WILMINGTON TRUST

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April | 2021

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

A Year That Will Live in Infamy: Onward and Upward

In this issue:

Tony Roth
Chief Investment Officer

March marked the one-year anniversary of the COVID-19-induced bear market low. The past year could not be more unlike anything any of us have ever experienced. And while no two recessions ever repeat, this one doesn't even appear to rhyme with anything we've seen in history. The nature of the exogenous economic shock, the depth and speed of the economic collapse, and the extraordinary monetary and fiscal response make the 2020 recession truly unique.

Yet, many aspects of the market response one year out appear fairly "textbook." Equities have rallied significantly off the bottom, with the S&P 500 gaining 78% (including dividends) in the 1-year since March 23, 2020. Small-cap equities have outpaced large cap, delivering 120% total return, according to the Russell 2000 and S&P 500 indices, respectively. Cyclical sectors—that are sensitive to the peaks and troughs of the economy, like energy, materials, industrials, consumer discretionary, and financials—have been the best performers in the S&P 500 index. Commodities, high-yield bonds, and inflation-linked bonds have all delivered strong returns (Figure 1).

As we look ahead to the next year, we remain constructive on equities and have rotated the portfolios to further embrace cyclical and value-oriented equities. We hold overweight positions to equities (including U.S. large cap, U.S. small cap, international developed, and emerging markets), high-yield fixed income, and commodities versus our long-term strategic asset allocation. We fund that with underweight positions to cash, fixed income, and hedge funds.

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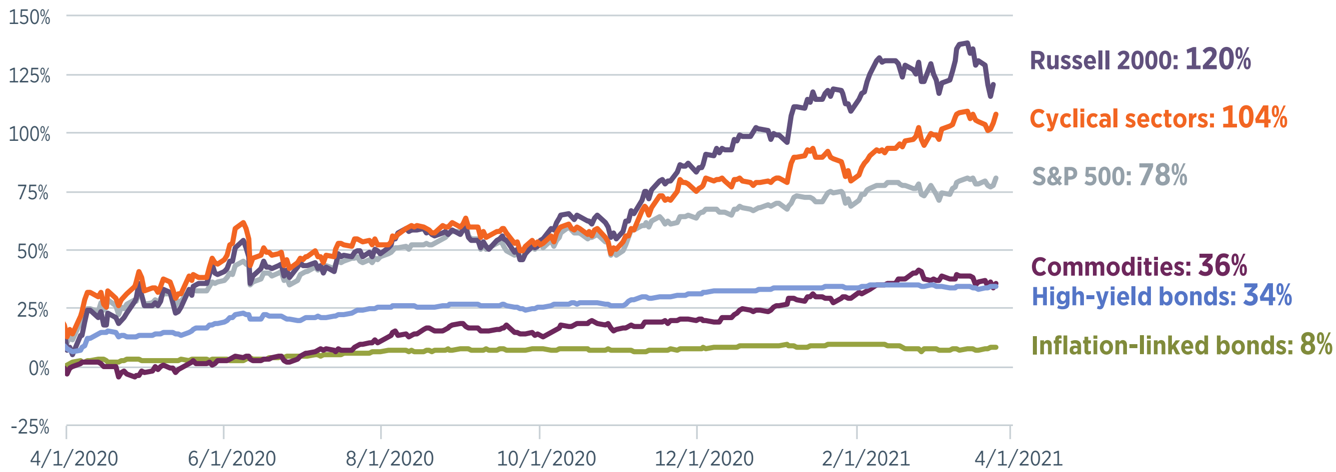
Figure 1

Asset class returns since March 23, 2020



Data as of March 25, 2021. Sources: Macrobond, Bloomberg. Cyclical sectors show the performance of an equal-weighted index of S&P 500 energy, materials, industrials, consumer discretionary, and financials sectors. Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

Equities are certainly pricing in a robust economic recovery, and risks to the economy and markets are present, so we expect equity returns to be more modest going forward but still to exceed those of bonds.

Economic acceleration

We are quite optimistic on the U.S. and global economic trajectories. An acceleration in the pace of vaccine distribution in the U.S. should permit economic reopening to coincide with fiscal stimulus making its way into the hands of consumers, businesses, and municipalities. Bloomberg median consensus estimate is for GDP growth of 5.7% year over year in 2021. We think this is conservative and believe growth could reach 9% based on reasonable assumptions of how much of the recently approved $1.9 trillion of fiscal support and $2.1 trillion in household savings are spent in 2021. The Treasury has already distributed $325 billion of economic impact payments, which should show up immediately in stronger consumer spending.

We believe inflation is likely to increase over the next 12 months, with our base case for headline CPI to settle in around 2.75% year over year in the second half of 2021. However, looking out over the next 12–18 months, we expect an elevated savings rate, pent-up demand for services, supply chain bottlenecks in parts of the world, and accommodative monetary policy to further raise inflation risks. The Federal Reserve has repeatedly telegraphed a desire to let inflation expectations and realized inflation run above its target for a prolonged period of time, which we interpret as indicating no increase in the federal funds rate for at least the next 12 months.

Equities are certainly pricing in a robust economic recovery, and risks to the economy and markets are present, so we expect equity returns to be more modest going forward but still to exceed those of bonds. It is to consideration of these risks—and their related investment opportunities—that I'll devote the rest of this letter.

Risks and opportunities

There are three main risks to the economy and markets over the coming months: COVID-19 variants, interest rates, and tax hikes. These risks could pose a greater

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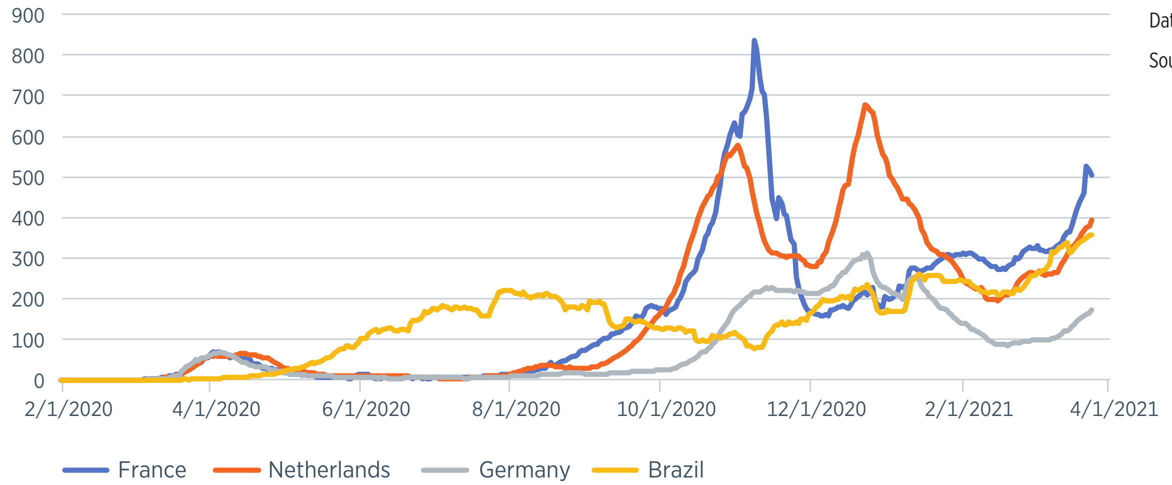
Figure 2

Daily cases of COVID-19 (including variants) per million of population



Data as of March 26, 2021.

Source: Macrobond.

Non-U.S. equities tend to be more levered to global economic activity given higher weightings to cyclical sectors and more reliance on exports, so we expect these equity markets to begin pricing in better earnings projections.

threat should equity market valuations continue to climb, but we also recognize them as presenting interesting investment opportunities.

- **COVID-19 variants**

  As if the original strain did not already present enough of a challenge, it is rapidly mutating around the globe. Scientific research so far suggests these strains—different ones beginning to dominate in different countries—are generally more contagious but not more lethal. The vaccines in distribution appear somewhat less effective at preventing the spread of these variants, but still very effective in preventing the most severe cases linked to hospitalization or death.

  In many other countries, this increased contagion is outpacing vaccinations, resulting in more stringent restrictions on schools, businesses, and social activities (Figure 2). As a result, economic activity in the first half of the year could suffer in Europe, Japan, and some emerging markets, such as Brazil. However, we are confident that these countries will move beyond the virus in the second half of the year as vaccine distribution accelerates. Non-U.S. equities tend to be more levered to global economic activity given higher weightings to cyclical sectors and more reliance on exports, so we expect these equity markets to begin pricing in better earnings projections. They are also much more attractively valued than U.S. markets, with the MSCI Emerging Markets Index trading in the 17th percentile versus the S&P 500 over the last five years, and the MSCI EAFE Index trading in just the 4th percentile. We believe the COVID variant risk presents an opportunity to invest in international equities at attractive levels ahead of a potential performance catch-up.

- **Interest rates**

  The upward move in interest rates has been dramatic and is resulting in one of the worst-ever starts to the year for fixed income returns. The 10-year Treasury yield bottomed after U.S. equities, hitting 0.5% on August 4, 2020. It stands at 1.66% at the time of writing. While a 1.16% move for the 10-year yield over the course of a

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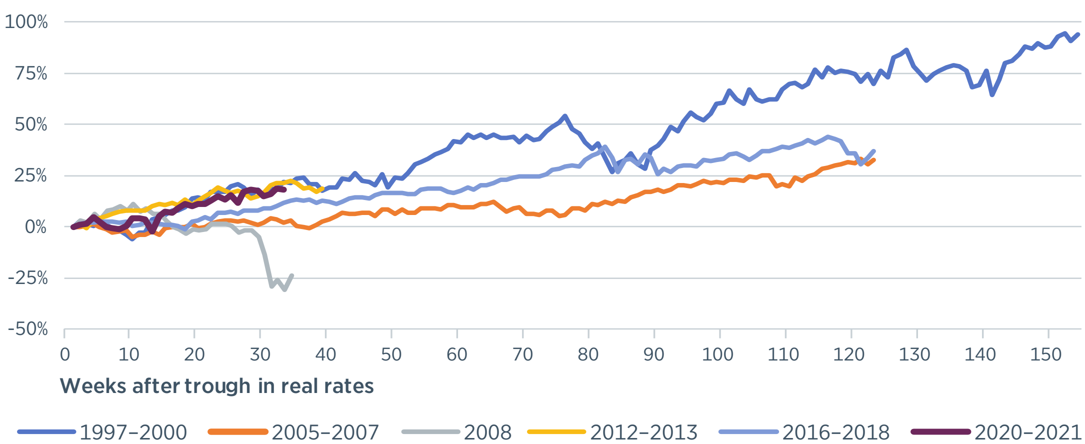
While rates have increased considerably, they are still very low relative to history and present challenges for income-oriented investors.

seven-month period is not unheard of, the relative move of more than 200% is extraordinary. The yield curve has also steepened, and we expect that trend to continue. With the Fed on hold and expectations for growth and inflation resetting higher after the passage of fiscal stimulus, the short end of the yield curve remains anchored while longer-dated interest rates have moved higher. The Fed has shown little interest in stepping in to curb the rise in rates (by, among other things, accelerating or increasing asset purchases). This has spooked equity investors, particularly those of "long-duration" growth equities.

We expect rates to continue to move higher and the yield curve to continue steepening, with the 10-year yield likely reaching 2%–2.25% a year from now. This effectively tightens financial conditions, though modestly, without any action from the Fed. However, we see opportunities for investors. First, an increase in real rates (nominal rates minus inflation expectations) has generally been a favorable backdrop for equities (Figure 3). This month we also rotated our portfolios further into cyclical and value-oriented equities slightly lower on the quality spectrum and trimmed some of our exposure to the growth and lower volatility factors. The economically sensitive cyclical sectors and value equities have historically outperformed in environments of accelerating economic growth, higher interest rates, and a steeper yield curve. While rates have increased considerably, they are still very low relative to history and present challenges for income-oriented investors. Therefore, we continue to seek opportunities in

Figure 3

S&P 500 cumulative total returns in periods of rising real rates



Source: Macrobond.

Chart shows the cumulative total returns of the S&P 500 during periods over the past 25 years in which the inflation-adjusted U.S. 10-year Treasury yields rose by 100 basis points or more.

Past performance cannot guarantee future results. Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which will reduce returns.

	Months	Rise in real rates (basis points)	S&P 500 total return	S&P 500 annualized return
Feb 1997–Dec 2000	35	107	91.3%	24.7%
Feb 2005–Jun 2007	29	126	29.8%	12.2%
Mar–Oct 2008	8	213	-24.1%	-33.3%
Dec 2012–Sep 2013	10	178	17.5%	26.0%
Jul 2016–Nov 2018	29	120	40.1%	14.8%
Aug 2020–Mar 2021	8	44	18.9%	32.0%
Average	**20**	**131**	**28.9%**	**12.7%**

Continued

Industrial equities may become more attractive under a scenario of infrastructure spending paired with tax hikes, as they would be one of the sectors we would expect to take less of a hit from an increase in the corporate and GILTI tax rates

dividend equity and covered-call strategies (the latter of which employs a strategy of selling call options on a security to generate extra income). For more on our portfolio strategies, please see the replay from our recent webinar: "Adapting Portfolios as Rates Rise."

- **Tax increases**

  It is still too early to speculate on specific changes to tax policy, but infrastructure spending is a key tenet of President Biden's agenda and one that could require tax increases as a means of offsetting the bill. We expect an increase to personal, corporate, and capital gains tax rates as early as 2021. An increase in the capital gains rate has historically been correlated to lower equity market returns (and obviously lower after-tax returns for taxable investors). President Biden's tax plan from the campaign trail included a higher U.S. corporate tax rate of 28%, increase in the global intangible low-taxed income (GILTI) to 21%, and minimum corporate tax rate of 15%. All in, this could shave 8%–10% off S&P 500 earnings in 2022. However, the Democrats are operating on a razor-thin majority in both houses, so we could see a more moderate or phased-in approach to raising taxes that would be less likely to derail the current bull market.

  Clearly, an increase in the U.S. corporate tax rate would impair U.S. equities at the expense of international, all else being equal. We would note that industrial and material equities may become more attractive under a scenario of infrastructure spending paired with tax hikes, as this would be one of the sectors we would expect to take less of a hit from an increase in the corporate and GILTI tax rates, while also benefiting from a deluge of spending on infrastructure.

The risks outlined above could weigh on overall equities, but we would expect any pullback to be short lived. The "easy money" has likely been made over the past year (though we find it hard to characterize anything about the last year as "easy"). Going forward, we will continue to maintain a long investment horizon, look for opportunities in market rotations or pullbacks, and seek attractive risk-adjusted returns that help our clients achieve their financial goals.

Please take the time to read the following "In Focus" article by Steve Norcini, our head of sustainable investing, and manager of our ESG equity portfolio strategy (and yes, he'll explain "ESG" and the many acronyms associated with it). ESG criteria are not only essential to Steve and his team in selecting companies for our equity strategy; it was also a key trend we highlighted in our 2021 Capital Markets Forecast.

Also, watch for an invite to our April 21 webinar on the subject, where I'll be joined by Steve and other senior team members to discuss what investors need to know about this important space.

Until next month,

Tony

Tony

Continued

Current tactical asset allocation

	Tactical tilts	− NEUTRAL +	Positioning
Equities	U.S. Large Cap	○ ○ ○ ○ ● ○ ○	
	U.S. Small Cap	○ ○ ○ ○ ● ○ ○	Overweight
	International Developed	○ ○ ○ ○ ● ○ ○	
	Emerging Markets	○ ○ ○ ○ ○ ● ○	
Tax Exempt Fixed Income	Investment Grade	○ ● ○ ○ ○ ○ ○	Underweight
	High Yield	○ ○ ○ ○ ● ○ ○	
Real Assets	Inflation-linked Bonds	○ ○ ● ○ ○ ○ ○	
	Global REITs	○ ○ ○ ● ○ ○ ○	Overweight
	Other/Commodities	○ ○ ○ ○ ● ○ ○	
Alternatives	Equity long/short hedge	○ ○ ● ○ ○ ○ ○	Underweight
Cash		○ ○ ● ○ ○ ○ ○	Underweight

IN FOCUS

Sustainable Investing: Rewards Beyond Returns

For the benefit of principal and principles

Steve Norcini
Head of Sustainable Investing
and Senior Portfolio Manager

At a glance:

- **Sustainable investors seek to maximize risk-adjusted returns through the implementation of ESG criteria, which tend to focus the analysis on long-term risks and opportunities**
- **Sustainable indices have done well, we believe, because it is about focusing the investment process on long-term risks and opportunities in the marketplace**
- **According to a 2019 Morningstar study, 41 of 56 indices studied outperformed their non-ESG equivalents[1] since inception**
- **We think ESG investments offer an attractive set of characteristics that have the potential to provide competitive returns over the longer term.**

What began decades ago as a fringe notion of investing to make the world a better place has soared in popularity in recent years. To understand what's meant by sustainable investing and the efforts to align one's values with financial goals, we turned to Steve Norcini, head of sustainable investing for Wilmington Trust Investment.

Q. Let's start out by defining terms. We hear about ESG, SRI, SI ... can you provide an overview of what they all mean and how they're related?

A. We use sustainable investing (SI) as our umbrella term for all forms of investing that focus on long-term sustainability and ethical behavior of companies. Socially responsible investing (SRI) avoids investing in companies and industries that run contrary to an investor's set of values. A quick history lesson first, to give some context to the acronyms. Back in the mid-1900s, SRI, came into play with the notion of eliminating "sin stocks"—those related to alcohol, tobacco, or gambling—from investment consideration, as some viewed them as morally objectionable. You can still exclude or screen out certain industries that don't align with your values, but the field has expanded to a broader focus on the more inclusionary ESG investing which considers environmental, societal, and governance criteria to help achieve financial objectives.

The E, or *environmental pillar,* refers to actions that reflect positive stewardship of our planet and covers how resources are allocated, looking at a wide range of factors, such as the extent of their (and their suppliers') carbon footprints, how they approach recycling, water usage, pollution, etc. The S or *social pillar* focuses on the management of all stakeholders—including employees, clients, shareholders, suppliers, and the communities they serve. For example, it encourages behavior such as a focus on employee health and safety as well as diversity in hiring. The G, or corporate *governance pillar,* relates to whether a company ensures incentives of all stakeholders are aligned to help maximize the long-term value. ESG criteria provide a non-financial lens to assess the long-term risks and opportunities of a firm. It can also offer greater diversification with the potential to cover a wider range of concerns than traditional SRI strategies. You'll hear many other acronyms and terms as well, such as "socially conscious," "green," or "values-based," "thematic," or "impact investing," but they can all generally be thought of under the blanket term *sustainable investing.*

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At the start of 2020, one out of three dollars under professional management in the U.S.—approximately

$17.1 trillion

—employed a sustainable investing strategy, a 42% increase since 2018.

(Source: US Social Investment Forum's 2020 Report on US Sustainable and Impact Investing Trends)

Q. So clearly, sustainable investors want to drive positive change in the world—but they're still seeking an attractive, competitive return on their investment. For a long time, many argued that you couldn't do good and do well at the same time. Has that changed or do you have to sacrifice returns to make a positive impact?

A. Sustainable investors are definitely, and appropriately, out to maximize risk-adjusted returns, through the implementation of ESG criteria. And the numbers have shown the ability to do just that.

Last year was a big year for ESG investing, not only because of the flows into ESG-focused strategies but also because the market environment was volatile and ESG issues were at the forefront. What we saw is that ESG exposures added significantly to performance. A study by MSCI based on their own series of ESG indices found that the greater the focus on ESG characteristics, the greater the outperformance for the year. In 2020, the most concentrated high ESG index, the MSCI SRI Index, outperformed other ESG indexes and its parent MSCI ACWI benchmark by 4%.*

In 2019, Morningstar studied the performance of 56 unique indexes in which ESG criteria are the primary driver of security selection and found that 41 of the 56 indices outperformed their non-ESG equivalents since inception. The picture in the U.S. market was not as strong as the results in Europe and Asia, but in our view the landscape in the U.S. is changing quickly and the results from Europe may in fact be a bellwether of what we can expect domestically over the next several years.

We have found that names that scored high on a composite of ESG criteria have attractive characteristics. By decomposing the stocks within the Russell 1000 Index into high- and low-scoring groups, we see that high-scoring stocks on ESG criteria have significantly better profitability and lower volatility than low-scoring stocks. For those who want to delve a bit deeper on this front, I recommend they read the ESG page in our 2021 Capital Markets Forecast.

The future is uncertain, but we think ESG investments may offer an attractive set of characteristics that have the potential to provide competitive returns over the longer term.

Q. The $1 million question is, how have sustainable funds been able to compete with broader stock market indices?

A. Keeping in mind, of course, that past performance is not indicative of future returns, sustainable indices overall have done well, as discussed in the prior question. We believe it's because sustainable investing is about focusing the investment process on the long-term risks and opportunities in the marketplace.

The integration of ESG principles into investment processes have tended to focus the analysis on these long-term risks and opportunities. Historically, "long term" has been consistent with one complete market cycle. However, the marketplace is much

* Each of the MSCI SRI ACWI Indexes, the ESG AWI Indexes, and the MSCI ACWI Index differ in several ways, including the number in stocks in the indices and the requirements for inclusion or exclusion from the indices.

Continued

Companies that are serious about ESG have shown themselves to be better positioned for certain unexpected risks.

more dynamic than that, which requires management teams to think far out into the future. In our view, companies that are serious about ESG are better positioned for certain unexpected risks, such as increased government regulations, evolving consumer preferences, and yes, even pandemics, that will play out in repeated ways in the future and which will impact risk and return. Most recently, with the pandemic and social issues around inequality at the forefront, considerations in the social pillar of ESG have been key. However, as action on climate change speeds up, potentially the E pillar will start to dominate. The key point from our perspective is that we think ESG investments offer an attractive set of characteristics that are likely to support competitive risk-adjusted returns over the longer term.

Q. So, in 2020, a year which will be remembered as the toughest in decades, sustainable investing grew mightily. Why? How do the events of 2020 relate to sustainable investing?

A. In 2020, investors got a first-class education on tail risks, which refers to the risk of assets deviating more than a certain degree from their current price. Tail risk events—such as the pandemic and civil unrest we witnessed last year—are very uncommon, but when they occur, they are very impactful to portfolios. They seem to occur once every several decades and are very difficult to predict in terms of timing and severity. There is good evidence that highly rated ESG companies are generally less susceptible to risks. For example, research from MSCI has found that the frequency of tail-risk events was around three times higher for companies that score poorly on ESG metrics compared to their higher-ranking counterparts. Investors seemed to have learned this lesson. One study showed 78% of U.S. investors said they would increase ESG investment as a response to COVID-19.*

Q: Steve, as the manager of Wilmington Trust's ESG equity strategy, when you're looking for sustainable companies with solid growth prospects, what do you look for? And how do you know if they're who they make themselves out to be—or if they're just greenwashing, where they only have the appearance of being ESG friendly?

A. Our experienced team has a robust process to identify companies that display superior ESG qualities. We start with a quantitative screen that looks at over 130 different ESG criteria across the market to isolate companies with the qualities that are consistent with our ESG mandate. Drilling down deeper, we perform robust fundamental due diligence on those companies to see if they are just screening well, or if they really meet our ESG standards. We then construct a diversified portfolio of companies that passes this process in an effort to maximize risk-adjusted returns. Finally, we utilize our comprehensive risk management process to help ensure that the expected return on an investment won't be negatively impacted by unanticipated factors.

* Source: US Social Investment Forum's 2020 Report on US Sustainable and Impact Investing Trends

Continued

Register now for our important webinar, April 21 at 1:00 PM ET.

"ESG Strategy Returns: Why We Believe They May Be Sustainable,"

where Steve and Tony delve more deeply into ESG investing strategies.

Q: For those who want to learn more and find out how sustainable investing can be reflected in their portfolio, what's the next step?

A. Like other areas of investing, investors should consult with their advisors, who are familiar with their goals, needs, risk tolerance, and unique circumstances. Taking all those factors into consideration, they can then explore how ESG criteria may be integrated into their portfolios and overall wealth management plan.

ASSET CLASS OVERVIEW

Equities

Andrew H. Hopkins, CFA
Head of Equity Research

AS OF MARCH 31, 2021	Month	Last 3 months	Trailing 12-month return
S&P 500 Index	4.4%	6.2%	56.3%
Russell 2000 Index	1.0%	12.7%	94.8%
MSCI EAFE Index	2.3%	3.5%	44.6%
MSCI Emerging Markets Index	–1.5%	2.3%	58.4%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment.

What we are seeing now

U.S. equity markets experienced continued upward momentum in March as the strength in cyclicals and defensives outperformed traditional growth with a 4.4% return in the S&P 500 while the more cyclical Russell 2000 Index rose 1.0%. The Russell 1000 Value Index saw an increase of 5.9% while the Russell 1000 Growth Index rose 1.7%. Incremental progress on vaccinations has pushed stocks most affected by the crisis higher and investors have priced in a good portion of the return to normal over the last five months. The yield curve steepened during March with a continued rise in longer-term rates that pressured higher-yielding stocks helped by lower rates during the crisis. The best performance came from utilities, industrials, consumer staples, materials, and real estate. Underperforming sectors included technology, energy, communication services, and consumer discretionary. Valuation is at the high end of historical averages with a 2021 P/E multiple of 22.1x, which adds to the vulnerability of the market. Earnings estimates continue to climb higher with growth of earnings expected to be 21.5% this year with any further upside in earnings helping to absorb the high P/E multiple, allowing the market to potentially rise and the multiple to contract at the same time.

What's changing

Equities continued their strong performance during March as vaccines continued apace. The expected recovery is raising inflation concerns as a more open economy is likely to bring a surge in spending, particularly with the recent $1400 checks sent to most consumers. Another potential $2.25 trillion bill in Congress potentially brings even more liquidity to the fore with the possibility of more inflation than the market has seen for some time, which may pressure equity market valuation. Along with the spending will most likely come higher taxes for corporations and higher-income individuals. The upward move in longer-term Treasury yields has only accentuated the fears of future inflation and pressure on long-duration asset values. Equity earnings estimates continue to push to the upside, especially for the cyclical sectors where earnings were devastated last year.

What we expect

With good progress being made with vaccinations, we expect the recovery to play out positively throughout the rest of the year with potential upside to earnings expectations potentially offset by higher tax rates. The year-over-year comparison will be easiest in the second quarter due to the shutdowns that occurred in 2020. This will result in higher inflation as the comparison to the lull in activity in the prior year, but we expect this boost in inflation levels to be transitory and moderate as the year progresses. Looking to 2022, we expect the pace of growth to moderate to a more normal level. The positive influences on productivity should come back as technology investment reasserts its importance in more businesses as it did during the pandemic. While equity valuations remain full and vulnerable to higher interest rates and tax increases, the snapback growth the economy is likely to see through 2021 should help offset this pressure.

Investment Positioning

Portfolio targets effective April 1, 2021, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	31.5%	Overweight
U.S. Small-Cap	5.5%	Overweight
International Developed	16.0%	Overweight
Emerging Markets	5.5%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Underweight
High-Yield–Tax-Exempt	2.0%	Overweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Overweight
Nontraditional Hedge	5.0%	Underweight
Cash & Equivalents	2.0%	Underweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

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For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Investment Positioning

Portfolio targets effective April 1, 2021, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	24.3%	Overweight
U.S. Small-Cap	4.3%	Overweight
International Developed	11.6%	Overweight
Emerging Markets	4.1%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Underweight
High-Yield–Tax-Exempt	2.0%	Overweight
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Overweight
Nontraditional Hedge	6.0%	Underweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Underweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

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For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

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An investment's focus on ESG factors will cause it to sell or avoid certain stocks. Such stocks may subsequently perform better than stocks selected considering ESG factors.

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Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

Continued

Disclosures Continued

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

Definitions:

Alpha is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

MSCI ACWI Index represents performance of the full opportunity set of largeand mid-cap stocks across 23 developed and 27 emerging markets, covering more than 3,000 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market as of November 2020.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI Socially Responsible Investing (SRI) Indexes represent the performance of companies with high environmental, social and governance (ESG) ratings. The indexes employ a 'best-in-class' selection approach to target the top 25% companies in each sector and can be used by institutional investors seeking to align ethical values and manage potential financial risks. Short term performance may not be indicative of long-term results.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

Russell 1000 index measures the performance of the largest 1,000 securities by market capitalization listed on U.S. exchanges. The Growth and Value indices divide the main (core) index by market cap, with Growth characterized by higher expected growth rates, higher price to earnings, and lower dividends while Value is characterized by lower expected growth, lower price to earnings, and higher dividends.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

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