On the whole, President-elect Trump has selected a markedly conservative group of individuals to fill the White House and Cabinet leadership positions, the latter of which require congressional confirmation. While we think most of these approvals should be a slam dunk due to the Republican majority in both houses, it’s a slim 52-seat majority, so some confirmation paths may be a bit rocky. For example, Trump’s choice of ExxonMobil CEO Rex Tillerson as Secretary of State may be the most vulnerable, given ties to Russia and skepticism voiced by several Republican Senators over the issue of potential conflicts of interest. And Trump’s appointment of Senator Jeff Sessions (R-AL) as Attorney General will likely face significant Democratic as well as potentially Republican opposition. Sessions has a long track record of being opposed to immigration and faced accusations of racism as a young lawyer in Mobile.

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Cabinet appointees: What’s different this time?
This will be a Cabinet that is unique in many respects and reflects both the prospective elements of change as well as new and perhaps controversial approaches to governing. Overall, and relative to President Obama’s Cabinet, characteristics that can be used to describe the prospective group include:

Conservative.
Collectively, Trump’s selections are quite conservative politically and philosophically—probably even far more so than the president-elect reflected in his campaign, which was not anchored by a consistent philosophical thread.

Pro-business.
Trump has tapped an unusually high number of CEOs and financial executives for his proposed Cabinet. The concept that business leaders rather than career politicians could do a lot to fix Washington seems ready to be tested. Given this background, we expect that there will be significant efforts to improve incentives for businesses and ease burdens placed on them by Washington. Ultimately this is likely to be positive but it could also face difficulties in the early going.

Likely dissension in carrying out their roles.
On paper at least, there are a lot of prospective internal conflicts between the new leadership and the agencies to be governed. The risk for investors is that, rather than getting relief from the burdens of Washington, these situations turn into pitched battles between the new administration leadership and the
The question is whether they isolate corporate tax reform from personal tax reform. There are strong reasons to do so.

entrenched departmental bureaucracies. For example:

- **Andrew Puzder and the Department of Labor.**
  President-elect Trump’s choice clearly telegraphs a desire to roll back or reverse worker protections and benefits instituted under President Obama. Puzder, the CEO of CKE Restaurants (parent company of fast food chains Hardee’s and Carl’s Jr.’s), has been critical of substantially raising the minimum wage to $15 per hour and also opposes the department’s proposal to make millions more workers eligible for overtime pay.

- **Former Texas Governor Rick Perry and the Department of Energy.**
  The climate change-denying, fossil fuel-loving Perry claimed in a 2011 presidential primary debate that he’d like to abolish this agency. Clearly tongue in cheek here, it’s unlikely he still feels he’d like to abolish the agency he’s been tapped to head, but it would lead us to believe that big changes are in the offing, along with potential contentiousness among the troops.

- **Betsy DeVos and the Department of Education.**
  The voucher program devotee favors providing tax dollars to families that opt for private and religious schools over public schools. How she will run the agency that sets policy for the nation’s public schools—and whether she will seek to eliminate the Common Core education standards that candidate Trump opposed—remains to be seen. One thing is certain: Proponents will not give up without a fight.
Out of the gate: A jack-rabbit start

As the new president and his administration bring forth the mantle of change, we anticipate a number of early wins they can showcase to the American public, such as:

**Corporate tax reform.**

This probably has the largest amount of bipartisan support and will most likely be an idea that swiftly gets through Congress. Included will be lower tax rates, tax reductions for repatriating earnings from U.S. corporate multinationals with profits parked abroad, and liberalized capital spending provisions. The question is whether they isolate corporate tax reform from personal tax reform. There are strong reasons to do so. Given the fact that Democrats were willing to entertain elements of corporate tax reform in the past election, they may be more willing to go along with corporate reform and this could allow for an early bipartisan win. Secretary of the Treasury nominee Steven Mnuchin has indicated that there will not be a significant number of tax cuts that increase the deficit so big tax changes on the personal side may have to wait or be separated from corporate reforms.

**Ease regulatory burden.**

We should expect many rules put forth by the Obama administration to be eliminated or given lower prospects of enforcement. This is likely to include rules involving the environment, labor, and banking.
Repeal the Affordable Care Act (ACA).
For Republicans, this will be a major accomplishment and we can expect the effort to start quickly. Congress went through a dry run of this last year and it will largely involve stripping away the tax and spending features of the ACA by making it part of a budget reconciliation process. The big risk for Republicans is, if they can’t get 60 Senators to approve the “replace” part of the deal, it may leave them “twisting in the wind” while millions lose their coverage.

Foreign relationships and trade.
As the Obama administration concludes with a rocky U.S.-Russia relationship, there may well be mounting pressure on the new administration to address this issue and outline how it will deal with trade issues. We expect that in dealing with China—and not withstanding Trump’s Twitter bluster—his team may try to take a page from the Reagan negotiations with Japan, which involved fairly specific and well-documented infractions that were addressed without retaliation.

Two other items on Trump’s proposed agenda are the rolling back or elimination of Dodd-Frank (which placed strict regulations on banks after the financial crisis), and spending $550 billion on infrastructure to repair or build roads, bridges, tunnels, etc. As both of these matters require congressional approval and will probably also need Democratic support, they will most likely not be among the first issues to be addressed.

What some of the impending changes could mean for investors
U.S. stock markets have performed extremely well since the election but this could turn out to be a case of “buy the rumor, sell the news,” at least in the short term.

Disappointments or simple political realities are likely to insert themselves into what has been a pristine view of the future since the election took place. Not all of the new president’s ideas are going to pass without being challenged and changed. This will open the door to the recognition that some items will make it and others will not.

Part of those realities, for example, may include the awareness that the financials sector may have to wait to get Dodd-Frank reworked or eliminated. Markets seemed to have given this event a lot of play in bidding up this sector by nearly 17% after the election. While the sector may have gotten a bit ahead of itself, we continue to see significant long-term potential.

Markets finished 2016 rather breathless, and momentum was fading. While placing a lot of significance on an individual number is not recommended, 20,000
on the Dow Jones Industrial Average is a particularly noteworthy accomplishment, but one that markets seemed to lose a lot of energy over as the year ended. Also of note is the 10-year Treasury which reached a high yield of 2.64% in mid-December but then backed away over the last two weeks of the year, finishing 20 basis points lower at 2.44%. The urgency over higher inflation or faster Fed rate hikes seems to have receded somewhat.

If we look back on the Reagan administration’s early going, we see that it took almost two years for the markets to finally embrace the growth story. For the first seven months of Reagan’s term, the U.S. stock market as measured by the S&P 500 index moved sideways and then fell significantly when we entered a double-dip recession. We are not projecting the recession part of the story but we do believe there will be growing pains to be suffered by the new administration which may hold back investor returns early in 2017.

Some slight portfolio allocation shifts to share with you: Our Investment Committee met last week and decided to make some minor adjustments to sector weightings in response to our altered post-election expectations. For example, one of our greatest overweights is now on financial services, due to the prospects for improved earnings from better net interest margins, stronger U.S. growth keeping loan demand escalated, plus prospective tax and regulatory relief. Also, we now have a neutral position on healthcare that reflects concerns over the likely path for this sector when the ACA is either eliminated or greatly pared back.

I strongly encourage you to read our Chief Economist Luke Tilley’s article in this issue on the potentially changing face(s) of the Federal Reserve and the musical chairs that are likely to ensue.

Capital Perspectives will not be published in February to make way for our annual Capital Markets Forecast. This year’s commentary is titled, Uncharted Waters: Will political riptides threaten portfolio returns? I encourage you to schedule a conversation with your investment advisor or relationship manager to discuss how its insights could impact your portfolio.

Best,

Tony
Adding two Trump appointees could immediately change the nature of debate in a room where the five existing governors are all Obama appointees.

\[
\text{Table for 2?}
\]

Trump's immediate opportunity to effect change at the Fed is through making nominations for the two open seats at the Board of Governors (BOG) in Washington. The Fed is a complex organization with the BOG in the nation's capital and 12 Reserve Banks strewn about the country. The BOG has seven seats but has been operating with just five of those seats filled for several years as Senate Republicans refused to consider President Obama's nominees. Trump will be able to nominate individuals for those two seats immediately, though the confirmation process is unpredictable. Recall that Senate Republicans blocked Obama appointee Peter Diamond's confirmation in 2011 on concerns over his qualifications, despite the fact that he had won a Nobel Prize in economics for his research on unemployment and the labor market.

Adding two Trump appointees could immediately change the nature of debate in a room where the five existing governors are all Obama appointees. But this politically driven characterization is often overstated. One of Obama's appointees, Jerome Powell, is a Republican who served in the Treasury Department under George W. Bush. And Stanley Fischer, the vice chairman, is well regarded by both sides of the aisle and sailed through the confirmation process.

The most direct opportunity for change will be for Trump to specifically name one of his nominees for the position of vice chair of supervision, who is given the task of promulgating rules and regulations for the financial industry. The position was added with the passage of the Dodd-Frank Act in 2010, but has never been filled because President Obama never nominated anyone for it. So the de facto leader of regulation at the Fed has for years been Democrat Dan Tarullo, who is viewed negatively by Republicans. The position of vice chair of supervision is arguably the most important financial regulatory job in the country, so Trump's nominee will be a clear signal to financial companies, banks in particular, on what they can expect from a regulatory perspective.

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\]
...the real internal debate is not about Republican vs. Democrat; it is a more nuanced debate about rules vs. discretion.

The usual suspects

The names being bandied about Washington are familiar ones popular with Republicans. John Taylor of Stanford University and the Hoover Institution is an outspoken critic of Fed policy and has been repeatedly called to D.C. by Republicans to testify regarding proposed legislation. If Trump seeks counsel from his party regarding nominees, Taylor would be the odds-on favorite to be the next Fed Chairman. Kevin Warsh was a governor from 2006 to 2011, nominated by George W. Bush after serving on the White House Economic Council. He is now a distinguished visiting fellow in economics at Stanford University’s conservative Hoover Institution, along with Taylor. Glenn Hubbard is the dean of the Columbia Business School and served as the chairman of George W. Bush’s Council of Economic Advisers (CEA) from 2001 to 2003. He was expected by many to helm the Fed after Greenspan but of course that went to Ben Bernanke. Last, Larry Kudlow of CNBC fame is rumored to be Trump’s choice for chair of the CEA. It’s both perfectly conceivable and would fit with history for him to first serve a stint at the CEA before moving to the Fed, as did Yellen, Bernanke, and Greenspan. Unlike the last three Fed chairs, however, Kudlow is not an economist, but an unconventional president could go an unconventional route.

Legislation

Media discussion about Fed policy and leadership is often portrayed from a partisan angle. But the real internal debate is not about Republican vs. Democrat; it is a more nuanced debate about rules vs. discretion. For many Fed critics, monetary policy is dominated too much by the discretion of Fed policymakers who are prone to being too cautious or perhaps inconsistent. Those same critics advocate the Fed adopting some kind of mathematical rule to guide policy. The most popular such rule is the Taylor Rule originally authored by John Taylor, mentioned above. His frequent trips to Capitol Hill for testimony over the years came by invitation from conservative Republicans who have authored legislation that would force the Fed to adopt and enforce such a rule. In instances where the Fed deviates from the rule it would be required to notify Congress of its reasoning. Opposition to such a move comes from those who believe that such rules are useful guides but are entirely too simple to synthesize all aspects of a massive and fluid economy. We expect the efforts by Republicans to legislate rules-based monetary policy will be prevalent and gain steam as nominees come up for consideration.

Musical chairs

The last aspect of change in 2017 is the annual rotation of voting rights for the Reserve Bank presidents. Congress decided long ago it didn’t want the twelve
presidents of the Reserve Banks to be able to outvote the seven governors in Washington. Their solution was to only give five votes to the banks, with a permanent vote for the New York Fed, and a rotation system for the other eleven.

In 2016, the voters were headline grabbers. Jim Bullard of the St. Louis Fed gives interviews and TV appearances more often than most, and last year started an unconventional method of projecting rate hikes, which separated him from the crowd. Three other voters, Esther George (Kansas City), Loretta Mester (Cleveland), and Eric Rosengren (Boston) also broke from the pack and gave dissenting votes in favor of higher rates at various times over the year.

The incoming crop of voters includes Charles Evans (Chicago), a known quantity in his tenth year who is dovish and reluctant to raise rates. Patrick Harker (Philadelphia), Robert Kaplan (Dallas), and Neel Kashkari (Minneapolis) are relatively new to their posts and will be voting for the first time. Harker’s comments thus far seem quite hawkish (bias to higher rates) to us and Kashkari to the dovish side, while Kaplan seems to us in the middle of the road. We think the impact of the vote rotation in 2017 is a slight shift to the dovish side.

Fasten your seat belts: It’s going to be a bumpy ride

As with so many things, we won’t have clarity until President Trump takes action, but we are confident that Yellen will remain as chair until February 2018. Until then, we expect nominees will include one or more of the aforementioned Republican favorites as well as a community banker. We also expect the nominees and nomination process will drive a discussion and perhaps legislation about pushing the Fed to adopt a kind of monetary policy rule. What do we know for certain? A year from now, the Fed will look quite different than it does today.

What do we know for certain? A year from now, the Fed will look quite different than it does today.
## Asset Class Overview

### Equities

**Sources:** FactSet, Bloomberg.

Investing involves risks and you may incur a profit or a loss. Past performance is no guarantee of future results.

### U.S. Equities

- Equity markets continued the Trump rally in December
- Pro-cyclical industrial/materials underperformed while financials and defensive (not highly correlated to the economic cycle), high-yielding sectors such as telecom, utilities, consumer staples outperformed
- Low valuation, high profitability, and high-dividend yield outperformed; high beta/price volatility underperformed
- Small-capitalization stocks outperformed as recession expectation is pushed further out in time
- Bears believe Trump’s plans are fully priced in while bulls see only a partial reflection; his initiatives aren’t expected to be fully reflected in the economy until 2018 while near-term results may be adversely affected by stronger U.S. dollar (USD) for multinationals
- We remain constructive on stocks over the next year as the corporate earnings “recession” ends and fiscal stimulus will likely provide support for further stock advances

### International Equities

- Given stronger earnings growth, we expect European stocks to perform quite well, in the euro and perhaps even in USD terms, during 1Q17, and maybe into 2Q, if a moderate candidate wins the French presidential election and if there is some early progress in Brexit negotiations
- Japanese earnings are also strengthening, given that its mega-cap exporters are benefiting from a weaker yen; we expect Japanese stocks to produce solid returns in yen and maybe USD terms, though not as large as for European stocks
- Emerging markets stocks had reacted negatively to the USD strengthening and Treasury yield post-election increases which have since mainly stabilized (except Chinese stocks, which seem to have been negatively impacted by concerns over faster currency depreciation and a possible Trump-triggered trade war)

### Our sector inputs and allocations, as of January 4, 2017

<table>
<thead>
<tr>
<th>GICS sector</th>
<th>Sector rank</th>
<th>Macroeconomic</th>
<th>Quantitative</th>
<th>Fundamental</th>
<th>U.S. large-cap sector allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Telecom</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td></td>
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<tr>
<td>Utilities</td>
<td>3</td>
<td>1</td>
<td>11</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Staples</td>
<td>5</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>7</td>
<td>9</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>9</td>
<td>8</td>
<td>10</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>10</td>
<td>11</td>
<td>4</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Bloomberg, WTIA

Benchmark: Russell 1000

Current allocation

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**Asset Class Overview**

### Fixed Income

#### as of December 31, 2016

<table>
<thead>
<tr>
<th>Index</th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg- Barclays U.S. Aggregate Bond Index</td>
<td>0.1%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Bloomberg- Barclays U.S. Investment Grade Credit Index</td>
<td>0.6%</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Bloomberg- Barclays Ba High Yield Index</td>
<td>1.2%</td>
<td>12.8%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Bloomberg- Barclays 60% High Yield Total Return/40% Municipal Total Return Index</td>
<td>1.3%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Bloomberg- Barclays U.S. Mortgage Backed Securities Index</td>
<td>0.0%</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond Index</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond New York Index</td>
<td>1.0%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond California Index</td>
<td>1.2%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Sources: FactSet, Bloomberg.

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**U.S. Treasuries**
- U.S. Treasuries had another bad month in December as the markets brace for a robust legislative agenda with the 10-year note ending the year at a 2.45% yield to maturity.
- The yield curve moved higher in yield in a parallel manner vs. the steepening trend seen in the second half of 2016.
- Higher inflationary expectations continued as oil rebounded in price; 10-year break-evens ended the year at 1.98 after starting it at 1.55.

**Investment-grade Corporates**
- Investment-grade (IG) credit finished 2016 on a strong note, with tighter risk premiums as investors continued to price in stronger economic growth post the elections; they finished the year strong, marking IG’s fourth-best year since 1988.
- Energy was the best-performing sector for December and 2016 by wide margins; with oil prices stabilizing above $50 per barrel, the sector posted 222 basis points, or bps, (2.22%) of excess returns in December and a whopping 1,286bps of excess returns for 2016.
- The primary market slowed to a crawl in Dec. with markets all but shutting down the final two weeks; according to Bloomberg, IG issuance totaled $46.1 bn during Dec. and totaled a record-breaking $1.6 tn for 2016.

**High-yield Corporates**
- 2016 was a strong year for high yield (HY), the best since 2009.
- Total return in 2016 was about 17.75% as spreads tightened roughly 260bps, resulting in an excess return of about 15.25%.
- Leveraged loans underperformed HY but still finished with the best return since 2010.
- Within HY, beta outperformed, despite a weak start to the year.
- Not surprisingly, metals and mining and energy outperformed in total return, with lodging and healthcare the poorest performers.

**Municipals**
- During the modest recovery in December, most muni activity was generated not by investment flows and new bond issues, but by tax loss harvesting through swaps.
- Market extremes (record-low yields in July shortly followed by November’s market rout) provided a strong backdrop for total return investors to harvest losses in a month where U.S. stock markets set records.

**International**
- We expect German 10-year yields to stay in the range of 20–40bps for the next few months, kept low by continued European Central Bank bond purchases, which began to taper in March, dropping from €80 bn to €60 bn per month; we expect Japanese 10-year yields to remain around 0 bps, in line with the Bank of Japan’s yield-targeting policy.
- If these yields aren’t already unattractive, one has to consider the possibility of further U.S. dollar (USD) strengthening, which would further reduce bond returns.
- USD yields have the single biggest impact on dollar-denominated emerging markets (EM) bond returns; we expect some flattening of the Treasury yield curve, which would reduce 10-year yields, and support EM bond prices.
### Asset Class Overview

#### Real Assets and Nontraditional

**As of December 31, 2016**

<table>
<thead>
<tr>
<th>Index</th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P Developed Property</td>
<td>2.7%</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Barclays Inflation</td>
<td>1.4%</td>
<td>10.2%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Bloomberg Commodity</td>
<td>1.8%</td>
<td>11.8%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

**Sources:** FactSet, Bloomberg.

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#### Real Assets
- Developed market real estate, global inflation-linked bonds, and commodities gained in December
- Broad commodity indices saw positive yearly performance for the first time since 2010; energy was a strong contributor with oil prices up over 50% in 2016, though oil remains roughly 50% below mid-2014 levels

#### Nontraditional Hedge
- Hedge Funds had a positive November, with equity long/short and equity-focused event-driven sub-strategies capitalizing on the post-election rally
- Macro saw losses as systematic trend following managers continued to struggle

#### Nontraditional Private Markets
- Secondary private equity transaction volume appears to have dropped in 2016 from the record years of 2014 and 2015
- Pricing has remained relatively steady, down only slightly overall; buyout, the largest strategy by volume, has seen no change at 94% of par, while venture has seen the biggest drop-off, down to 73% from 81% in 2014
## Investment positioning

**Portfolio targets effective January 1, 2017 for high-net-worth clients with nontraditional assets**

<table>
<thead>
<tr>
<th></th>
<th>Aggressive</th>
<th>*</th>
<th>Growth &amp; Income</th>
<th>*</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic asset allocation (long term)</td>
<td>Tactical asset allocation (short term)</td>
<td>Change this month</td>
<td>Strategic asset allocation (long term)</td>
<td>Tactical asset allocation (short term)</td>
</tr>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>U.S. Large-Cap Core*</td>
<td>23.0%</td>
<td>26.5%</td>
<td>—</td>
<td>16.3%</td>
<td>20.2%</td>
</tr>
<tr>
<td>U.S. Large-Cap Sectors*</td>
<td>23.0%</td>
<td>19.8%</td>
<td>—</td>
<td>16.3%</td>
<td>13.6%</td>
</tr>
<tr>
<td>U.S. Small-Cap</td>
<td>13.8%</td>
<td>13.8%</td>
<td>—</td>
<td>8.1%</td>
<td>8.1%</td>
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<tr>
<td>International Developed</td>
<td>19.5%</td>
<td>19.6%</td>
<td>—</td>
<td>12.7%</td>
<td>13.4%</td>
</tr>
<tr>
<td>International Emerging Markets</td>
<td>9.7%</td>
<td>10.2%</td>
<td>—</td>
<td>3.6%</td>
<td>4.6%</td>
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<tr>
<td><strong>Total Equities</strong></td>
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<td>89.8%</td>
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<td>57.0%</td>
<td>59.9%</td>
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<tr>
<td><strong>Fixed Income</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Investment Grade–Tax-Exempt</td>
<td>0.0%</td>
<td>0.0%</td>
<td>—</td>
<td>30.0%</td>
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<tr>
<td>High-Yield–Tax-Exempt</td>
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<td>—</td>
<td>2.0%</td>
<td>3.0%</td>
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<tr>
<td><strong>Total Fixed Income</strong></td>
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<td>32.0%</td>
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<td><strong>Real Assets</strong></td>
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<tr>
<td>U.S. Inflation-Linked Bonds</td>
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<td>2.4%</td>
<td>—</td>
<td>0.8%</td>
<td>3.5%</td>
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<tr>
<td>U.S. REITs</td>
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<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Non-U.S. REITs</td>
<td>2.5%</td>
<td>1.4%</td>
<td>—</td>
<td>2.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Total Real Assets</strong></td>
<td>4.0%</td>
<td>4.3%</td>
<td>0.0%</td>
<td>4.0%</td>
<td>6.3%</td>
</tr>
<tr>
<td><strong>Nontraditional Hedge</strong></td>
<td>5.0%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Cash &amp; Equivalents</strong></td>
<td>2.0%</td>
<td>0.9%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>0.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

* Large-cap allocations are broken down into the portion designated for use with active or passive managers (U.S. large-cap core) and the portion using our Sector Allocation Strategy (U.S. large-cap core sectors). Tactical positions are shown on page 10 in the graph "Our sector inputs and allocations." Source: Wilmington Trust Investment Advisors, Inc. (WTIA)

Note: Rounding errors may cause the allocation subtotals of some asset classes to differ slightly from the building blocks of their allocations.

Our reference allocations are developed from our long-term economic outlook, reflecting our highlighted themes as well as the insights of our investment and economic professionals. Reference allocations serve as a baseline strategic allocation for long-term investors. The expected returns presented constitute the informed judgments and opinions of Wilmington Trust about likely future capital market performance. No assurance can be given as to actual future market results or the results of Wilmington Trust’s investment products and strategies. Strategy forecasts are derived from the expected return and volatility assumptions in Wilmington Trust’s Capital Markets Forecast 2016–2026, which is available on www.WilmingtonTrust.com or upon request from your Investment Advisor. A summary of the calculations used to develop these numbers can be found in the disclosures section under Forecasted Performance. Return projections are pre-tax and pre-fees. Volatility (standard deviation of return) estimates are based on pre-tax return projections.

There is no assurance that forecast results will be realized or that any investment strategy will be successful.

Please see disclosures for information about our asset allocation strategies, risk assumptions, performance forecasts, fee assumptions, and other important information.
Positioning in response to our outlook

A big-picture glimpse of our overall positions, as of January 1, 2017 (for high-net-worth investors)

Based on current Growth & Income Strategy for High-Net-Worth with Nontraditional (liquid alternatives), this chart represents current weights relative to our strategic asset allocations with high and low boundaries reflecting maximum and minimum weightings.

Our positioning is as follows:

- Neutral to cash, and liquid alternatives markets
- Underweight fixed income
- Slightly overweight domestic large-cap, international developed, and emerging markets
- Slightly overweight tax-exempt high yield
- Overweight real assets due to opportunities in U.S. TIPS

* Large-cap allocations are broken down into the portion designated for use with active or passive managers (U.S. large-cap core) and the portion using our Wilmington Trust Sector Allocation Strategy (U.S. large-cap core sectors).

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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.

Indexes 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 would reduce returns.

An overview of our asset allocation strategies:

Wilmington Trust offers five model asset allocation strategies each for taxable and tax-exempt investors with particular sets of risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. Each strategy can be implemented with or without allocations to hedge funds. Strategic asset allocations (SAA) are maintained for each strategy and, on a quarterly basis, we publish the results of all of these strategy models versus benchmarks representing static investments without tactical tilts.

Model strategies may include exposure to the following asset classes: U.S. large-capitalization equities, U.S. small-cap equities, international developed large-cap, international developed small-cap and emerging market stocks, real assets (including international inflation-linked bonds and commodity-related and international real estate-related securities), investment-grade bonds (corporate or municipal), high-yield corporate bonds and floating-rate notes, and cash equivalents. Directional and absolute return hedge funds are distinct to the strategies with hedge funds. Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.

Forecasted performance:

Expected results are hypothetical and do not represent the performance of client accounts or actual investment products. “Expected returns” for each strategy are derived from our forecast returns for the underlying assets as described in the Capital Markets Forecast 2016–2026 and weighted based on their current allocation percentage. Forecasts are subject to a number of assumptions regarding future returns, volatility, and the interrelationship (correlation) of asset classes. Actual events may differ from underlying assumptions, which are subject to various uncertainties. No assurance can be given as to actual future market results. Expected returns for the individual asset classes are based on factors including, for equity-based securities, dividend growth rates and dividend yield changes. For fixed income securities, expected returns are calculated based on principal impacts from changes in the underlying U.S. Treasury curve, yield spread changes vs. the U.S. Treasury curve, and the interest income that could be earned. Estimates of default rates are also taken into consideration. “Expected standard deviations” are forecast from the trailing 10-year rolling standard deviation of the asset class and “Expected yield” is based on the current expected dividend or interest income and is expressed as a percentage of the underlying principal value.
Fee assumptions:
No adjustments are made for advisory fees, transaction costs, or any other expenses. In the course of implementing a given asset allocation, clients could select among a number of investment vehicles or strategies, each of which will have such fees and expenses. These expenses have the effect of reducing returns at a compound rate over time, and would reduce the results shown. In cases where Wilmington Trust, or an affiliate, provides advisory, brokerage, or other services to such an investment vehicle, Wilmington Trust may benefit directly or indirectly from those advisory, brokerage, or other fees. Investors should develop a thorough understanding of the fees, expenses, and other costs of any investment prior to committing funds.

Impact of fees:
The following is a hypothetical example of the impact over time of fees charged to a client’s account. It is not meant to suggest actual fees, which may vary, and does not reflect actual returns. Assuming an initial investment of $1,000,000 account value and an average annual return of 10%, an annual fee of 100 basis points (i.e., 1.00%) would result in account level fees of $10,641 the first year, $35,351 over three years, and $65,458 over five years. A schedule of Wilmington Trust’s fees is available upon request.

Actual results will vary from forecast results:
In the course of implementing a given asset allocation, clients could select among a number of investment vehicles or strategies, each of which would contribute differently to overall results. The returns for individual clients will vary depending upon the performance of each actual investment vehicle or activity, any restrictions, inception date, timing of rebalancing, actual expenses and fees, and other factors.

Risk assumptions:
All investments carry some degree of risk. This publication uses the return volatility, as measured by standard deviation, of asset classes 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.

Tax disclosure:
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