WILMINGTON TRUST

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October | 2020

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

Nothing to Fear but Fear Itself

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Tony Roth
Chief Investment Officer

Emotions have no place in investing. The best investors are often the most objective and have ice in their veins. For many on both sides of the aisle, however, the president's positive COVID-19 result adds further anxiety and ambiguity to a historically tense moment. With the ongoing pandemic, a weakening economic recovery, and of course the upcoming elections, emotions are understandably running high.

Our reaction is straightforward: Filter out the emotion by sticking with our process. We analyze the economic data, build our economic and asset class forecasts, speak with companies and investment managers, and debate the path forward as a team. With this foundational approach and a deep appreciation for the precariousness expected over the next few months, we are maintaining a slightly cautious posture in portfolios. This may be a time to batten down the hatches and "quarantine" portfolios, in a matter of speaking. The storm will pass and we believe we will be thankful for having ridden it out with our portfolios largely locked onto our long-term targets.

Running out of steam

The month of September was the first indication that the market's euphoria may be tempering. We witnessed a modest but healthy pullback in U.S. large-cap equities of -9.6% peak to trough, which began as a shunning of high-flying tech stocks but morphed into skepticism about the trajectory of economic growth. Yet, the S&P 500 still ended the third quarter up 8.5%. We are not discouraged by some of the air being let out of the balloon, but we continue to observe an economy that is suffering more than the public equity market would have you believe. We

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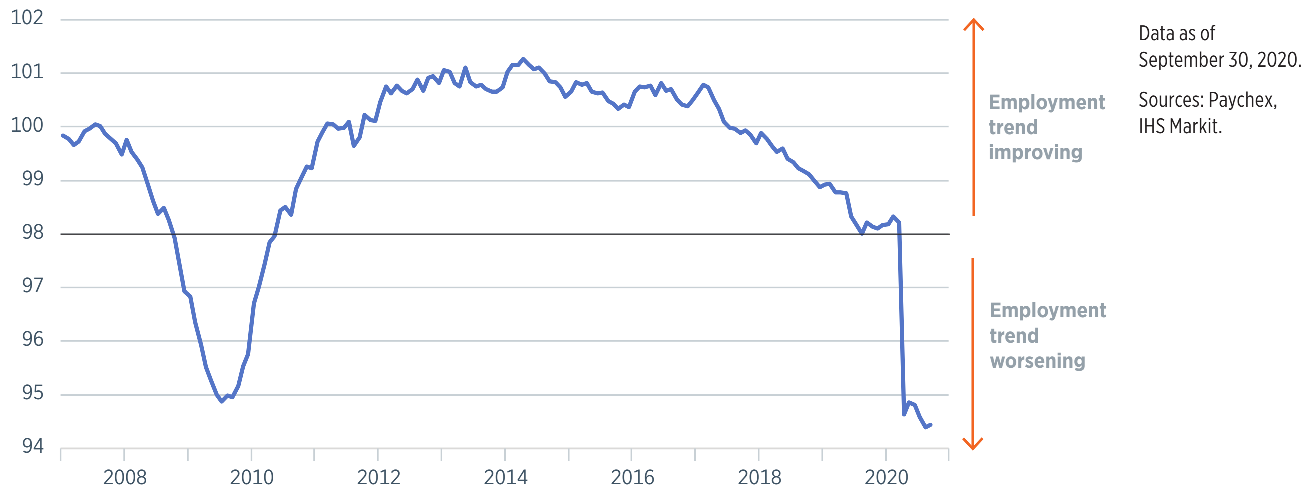
Figure 1

Small business hiring trends still incredibly weak

Paychex/IHS Small Business Jobs Index



Data as of September 30, 2020.

Sources: Paychex, IHS Markit.

The Paychex/IHS Small Business Jobs Index provides insight into the small business employment trends driving the U.S. economy. Using aggregated payroll data from businesses with fewer than 50 workers, the index offers a monthly, up-to-date measure of change in small business employment. Rising index levels indicate a strengthening trend and a move lower indicates a weakening trend.

Over the next few months, we are maintaining a slightly cautious posture in portfolios. We believe this is a time to batten down the hatches and "quarantine" portfolios.

remain cautious on the short-term path for risk assets (stocks).

Since March, the market has been supported primarily by three pillars: monetary stimulus, a bounce in the labor market, and fiscal stimulus. Monetary accommodation of global central banks remains firmly in place, and we continue to believe the Federal Reserve will support financial conditions by whatever means necessary. Still, there is a high bar for the Fed to unveil additional stimulus and further reflate asset prices at this juncture.

The other two pillars appear to be on more fragile footing. The U.S. has recouped approximately half of the 22 million jobs originally lost amid the economic lockdown. However, the September labor report reveals major challenges in the jobs recovery. Most important, the number of permanent job losses continues to mount at a rate without precedent in modern recessions. In addition, the pace of improvement in small business hiring has slowed dramatically, and bankruptcies are ticking up as businesses are forced to permanently shutter their doors. Indicators of small business employment trends (those with fewer than 50 workers) paint a picture that is still bleaker than the depths of the global financial crisis (Figure 1). And large companies like Disney, Allstate, and United Airlines have announced significant numbers of layoffs in recent days. For all the jobs-market strength we saw over the summer, we are concerned that we are now seeing a leveling off in private payrolls far below pre-COVID levels.

Unfortunately, this plateauing at disappointing levels is occurring at a time when additional U.S. fiscal stimulus is more elusive than ever. Since March, Congress has provided fiscal support amounting to approximately 10% of GDP. This has without a

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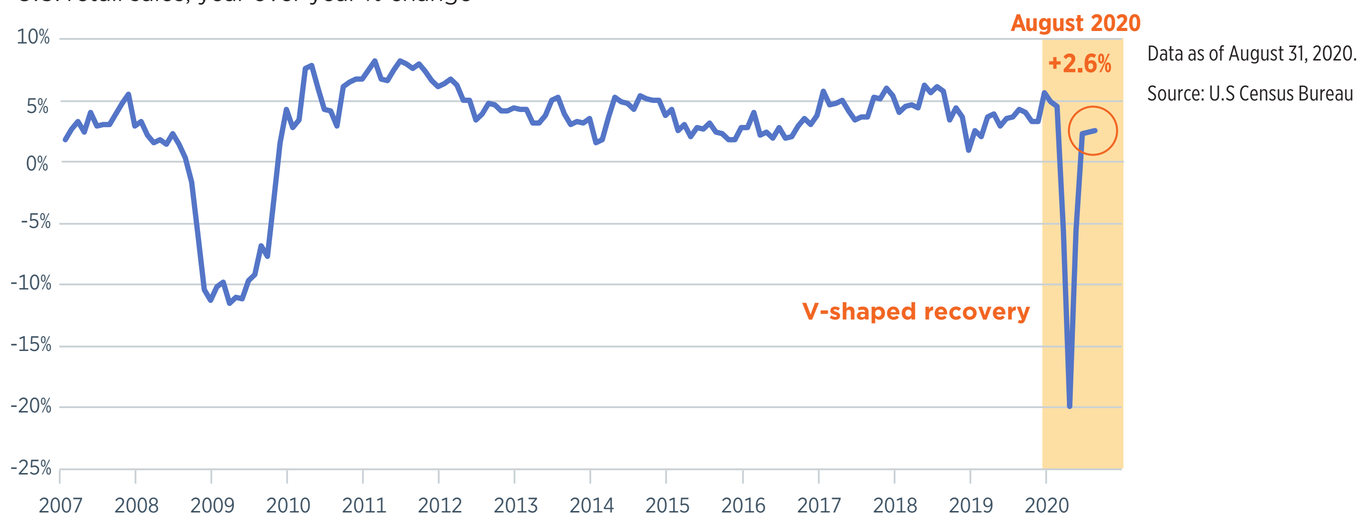
Figure 2

Retail sales have staged a full recovery

U.S. retail sales, year over year % change



Data as of August 31, 2020.

Source: U.S Census Bureau

Coming soon: our 2021 Capital Markets Forecast, which will be introduced in stages, starting next month, and delivered in a fully digital, animated format, along with an exciting series of webinars and videos.

Stay tuned for more details.

doubt contributed to the rapid "V-shaped" recovery of retail sales (Figure 2) and a spike in the savings rate, though the savings rate is skewed toward higher income cohorts and not as representative of lower-income consumers. With so many individuals still unemployed and many businesses struggling with ongoing pandemic-related restrictions, a drying up of additional unemployment benefits and other fiscal transfers could lead to a big disappointment in consumption for the fourth quarter. Now one month before the election, it appears that desperate efforts to find a middle ground on fresh stimulus seem to have failed.

Cautious optimism

As hesitant as we are about some crumbling of the infrastructure that appears to have propped up the equity markets since March, there are some reasons for optimism that the economic recovery can continue albeit at a slower pace. Consumer confidence is rebounding. Purchasing manager indices (PMIs) are indicating expansion in both manufacturing and services in many parts of the world, with inventory building supporting goods-producing sectors. Even small business capital expenditure plans have rebounded to the average observed between 2013 and 2019 (Figure 3).

We are seeing improvement in some areas of the world outside of the U.S., but much work remains. Chinese activity and credit data are rebounding. European economic data have also been improving, but Germany is officially back in deflation for the first time since 2016, and the U.K. markets are forecasting that the Bank of England will push policy rates into negative territory for the first time ever.

Importantly, we note that the second-wave health impact of the virus appears to be less deadly than the first wave. Western Europe is reporting new weekly confirmed cases in excess of its last peak in April, yet that is occurring with approximately seven million tests per week, a very low death rate, and a nearly 85% survival rate for

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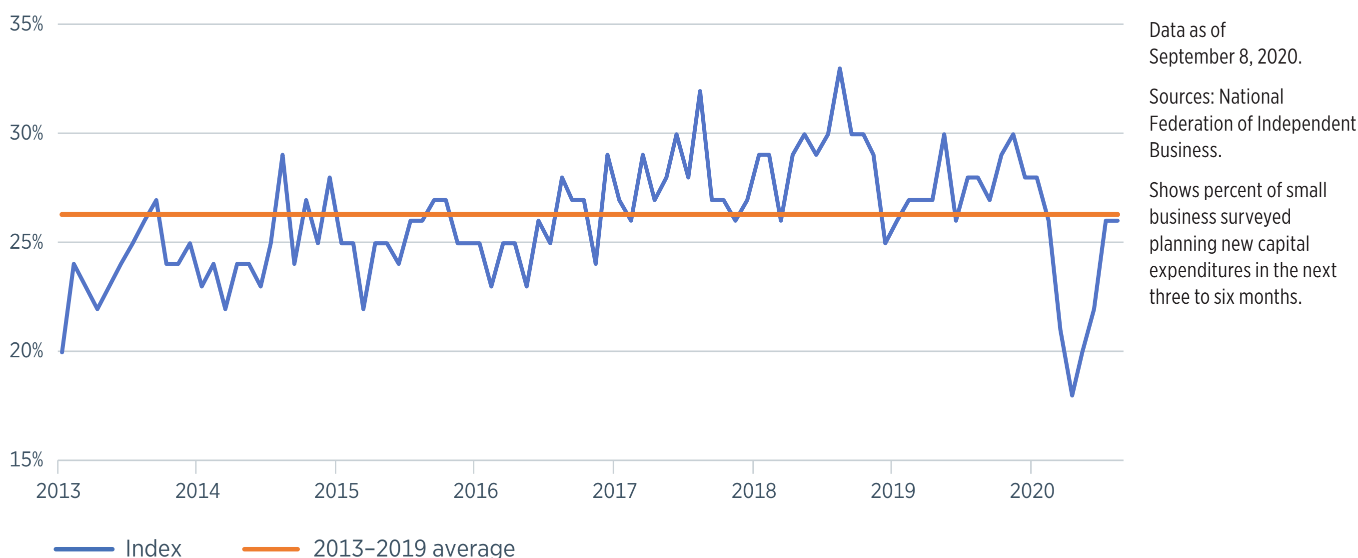
Figure 3

Rebound in small business capex plans

Percent of small businesses planning capital expenditures in next three to six months



Data as of September 8, 2020.

Sources: National Federation of Independent Business.

Shows percent of small business surveyed planning new capital expenditures in the next three to six months.

We witnessed a modest but healthy pullback in U.S. large-cap equities of –9.6% peak to trough, which began as a shunning of high-flying tech stocks but morphed into skepticism about the trajectory of economic growth.

those hospitalized.[1] If the U.S. is able to replicate some of these successes, it would reduce a key risk heading into the winter flu season.

Positioning amid unpredictability

With unpredictability boiling at a level almost as high as emotions, we encourage you to resist the urge to make drastic changes in your portfolios. (Read our "In Focus" article by Investment Strategy Associate Evan Kurinsky, where he digs deeper into the potentially steep price of fear.) We maintain a slightly defensive positioning, with an underweight to equities, an overweight to high-quality fixed income and hedge funds, and a modest allocation to gold. Diversification is key across asset classes, regions, and factors. The urge to hold elevated levels of cash heading into the election is understandable, but we would advise staying invested. Ride through any potential periods of volatility surrounding the election and focus more on the weak but improving economic picture. Equities can overshoot or undershoot in the short term, but they are always looking ahead. Similarly, we keep our eyes on the horizon to prudently manage portfolios for the long term.

And speaking of the long term, our 2021 Capital Markets Forecast will be introduced in stages, beginning in the middle of November. The content will be delivered in a fully digital, animated format, along with an exciting series of webinars and videos. Stay tuned for more details.

Until next month,

Tony

[1] Source: The Economist, ECDC, ISARIC, Johns Hopkins CSSE, WHO.

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Harnessing the Power of Diversification

Evan Kurinsky
Investment Strategy Associate

At a glance:

- **Diversification is a key pillar of our investment process at Wilmington Trust**
- **One of the most valuable benefits of diversification stems from uncertainty, which is an unavoidable element of investing**
- **When it comes to diversification, playing better defense can sometimes lead to a more effective offense**
- **Introducing a combination of uncorrelated assets and minimizing potential drawdown can limit the deleterious effect of volatility, enabling portfolios to produce higher returns *per unit of risk* relative to individual asset classes**

Diversification is a key pillar of our investment process at Wilmington Trust. In 2020, we have been reminded not only of its benefits, but also the challenges investors must endure in maintaining discipline and sticking to a long-term plan. Staying committed to a balanced allocation isn't always easy and the merits can sometimes be tough to grasp on a short-term basis. However, it is important to understand that diversification can be best viewed through a long-term lens. Below we will review how diversification works, and why it remains a powerful tool for potential long-term investment success.

How does diversification work?

Diversification involves holding a variety of asset classes in portfolios that behave differently under various market conditions. A well-diversified portfolio goes a step further—providing balanced exposure across geographic regions and economic sectors within equities and credit, and a mix of nontraditional assets, such as commodities and real estate. Since some segments are uncorrelated or even negatively correlated with counterparts, when one area suffers, others typically decline by less or even increase. Upside from the winners often neutralizes downside from losers to some degree, which in turn reduces volatility and drawdown on a portfolio level. The icing on the cake is that diversification helps to reduce portfolio risk without necessarily sacrificing returns.

Preparing for the inevitable uncertainty of markets

Why is diversification relevant? Economic conditions, investor sentiment, monetary policy, and the political and regulatory backdrop are constantly shifting over time, during which asset classes will often respond differently to changes in various economic drivers, e.g., interest rates, inflation expectations, the pace of economic growth. One of the most valuable benefits of diversification stems from uncertainty, which is an unavoidable element of investing. Markets are often influenced by unanticipated events, leading different segments to move in and out of favor in ways that we didn't expect. Figure 1 illustrates how market leadership tends to shift, with each year producing a distinct mix of leaders and laggards, and how difficult it can be to predict which asset class will come out on top. While the annual distribution of returns across segments is sporadic, the one constant is that the diversified portfolio remains in the middle of the pack. With a balanced allocation across both sides of the spectrum, diversified portfolios are optimally positioned to weather unexpected events, capturing upside from the top performers while limiting downside from those that lag.

Continued

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Figure 1

Asset class annual returns (sorted top to bottom by highest to lowest returns)

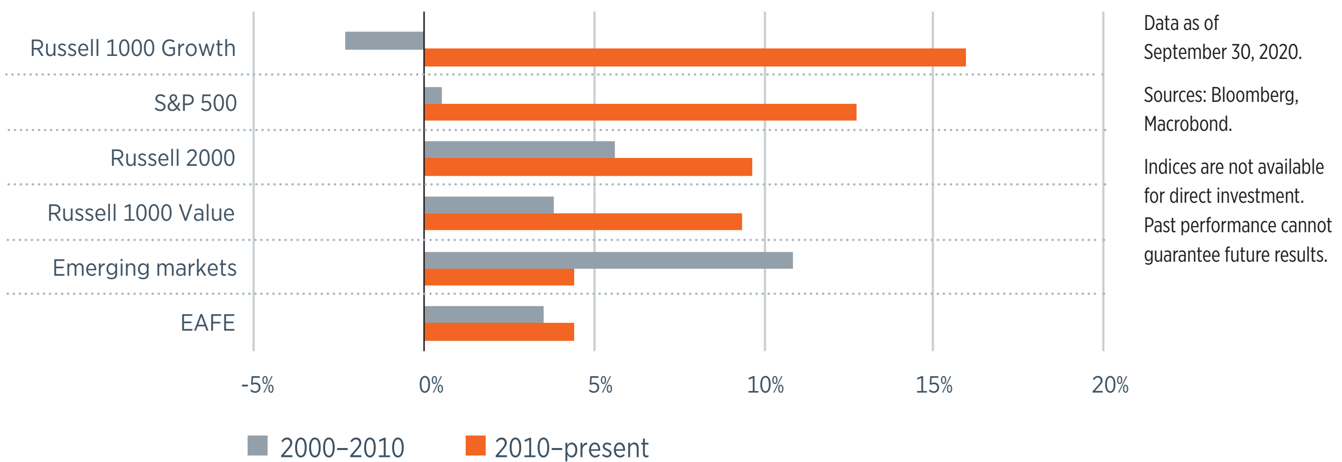
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
26%	55.9%	30.6%	34%	35.6%	39.5%	5.3%	78.6%	26.9%	13.6%	24.2%	38.9%	13.7%	5.7%	21.4%	37.3%	0.1%	36.4%	23.6%
16.6%	47.3%	25.6%	21.4%	32.2%	16.3%	-2.4%	37.3%	18.9%	7.9%	18.3%	33.5%	13.5%	1.4%	17.4%	30.3%	-1.3%	31.5%	9%
10.3%	38.6%	20.3%	13.6%	26.4%	11.9%	-25.8%	31.8%	17.2%	2.7%	17.6%	32.6%	13.1%	0.6%	12%	25.1%	-1.6%	26.6%	7%
-2.4%	33.8%	18.4%	10.2%	22.3%	11.7%	-33.8%	30.9%	16.9%	2.2%	17.4%	32.4%	11.3%	-0.9%	11.8%	21.9%	-4.4%	25.6%	1.6%
-6.2%	30.1%	16.5%	7.1%	18.4%	11.2%	-35.7%	27.2%	16.8%	0.4%	16.4%	22.8%	6%	-1.5%	11.2%	15.3%	-6.4%	22.1%	-0.6%
-9.5%	29.8%	11.5%	6.3%	15.8%	7%	-36.9%	26.5%	15.6%	-0.8%	16.1%	16.9%	5.9%	-1.9%	7.8%	14.7%	-8.3%	20.5%	-1.6%
-15.6%	28.7%	10.9%	5.3%	14.2%	6.9%	-37%	22.4%	15.1%	-4.2%	15.3%	2.3%	4.9%	-2.6%	7.1%	13.7%	-9.8%	18.5%	-7.3%
-16%	24.7%	9.2%	5%	9.1%	5.5%	-38.5%	19.7%	12.3%	-9.1%	11.8%	2.1%	3.7%	-3.9%	4.7%	9%	-11.1%	18.3%	-11.6%
-20.5%	24%	8.5%	4.6%	4.4%	-0.2%	-43.4%	19%	7.8%	-12.2%	7%	2.7%	2.2%	-4.5%	2.7%	3.6%	-11.3%	8.8%	-12.1%
-22.2%	8.5%	6.4%	2.9%	2.1%	-1.6%	-50%	11.5%	6.6%	-13.4%	4.3%	-8.7%	-5%	-15%	1.6%	3.1%	-13.8%	8.5%	-12.2%
-27.9%	4.2%	4.4%	2.5%	0.5%	-10.2%	-53.4%	6%	6.4%	-18.5%	-1.1%	-9.6%	-17.1%	-24.7%	1.1%	1.8%	-14.6%	7.7%	-21.4%

Data as of September 30, 2020. Sources: Macrobond, Bloomberg, WTIA.

Diversified portfolio composed of 35% U.S. large-cap stocks (S&P 500), 10% U.S. small-cap stocks (Russell 2000), 20% international stocks (MSCI ACWI ex-U.S.), 30% U.S. investment-grade taxable bonds (Bloomberg Barclays U.S. Aggregate Bond Index), 1.5% U.S. inflation-linked bonds (Bloomberg Barclays U.S. Government Inflation-Linked Bond Index), 2% global real estate (S&P Developed Property Index), and 1.5% commodities (Bloomberg Commodity Index). Shows total returns in U.S. dollars.

Figure 2

Major equity indices annualized returns over past two decades



Data as of September 30, 2020.

Sources: Bloomberg, Macrobond.

Indices are not available for direct investment. Past performance cannot guarantee future results.

Leadership changes can also be observed over longer-term periods. For example, consider the past two decades (Figure 2). While 2010–2020 has inarguably been led by U.S. large-cap and growth stocks, the prior period revealed a completely different picture, with international and U.S. small-cap equities exerting dominance and value besting growth. As shown in Figure 3, we can see a comparable bifurcation across S&P 500 sectors. While the past 10 years have been prosperous for technology and dismal for energy, the inverse was true in the decade prior—when energy tripled in value and technology stocks failed to break even.

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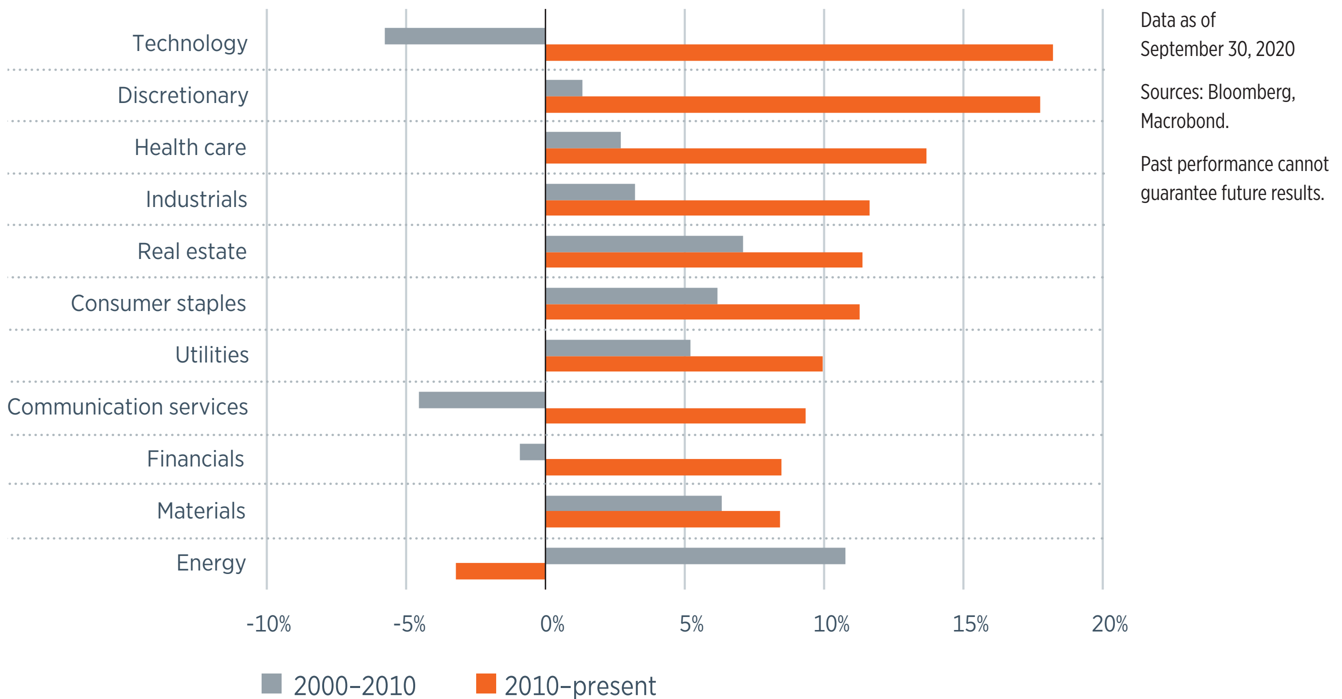
Figure 3

S&P 500 sector annualized returns over past two decades



The cost of holding a concentrated position in the wrong asset class or the wrong sector can be significant long term.

Clearly, the cost of holding a concentrated position in the wrong asset class or the wrong sector can be significant long term. Consider that investors who held only energy stocks for the last 10 years, assuming they would continue to excel, would have ended up with a –30% loss versus a 280% gain had they invested in a broad equity index instead. By carrying exposure to all sectors, we may forego some upside relative to the top-performing sector or asset class and we can't eliminate declines altogether. However, we can capture highly favorable odds of a positive outcome. As famed investor Ben Graham put it, "Diversification doesn't just minimize your chance of being wrong. It also maximizes your chances of being right."

Reduced volatility allows for greater compounding of wealth

When it comes to diversification, playing better defense can sometimes lead to a more effective offense. Reduced volatility is a well-documented benefit of staying diversified, but less telegraphed is how minimizing drawdown can allow for greater compounding of wealth over the long term. Avoiding large drawdowns is important because the further portfolio values fall, the more they must climb to get back to the breakeven point. If a portfolio loses a third of its value, it will need to rise by roughly 50% to get back to square one. The math works further out of an investors' favor for larger declines. A portfolio that declines 50% would require a 100% rise to get back to the starting point. Due to the lower performance drain from large drawdowns, a less volatile portfolio can generate a higher ending value than a more volatile alternative, despite generating the same average annual return.

Continued

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Figure 4

Value of $10,000 invested in volatile and less volatile portfolio

Source: WTIA.

This is a hypothetical example showing two portfolios over 10 years, both starting at $10,000 value in Year 0.

Avoiding large drawdowns is important because the further portfolio values fall, the more they must climb to get back to the breakeven point.

For example, consider two $10,000 portfolios—a volatile version that gains 40% the first year but then declines by 20% in the second year, and a less volatile counterpart that gains 25% in the first year and declines by 5% in the second. Both portfolios returned 10% on average over two years, but the more volatile of the two is worth $11,200 at the end of the period, recording a 5.8% compounded annual return, while the less volatile is worth $11,875, achieving a superior 9% compounded annual return—a net $675 benefit, simply by lowering volatility. As you can see in Figure 4, which shows the same scenario repeated five times over a decade, the negative impact of large declines compounds over time, weighing on performance over the long haul.

Maximizing return for a given level of risk

It is important to distinguish that the goal of diversification is not to achieve the highest return, but to maximize return for a given level of risk. By introducing a combination of uncorrelated assets and minimizing potential drawdown, we limit the deleterious effect of volatility, enabling portfolios to produce higher returns per unit of risk relative to individual asset classes. To provide some real-world context, consider a diversified portfolio invested 35% in U.S. large-cap stocks, 10% in small-cap stocks, 20% in international stocks, 30% in U.S. taxable bonds, and 5% in diversified real assets (commodities, TIPS, real estate) rebalanced annually. Figure 5 shows the annualized nominal return plotted against the standard deviation (a proxy for risk that shows variation around the average return) for the diversified portfolio and its underlying components from 1990 through the end of 2019.

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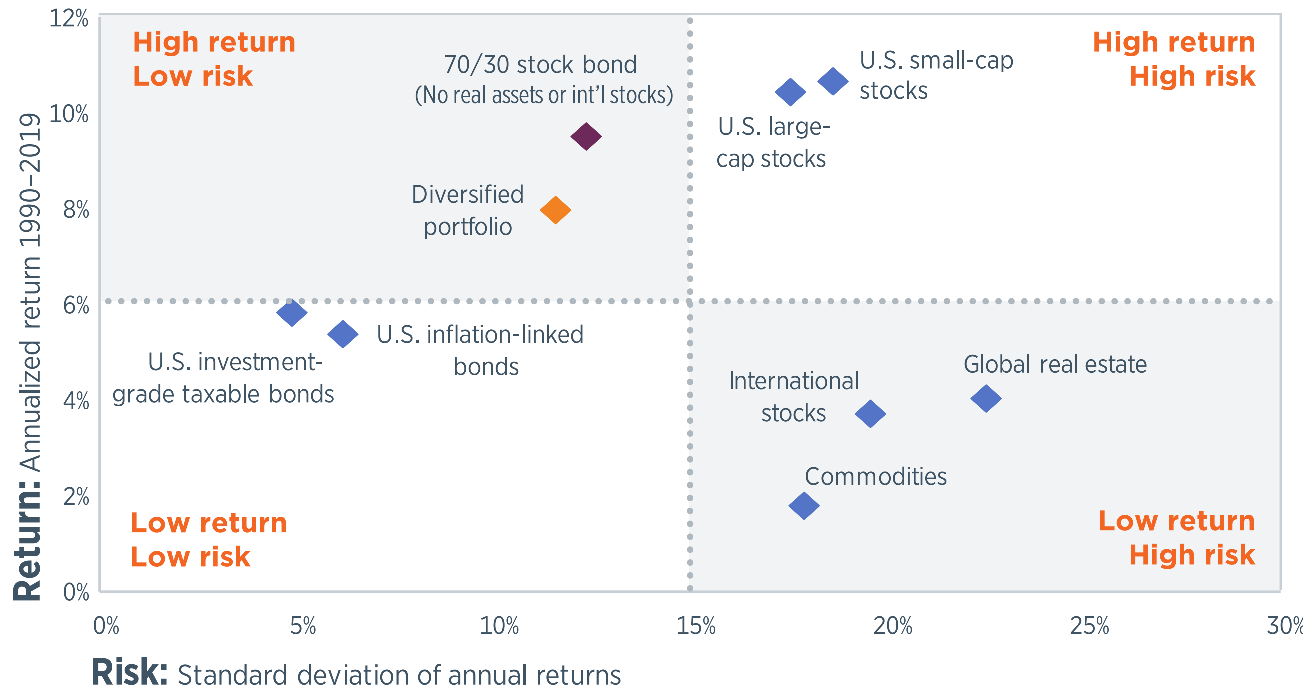
Figure 5

Risk (standard deviation) vs. annualized return of diversified portfolio and major asset classes (1990–2019)



Data as of December 31, 2019.

Sources: Macrobond, Bloomberg, WTIA.

Shows annualized total return on y-axis and standard deviation of annual returns on x-axis. Diversified portfolio composed of 35% U.S. large-cap stocks (S&P 500), 10% U.S. small-cap stocks (Russell 2000), 20% international stocks (MSCI ACWI ex-U.S.), 30% U.S. investment-grade taxable bonds (Bloomberg Barclays U.S. Aggregate Bond Index), 1.5% U.S. inflation-linked bonds (Bloomberg Barclays U.S. Government Inflation-Linked Bond Index), 2% global real estate (S&P Developed Property Index), and 1.5% commodities (Bloomberg Commodity Index). A 70/30 solely stock/bond portfolio mix is composed of 50% U.S. large cap, 1% U.S. small cap, and 30% U.S. investment-grade taxable bonds.

Indices are not available for direct investment. Past performance cannot guarantee future results.

Diversification is not to achieve the highest return, but to maximize return for a given level of risk.

Each asset class presents a tradeoff—U.S. equities generated the greatest returns over the period, but also suffered relatively high volatility. On the other hand, bonds experienced the least volatility, but also had the lowest returns. The diversified portfolio provided the best of both worlds, capturing a good portion of upside from the highest returning assets and doing so with far less risk. It is important to note that the results of this exercise will vary depending on the period examined. Also, despite international stocks, commodities and real estate carrying higher risk and lower return, they are by no means superfluous. With unique sensitivities to certain macro factors—commodities and real estate have a positive relationship with inflation, for example—and low correlations with other assets in the portfolio, their inclusion contributes to lower volatility relative to a stock/bond portfolio without them, despite exhibiting higher variability on their own.

Continued

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It's been said that diversification is the only free lunch in investing, but it can certainly have an emotional cost in the short term.

Keeping our emotions in check

The risk reduction generated by combining a portfolio of risk assets is an idea that was refined by Nobel Prize-winning economist Harry Markowitz, in laying the groundwork for what is known as Modern Portfolio Theory—one of the foundations for portfolio construction principles today. Markowitz once said that "diversification is the only free lunch" in investing, but it can certainly have an emotional cost in the short term. In fact, emotional decision making is one of diversification's biggest threats and can undermine long-term investment success. Our innate emotions and biases often lead us to focus on short-term gains and losses, feeding the temptation to buy and sell at inopportune times. However, diversification only works as intended if we stick to it. For this reason, investors need a long-term plan, providing an optimal asset allocation specific to their objectives, constraints, and risk tolerance. It is important for investors to understand that successful investing is about patience, discipline, and consistency, and when paired with a long-term plan and regular rebalancing, the benefits of diversification can be worth the short-term challenges.

Investing involves risks and you may incur a profit or a loss. Diversification cannot guarantee a profit or protect against a loss. There is no assurance that any investment strategy will be successful.

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ASSET CLASS OVERVIEW

Taxable Fixed Income

Randy Vogel, CFA
Director of Taxable Research and Senior Portfolio Manager

	AS OF SEPTEMBER 30, 2020		
	Month	YTD	Trailing 12-month return
Barclays U.S. Aggregate Bond Index	-0.05%	6.79%	6.98%
Barclays U.S. Investment Grade Credit Index	-0.27%	6.39%	7.50%
Barclays Ba High Yield Index	-1.42%	4.24%	6.79%
Barclays U.S. Mortgage Backed Securities Index	-0.11%	3.62%	4.36%

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

During a dismal first quarter, investment-grade credit returned -3.14% reflecting the economic damage caused by the onset of the global pandemic. However, since the first quarter, corporate bond returns have rebounded sharply and year-to-date total returns for the sector are now a positive 6.35%. These strong returns are consistent with our comments in the April edition of *Capital Perspectives.* At that time, we believed compelling valuations and ongoing central bank support would entice investors back into the asset class driving valuations higher.

Money continues to flow into investment-grade credit since a record $173 billion in outflows in March. Since that time, flows have been positive every month. Year-to-date, almost $200 billion has moved into the asset class. Supply has followed demand as companies take advantage of favorable market conditions to raise debt, primarily used to build liquidity. Through September, investment-grade credit supply has totaled approximately $1.6 trillion, up 70% from last year and a new record for issuance.

What's changing

Concerns over a second COVID-19 wave, the inability to pass a fiscal stimulus package, and the pending presidential election have increased risk aversion. Rising infection rates have raised concerns that economic activity will slow during the fourth quarter. In addition, the inability of Congress to pass another round of fiscal stimulus has increased concerns over the pace of consumer spending. As a result, risk premiums have moved modestly wider as the market digests the above-mentioned risks. At the end of September, the option-adjusted spread of the Bloomberg Barclays Credit Index was 128 basis points, approximately 10 basis points wider for the month.

What we expect

We expect political uncertainty to remain high in the near term. The course of the virus and its impact on the economy will also remain a risk in the near term. However, as highlighted in our September addition of *Capital Perspectives,* we remain optimistic that we will see more than one vaccine approved by the Federal Drug Administration for distribution by the end of 2020. In addition, we believe that a fiscal package in the ballpark of $1.5 trillion will come to fruition. Both outcomes should support investment-grade credit valuations.

We also expect new issue supply to decline significantly during the fourth quarter as companies have issued record amounts of debt during the first three quarters. Less supply, improving fundamentals, ongoing support from the Federal Reserve, and progress toward a vaccine should provide support for the investment-grade market. We continue to overweight credit in client portfolios as the sector provides desperately needed yield in today's environment. As always, sector selection and diligence in credit selection remain of paramount importance.

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Investment Positioning

Portfolio targets effective October 1, 2020, 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%	Underweight
U.S. Small-Cap	5.5%	Neutral
International Developed	16.0%	Neutral
Emerging Markets	5.5%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Overweight
Nontraditional Hedge	5.0%	Overweight
Cash & Equivalents	2.0%	Neutral
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.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2020 Capital Markets Forecast is available on www.WilmingtonTrust.com/cmf or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

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

Source: WTIA.

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Investment Positioning

Portfolio targets effective October 1, 2020, 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%	Underweight
U.S. Small-Cap	4.3%	Neutral
International Developed	11.6%	Neutral
Emerging Markets	4.1%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Overweight
Nontraditional Hedge	6.0%	Overweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Overweight
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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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.

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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.

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.

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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