Stock 5.56	US High Yield Bonds -11.19	Municipal Bonds 6.40
Utilities 11.91	Utilities 5.46	International Bonds 4.36	MLPs 4.80	Municipal Bonds -2.55	MLPs 4.80	US High Yield Bonds -4.47	Preferred Stock 6.07	REITs 4.33	S&P 500 -4.38	Municipal Bonds 7.54	Dividend Payers -4.56	US High Yield Bonds 5.28	US Treasuries -12.94	International Bonds 5.72
Dividend Payers 11.13	International Bonds 4.95	S&P 500 2.11	International Bonds 4.09	International Bonds -3.08	US High Yield Bonds 2.45	Utilities -4.85	International Bonds 1.49	US Treasuries 2.53	Dividend Payers -5.94	US Treasuries 6.92	REITs -7.52	Municipal Bonds 1.52	S&P 500 -18.11	US Treasuries 4.12
International Bonds 7.53	Preferred Stock 2.86	BDCs -9.76	US Treasuries 2.05	US Treasuries -3.37	International Bonds -3.08	International Bonds -6.02	US Treasuries 1.08	BDCs 0.64	BDCs -7.01	MLPs 6.56	BDCs -8.85	US Treasuries -2.47	International Bonds -18.70	Dividend Payers 1.53
US Treasuries -3.81	Municipal Bonds 2.38	Preferred Stock -10.10	Utilities 1.29	Preferred Stock -7.89	BDCs -6.90	MLPs -32.59	Municipal Bonds 0.25	MLPs -6.52	MLPs -12.42	International Bonds 5.09	MLPs -28.69	International Bonds -7.05	REITs -24.36	Utilities -7.08

Source: Morningstar. **Past performance does not guarantee future results.** It is not possible to invest directly in an index. Diversification does not assure a profit or protect against loss. This table is not indicative of the performance of any AAM product. See reverse for Indexes used, index definitions and additional important information.

Annualized Returns For Periods Ending 12/31/23 (%)

	1 Year	3 Years	5 Years	10 Years	15 Years
S&P 500	26.29	10.00	15.69	12.03	13.97
Utilities	-7.08	3.56	7.11	8.91	9.33
US High Yield Bonds	13.44	1.98	5.37	4.60	9.17
US Treasuries	4.12	-4.02	0.47	1.36	1.57
Municipal Bonds	6.40	-0.40	2.25	3.03	3.98
Dividend Payers	1.53	11.16	10.05	9.26	11.51
REITs	13.77	7.17	7.22	7.50	10.48
MLPs	26.56	32.43	12.03	1.90	10.39
Preferred Stock	12.28	5.42	7.68	6.89	7.86
International Bonds	5.72	-7.21	-1.56	-0.79	0.63
BDCs	27.58	16.68	13.16	6.82	13.29

Source: Morningstar. Past performance does not guarantee future results. It is not possible to invest directly in an index.

Index Correlations (1/1/09–12/31/23)

	S&P 500	Utilities	US HY Bonds	US Treasuries	Muni Bonds	Dividend Payers	REITs	MLPs	Preferred Stock	Int'l Bonds	BDCs
S&P 500	1.00										
Utilities	0.48	1.00									
US High Yield Bonds	0.72	0.41	1.00								
US Treasuries	-0.02	0.25	0.01	1.00							
Municipal Bonds	0.22	0.37	0.45	0.63	1.00						
Dividend Payers	0.86	0.61	0.64	-0.03	0.19	1.00					
REITs	0.76	0.58	0.67	0.17	0.37	0.79	1.00				
MLPs	0.59	0.29	0.65	-0.22	0.14	0.61	0.43	1.00			
Preferred Stock	0.58	0.34	0.61	-0.01	0.17	0.57	0.67	0.32	1.00		
International Bonds	0.50	0.43	0.52	0.52	0.54	0.46	0.48	0.23	0.43	1.00	
BDCs	0.77	0.37	0.73	-0.09	0.16	0.80	0.72	0.64	0.65	0.37	1.00

Source: Morningstar. Past performance does not guarantee future results. It is not possible to invest directly in an index. Correlation is a statistical measure of how two variables move in relation to each other with coefficients ranging from +1 to -1. A correlation coefficient of +1 implies that as one variable moves, the other will move in exact lockstep. Alternatively, a correlation coefficient of -1 implies that if one variable moves, the other moves in the same amount in the opposite direction. If the correlation is 0, the movements of the variables are completely random.

All investments involve risk; principal loss is possible. Diversification does not assure a profit or protect against loss.

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Index Definitions

- S&P 500 Index is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors.
- Utilities represented by the S&P 500 Utilities Index, which is a subset of the S&P 500 Index and includes all companies classified in the GICS utilities sector.
- US High Yield Bonds (US HY Bonds) represented by the Bloomberg US Corporate High Yield Index that consists of USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt.
- US Treasuries represented by the Markit iBoxx USD Treasuries Index, which utilizes a rules-based methodology to measure the performance of the US Treasury market with constituent selection subject to maturity, amount outstanding and rating constraints.
- Municipal Bonds represented by the Bloomberg Municipal Bond Index, which is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- Dividend Payers represented by the Dow Jones US Select Dividend Index, which is an unmanaged index of 100 stocks used to measure performance of dividend-paying US equities.
- REITs (Real Estate Investment Trusts) represented by the S&P US REIT Index, which is a free-float adjusted, market capitalization-weighted index that defines and measures the investable universe of publicly-traded real estate investment trusts domiciled in the United States.
- MLPs (Master Limited Partnerships) represented by the Alerian MLP Index, which is a float-adjusted, capitalization weighted index comprised of the 50 most prominent MLPs.
- International Bonds represented by the Bloomberg Global Aggregate ex. US Index in US dollars is a subset of the Global Aggregate Index, which consists of over 5,000 government, corporate, asset-backed and mortgage-backed securities that excludes those securities issued by the US government or corporations headquartered in the US.
- Preferred Stocks represented by the ICE BofA Adjustable Rate Preferred Index TR USD, tracks the performance of adjustable-rate US dollar denominated preferred securities issued in the US domestic market.
- BDCs represented by the S&P BDC Index, which measures the performance of Business Development Companies that trade on major US exchanges. Constituents are float-adjusted market capitalization (FMC) weighted, subject to a single constituent weight cap of 10%.



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