INVESTOR **EDUCATION**

AN INTRODUCTION TO RISK ALLOCATION INVESTING

How does risk allocation work?

Risk allocation is one way to diversify investments based on where the current risks are, and it could mean that your portfolio is in a better position if markets are volatile. A risk allocation approach diversifies a portfolio based on the risk of each asset class rather than the amount of money in each asset class. Asset classes with lower risk receive a greater allocation, while asset classes with higher risk receive a lesser allocation.

Traditionally, investors buy stocks for return generation and bonds to generate income and help reduce risk. However, returns from a traditional 60% equity/40% fixed-income portfolio have historically been highly correlated with equity markets. As shown in the graph below, this means your portfolio is not as diverse as the 60/40 split suggests.

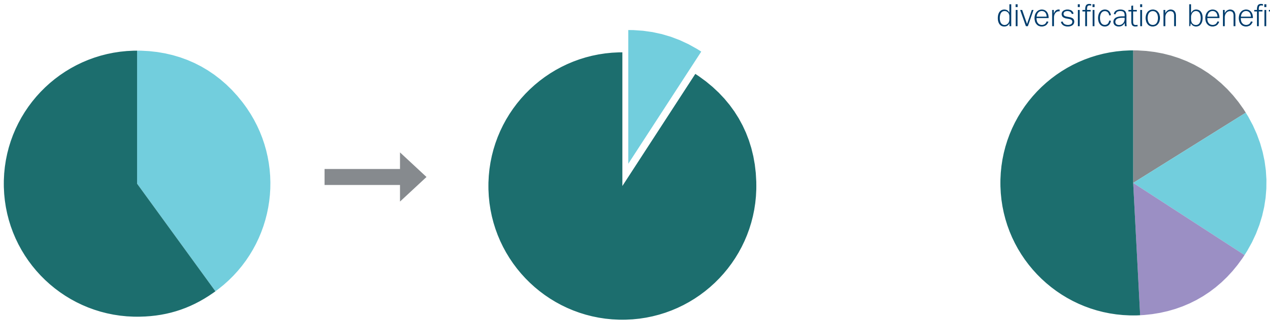
Reasons to consider risk allocation investing:

- Seeks to grow assets and balances risk for more diversification.
- Aims to reduce volatility and may reduce losses during equity market drawdowns.
- Tackles the hidden risk of allocating money between stocks and bonds.

60/40 portfolios look balanced by weight …

… but not by risk

Balanced risk strategies pursue a stronger diversification benefit



Traditional 60/40
(capital allocation)

Traditional 60/40
(risk allocation)

Risk allocation
(neutral risk allocation)

Equities
- U.S. equities
- Non-U.S. equities
- Emerging market equities

Interest rate assets
- U.S. government bonds
- Foreign government bonds

Inflation hedging assets
- Commodities
- Real estate investment trusts
- Global inflation-linked bonds

Other non-Treasury bonds
- Investment-grade bonds
- High-yield bonds
- Mortgage-backed securities
- Emerging market bonds

Asset allocation and diversification do not assure a profit or protect against loss. For illustrative purposes only.

To learn more about how this asset class might complement your portfolio, speak with your financial advisor. For additional investor education materials, please visit **columbiathreadneedleus.com.**

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What are the potential bene its to risk allocation?

Achieving long-term success with your investments is not just about high returns when markets are up — it's also about aiming to minimize losses during weak markets. Long-term investors will experience volatility at some point, and these events can have a significant effect on investment returns. Events that have the potential to cause volatility in financial markets include geopolitical events, major elections, natural disasters and changes in global banking policies. But the more you prepare your portfolio to weather these market downturns, the better off it can be in the long run. Risk allocation is one way to do that.

How might a risk allocation investment complement a portfolio?

A risk-allocation fund provides a core portfolio holding to help you grow assets and smooth the ride through volatile markets. It also adds diversification to existing balanced portfolios.

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Investing involves risk including the risk of loss of principal.

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