

Understanding Asset Allocation

An Educational Guide for Your Financial Future



Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

**No bank guarantee • Not a deposit • May lose value
Not FDIC/NCUA insured • Not insured by any federal government agency**

Get Ready for Retirement

Asset allocation and discipline are two important fundamentals for investing, and whether or not to utilize asset allocation is one of the most important decisions you will make as an investor. The key to asset allocation is to include a variety of investments in a portfolio and remain focused on long-term financial goals. By balancing risk and reward, you may find that you stick with your investment strategy rather than buy and sell in reaction to sudden market movements. Over the long term, owning multiple asset classes may help smooth out the overall risk to your portfolio.

What Is Asset Allocation?

Asset allocation is the process of distributing investments among various asset classes (for example, stocks, bonds, and cash) and determining their proportions within a portfolio.

When it comes to performance, asset-class leadership changes frequently. Because a single asset class is rarely the best performer year after year, diversification may help your portfolio weather the financial market's ups and downs.

The concept of asset allocation is far from new; in fact, it is based on a Nobel Prize-winning theory that was pioneered by Harry Markowitz in his paper, "Portfolio Selection," published in 1952 by The Journal of Finance.

Diversification May Lessen the Impact of Market Swings

A well-diversified portfolio may allow investors to mitigate some of the risks associated with investing. By investing a portion of the portfolio in several different asset classes, portfolio volatility may be reduced. Diversification does not ensure a profit or protect against a loss.

While a 100% stock portfolio has outperformed a 100% bond portfolio in the long term, it has not been the top performer each and every year. Looking back over a 10-year period, the image below illustrates the annual performance of various portfolios in relation to one another.

Annual Total Returns

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
16.00	32.39	13.69	1.38	11.96	21.83	0.01	31.49	18.40	28.71
13.07	22.94	11.77	1.36	9.69	17.02	-0.87	25.64	16.22	20.55
10.13	14.08	9.85	1.21	7.38	12.37	-1.90	19.89	13.66	12.80
7.18	5.77	7.91	0.94	5.03	7.88	-3.07	14.25	10.74	5.44
4.21	-2.02	5.97	0.55	2.65	3.54	-4.38	8.72	7.51	-1.54

Portfolios

- 1 ■ (100% Stocks)
- 2 ■ (75% Stocks, 25% Bonds)
- 3 ■ (50% Stocks, 50% Bonds)
- 4 ■ (25% Stocks, 75% Bonds)
- 5 ■ (100% Bonds)

Source: Morningstar®, 2022. The examples are hypothetical and do not represent any specific investment. Stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the five-year U.S. government bond. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Past performance does not guarantee future results. There is no assurance that a diversified portfolio will achieve a better return than a nondiversified portfolio.

Your Overall Investment Strategy

A good first step in determining the right investment mix is to speak with your financial professional. When working with him or her to decide where to invest your money, there are some key questions to consider.

"If I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what's going to happen in the stock market."

– Benjamin Graham, legendary investor and author, *Security Analysis*

What is Your Time Horizon?

How long do you plan to stay invested? This is a key element in determining an appropriate investment option. Long-term investments help provide the opportunity to ride out market swings. Conversely, if your time horizon is shorter, it is likely you would want to take on less risk.

What are Your Financial Goals?

Are you planning for retirement? Preparing to buy a home? Are you thinking about how to send your kids to college? Your financial goals are essential to identify the most appropriate investment options to consider.

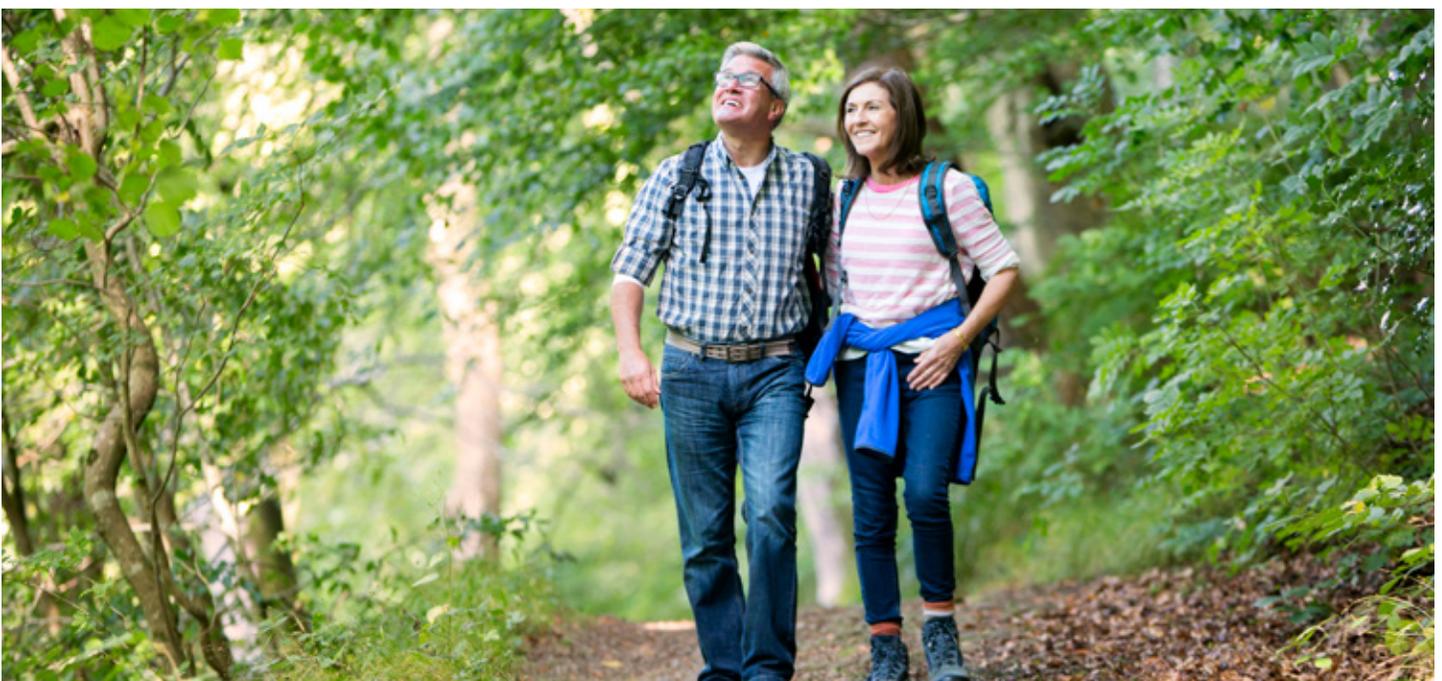
How Much Money Can You Afford to Invest?

How stable is your job and personal financial situation? How much investment risk can you afford to take? How much do you expect things, such as your income and expenses, to change over time? Knowing the answers to these questions will help you narrow down the options for your decision.

How Much Risk Are You Comfortable Taking?

Your tolerance for risk depends on your ability or willingness to withstand possible declines in the value of your original investment in exchange for potential higher returns. How aggressively do you want to pursue investment growth? Are you willing and able to tolerate the financial market's ups and downs?

Asset allocation seeks to maximize performance returns for a given level of risk.



Types of Asset Classes

Stocks, bonds, cash, and other asset classes make up the essential building blocks of a well-diversified portfolio. Each asset class offers a different level of risk and reward, which should be considered carefully before making an investment decision. To better understand how asset allocation works, it helps to know more about the investment options available to you. Working with your financial professional, you can determine the mix most appropriate for your goals.

Stocks

A stock represents ownership in a corporation. When you purchase shares of stock, you own a part of a corporation and participate in the ups and downs of the corporation. Historically, stocks have the greatest risk and best returns among the three major asset categories.

Bonds

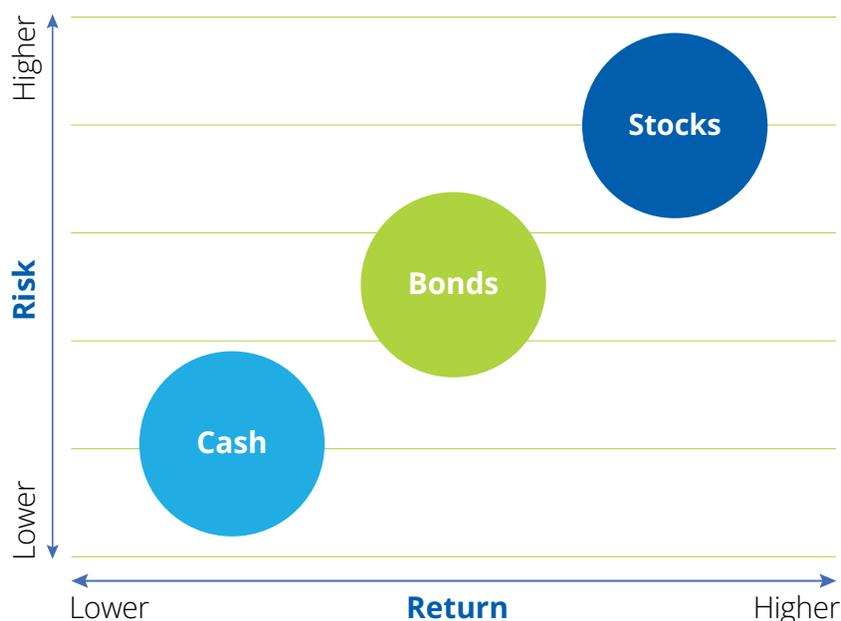
A bond represents a loan to a government or corporation. Individual bonds, if held to maturity, are a promise to return the original amount plus a specific rate of interest for a specific length of time. Historically, bonds have been less volatile than stocks, but offer more modest returns. Bonds are also referred to as fixed income.

Like stocks, there are different types of bonds. In general, bond issuers offer higher interest rates for long-term bonds and lower rates for shorter-term bonds (typically two years to maturity or less). Certain bonds offer high returns similar to stocks, but these bonds, known as high-yield or junk bonds, also carry a higher risk.

Cash

Cash and cash equivalents are generally short-term IOUs. Some examples include: savings deposits, certificates of deposit (CDs), Treasury bills, and money-market funds. These investments are less volatile, but offer the lowest return of the three major asset classes.

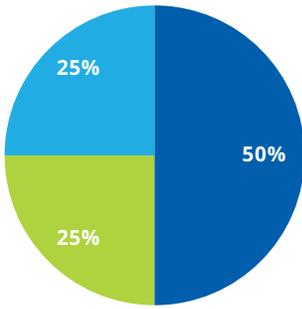
Keep in mind that when interest rates rise, bond values fall (and vice versa).



Rebalancing

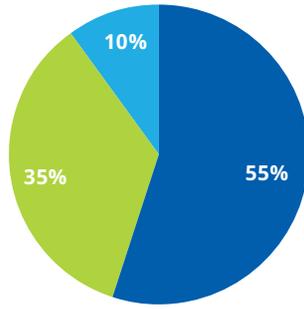
Over time, your asset allocation mix may change because certain assets perform well while others do not, thus changing the original balance. Rebalancing allows you to sell some of the overweight assets and buy some underweight assets to maintain a consistent allocation.

By rebalancing, you ensure that your portfolio does not overemphasize one or more asset classes, and you'll return your portfolio to the risk level you are comfortable with.



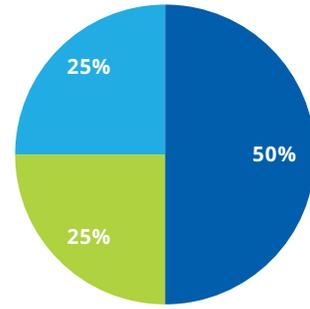
Target Allocations

Based on your risk tolerance and investment time horizon, your target portfolio allocation may look something like this.



Current Allocations

Over time, with market fluctuations, your portfolio allocations may vary.



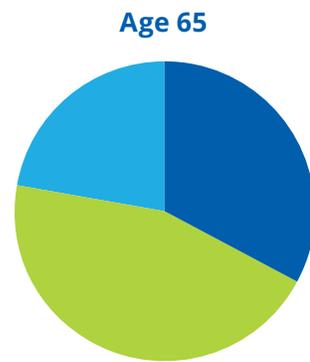
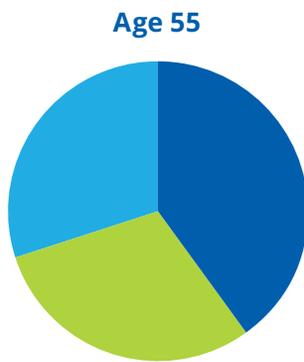
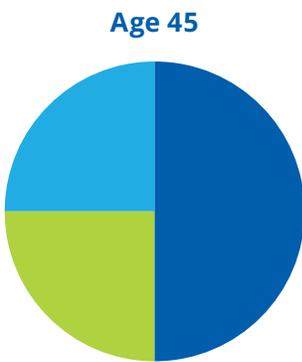
Rebalanced Allocations

After rebalancing, your portfolio is brought back to the target allocations you started with.

■ Stocks ■ Bonds ■ Cash

Timing

Target allocations may change based on the time remaining until retirement. For example:



■ Stocks ■ Bonds ■ Cash

Additional Ways to Diversify

Asset allocation is an important step to achieving a diversified portfolio, but your investments should include other asset classes. While stocks, bonds, and cash are the most common asset classes, alternative investments include real estate, commodities, domestic and international equities, Treasury Inflation-Protected Securities (TIPS), and floating-rate loans. Investments in these categories have their own specific risk profiles. Your financial professional can help you select the best mix for your situation.

Another way to achieve diversification is through financial products such as variable annuities, fixed annuities, and mutual funds.



Why Pacific Life

Pacific Life has more than 150 years of experience, and we remain committed to providing quality products, service, and stability to meet your needs today and throughout your lifetime.

It's essential for you to choose a strong and stable company that can help you achieve your future income needs. Since 1868, individuals and their families have relied on the strength of Pacific Life to help protect their financial security.

- Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- We have achieved ongoing recognition¹ for high-quality service standards.
- We offer products that address market environments during all stages of your life.
- Pacific Life is designated as one of the 2022 World's Most Ethical Companies^{®2} by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices.
- We maintain strong financial-strength ratings from major independent rating agencies.

Ratings may change and do not apply to the safety or performance of the underlying variable investment options. For more information and current financial-strength ratings, please visit [PacificLife.com](https://www.PacificLife.com).



¹Recipient of multiple DALBAR Service Awards since 1997. Refer to www.DALBAR.com for more information regarding awards, certifications, and rankings.

²Based on the Ethisphere Institute's Ethics Quotient[®]. "World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company. The independent third party from which this annuity is purchased, including the broker/dealer, the insurance agency from which this annuity is purchased, and any affiliates of those entities, make no representations regarding the quality of the analysis conducted by the rating agencies. The rating agencies are not affiliated with the above-mentioned entities nor were they involved in any rating agency's analysis of the insurance companies.

To learn more about asset allocation,
speak with your financial professional or visit our website.

PacificLife.com

Pacific Life, its affiliates, their distributors, and respective representatives do not provide tax, accounting, or legal advice. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor or attorney.

Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company. Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues.

VLC0443-0922



THE OFFICIAL SPONSOR
OF RETIREMENT*