We began the year fresh-faced and optimistic that the incoming Trump administration would be able to push through pro-growth policies that would benefit both the economy and risk assets. At the same time, the clouds hanging over a series of elections in Europe left us cautious about those markets and, by extension, the international developed asset class.

By the time we neared the end of the first quarter in late March, we had adjusted our views based on shifting political risks as well as relative valuations. Domestic equities had appreciated through the first quarter, pushing valuations above long-term norms, while the pricing and valuations of equities in developed markets remained attractive. Of even greater import was the failure to repeal and replace the Affordable Care Act (“Obamacare”), which heightened our concerns about the effectiveness of the Trump administration and the Republican Congress. And while domestic policy was becoming increasingly suspect, politics in developed international markets were increasingly encouraging, as several critical elections seemed to break in the right direction from a markets perspective. Accordingly, we adjusted portfolios by reducing our allocations of U.S. equities to a neutral weighting and put those funds to work in developed international equities, increasing our overweight there. We also maintained our overweight to emerging markets equities, and our underweight to core fixed income.

CONTINUED
A series of fortunate events

The first round of the elections in France on April 23 turned out as we had expected. The centrist, pro-European Union (EU), and pro-business candidate Emmanuel Macron placed first with 23.8% of the vote, besting the anti-EU nationalist Marine Le Pen by more than 2%. They will have a two-candidate runoff on May 7 and Macron leads in the polls by approximately 20 points as supporters of other candidates disproportionately prefer him over Le Pen. Nonetheless, given the notorious failure of political polls in 2016, we continue to watch the closeness of the French election with great attention.

The reaction in markets to round one of the French election was a clear sigh of relief. The French benchmark index (CAC 40) leapt 3.8% when markets opened the following Monday. Other European and worldwide markets participated, rising enough to push up the aggregate international developed index by 2.4% that day. Faith in the common currency was bolstered too, and the euro appreciated 1.4% against the U.S. dollar. And Japan, the largest single country in the international developed index, while not directly affected by French elections, rallied just enough to not detract from the overall performance of the asset class. Emerging markets also received a boost on the heels of the election, with the aggregate index moving up 1.4% the following day. The appetite for risk was indeed worldwide and pushed up U.S. equities, but the boost to the S&P 500 was just 0.8%. In the admittedly short period since the election, the international outperformance has held up, with international developed and...
Given the notorious failure of political polls in 2016, we continue to watch the closeness of the French election with great attention.

emerging markets equities outperforming the S&P 500 by 1.4 and 0.2 percentage points, respectively (Figure 1).

**What comes next?**

We are encouraged by the events of the past month but of course would not claim victory in such a short timeframe. We maintain a 9- to 12-month investment horizon for tactical trades, and hence continually reassess our positioning.

Looking forward, we expect the recent dynamic of relative political risk to continue. If Macron does indeed prevail on May 7, then we expect another rally in European equities which would further benefit the international developed asset class. Looking farther down the line, the German elections slated for this fall were once viewed as a risk if a wave of populism was indeed sweeping across the continent, but they are currently shaping up to be a non-event, which should also prove helpful to risk assets.

The underlying economic fundamentals of developed markets also provide encouragement and positive investment performance; Purchasing Manager Indexes (PMIs) are used as indicators of general economic health (Figure 2). They show the developed world has improved relative to last year. An exception is the United Kingdom, where there has not been much improvement. Nonetheless, activity has held steady in expansionary territory and the feared recession from Brexit has not as yet occurred. Other broad EU measures of economic performance from retail sales to business and consumer sentiment also offer assurance of continued growth across the pond.

**Figure 2**

Composite Purchasing Manager Indexes (PMIs), which include both the manufacturing and services sectors, have been improving in developed international countries (Composite PMIs >50 is increasing)

Sources: Markit, Nikkei, WTIA
On our own shores, we see very little reason to change our view about the organic economic growth picture or the prospects of a boost from the Trump administration. First-quarter GDP came in at only 0.7%, but is not in our view indicative of a deterioration of the economy. Instead, it was severely weighed down by a warm winter, particularly in the northeast, which resulted in very weak consumer spending on utility bills. The most encouraging part of the GDP report was business capital expenditures (capex), which showed its strongest quarter since 2013. That stronger capex, combined with positive incoming results for first-quarter earnings, paints the most positive picture for firms that we have seen for several years.

And we remain wary of the Trump administration’s ability to achieve meaningful legislation that would boost growth at any point in the near term. The first failure of healthcare reform (despite majorities in both houses of Congress) was followed by what appeared to be indecision on the part of the legislative and executive branches on whether to take another crack at it or move on to tax reform. As we go to press, there appeared to be verbal progress on both fronts. The conservative Freedom Caucus, which is widely regarded to have stymied the first pass at healthcare reform, announced its endorsement of the revised plan. In fact, that news arrived on the same day that the administration released its cursory outline for tax reform and the two were competing for headlines. We are not optimistic that either will yield meaningful economic benefits for 2017.

The tax reform proposal was so light on detail and substance that it was hard to gauge potential impacts on the government’s budget or the economy. The administration has promised that a detailed package will be developed over the course of May, though legislative days continue to tick by. We still expect the administration to achieve legislative victories bringing meaningful impacts, but we have now significantly discounted the chances of that happening this year. We also expect the administration to make headway on deregulation, but keep in mind that the largest reforms require legislation and are subject to a lengthy review process, as our guest Tim Pawlenty pointed out in a recent client call:

"You have to give formal notice that you’re gonna change the rule. You have to then allow a significant comment period for the rule to be changed … once you receive those comments, you have to publish the change in the rule [then] there’s typically further opportunities for comments and revisions. And then, once you finally get to the point of issuing the changes or the rule in its new form, there’s a period of time that elapses between that being published and when it actually takes effect…most of these rule changes and regulatory relief in their final form aren’t gonna be available … until at the very earliest at the end of this year and perhaps well into 2018.”

(If you missed the call, I encourage you to listen to the replay.)
Overall, we are inspired by developments and market performance over the past month, and our view of the economic and political landscape is unchanged. We continue to expect stronger economic growth in the U.S. than in other large developed markets, but the relative political risks point to better financial market performance overseas. We also believe the Federal Reserve is on track to continue raising interest rates, most likely at the upcoming meeting in June. Accordingly, we made no changes to our portfolios this month. We remain vigilant in watching for other external risks, especially geopolitical events in the Middle East and North Korea. As always, we will keep you apprised of important developments and portfolio shifts.

Until next month,

Tony
Is active management ready to rebound?

Clayton “Cam” Albright III
Head of Investment Strategy

Active managers in U.S. stocks have had less success in outperforming their benchmarks in each successive year of the current bull market, which began when the market bottomed in March of 2009. As shown in Figure 1, a bit more than half of active managers in the large-cap space were able to beat the S&P 500 index on a rolling 5-year time frame back in 2009. By 2016, less than 15% of large-cap equity managers had managed to do so. Will this remain the case or could conditions be shifting that may give these active managers a better chance at success?

As shown in Figure 1, a bit more than half of active managers in the large-cap space were able to beat the S&P 500 index on a rolling 5-year time frame back in 2009. By 2016, less than 15% of large-cap equity managers had managed to do so. A variety of factors have contributed to the challenges faced by active managers, such as: persistently low economic growth; central bank policies of extremely low interest rates for an extended period of time; low cost of and increased participation in passive investment instruments; and high-speed trading.

One of the methodologies that active managers rely upon is tracking the different stages of the business cycle. For example, investing early in the business cycle as it begins a recovery often finds leadership among growth-oriented companies. Later in the cycle, companies that rely more on current earnings may tend to perform better. The problem for active investors has been that the Fed’s accommodative

The fact that they have performed as well as they did in 1Q2017 is considered a good omen for active managers.
As the economy improves and the Fed continues to raise rates, the environment for active management could begin to gather steam in other ways.

policies have made it very difficult to take a bearing on our current position within the business cycle. These policies have kept recessions and depressions at bay, pushed down interest rates, and prevented GDP growth from advancing quickly enough to keep any economic problems from developing—but they have also kept a lid on the expansion which has in turn suppressed the business cycle. Without this, investors have been limited in their ability to gauge what stocks will perform better.

However, the Fed’s long-running effort to nurture the recovery with low rates and bond purchases is apparently coming to an end. The first interest rate hike in nearly 10 years took place in December of 2015. And in the past five months, it’s raised rates twice and is indicating the pace of increases will be stepped up, with perhaps as many as three rate hikes this year and more to come in 2018. This trajectory should result in the business cycle becoming more visible, the cost of capital to become more variable, and correlations between equity prices to decline. The prospect of stronger and more variable growth from the Trump administration’s fiscal and regulatory policies should add another source of growth beneficial to active managers.

The cyclical nature of active manager performance and its relationship to the level of interest rates is clear. Figure 2 shows the outperformance of active managers against the level of the fed funds rate since 2000. When the rate was declining or very low, less than half of active managers outperformed. When the fed funds rate...
started to move up again, relative performance improved. With the economy doing well enough that the Fed finally feels sufficiently comfortable to raise rates, the age of repression may be at an end. Furthermore, the Trump administration’s intentions with respect to deregulation and tax reform could open the door for even stronger economic growth, which should add to the opportunity for active managers to begin making a comeback. Both of these will likely remove the constraints we have been experiencing, allowing us to perhaps move back toward a more traditional business cycle.

Figure 2 is also helpful in pointing out another potential positive for active managers. Given their ability to discriminate between good and bad companies, active managers seem to perform better at major turning points. We can see from the chart that active managers performed well in 2000, 2003–2004, and 2008—all years where the stock market made major turns, both up and down. Unsurprisingly, there is a lot of confusion in markets around these shifts as the old narrative gives way to the new and active managers are adept at recognizing these opportunities. At turning points we often see earnings trends changing or balance sheet conditions weakening or improving. Not all sectors react alike in these circumstances. The changes give active managers the hooks they need to grab onto in making beneficial portfolio decisions. We are not making a projection that stock markets are ready to turn but we remain positive about the U.S. and global economies, even if markets are now indecisive. However, for there to be a turning point, the Fed’s thumb needs to be lifted to allow the business cycle to plow ahead.

As the economy improves and the Fed continues to raise rates, the environment for active management could begin to gather steam in other ways. Active managers play a critical role in the financial markets by advancing the fortunes of good companies and penalizing bad ones. Against a landscape that is dotted with passive investments, the good and bad companies are painted with the same broad brush, as investor money is put to work buying both of these indiscriminately. But as active managers gain traction and less money heads toward passive investments, we can expect the indiscriminate market support to wane, thereby enhancing the ability for active managers to differentiate themselves from their indices.

There are also growing concerns that passive investing may be creating its own set of risks that investors may not be aware of. Furthermore, these risks may be raising the cost of many exchange-traded funds that perhaps appear mistakenly cheap given low published expense ratios. As mentioned previously, passive investing creates an environment where bad companies are treated no differently than good companies. This can lead to distortions in how the securities in bad companies perform, which may include less trading and higher bid/ask spreads.

CONTINUED
Managements of these overperforming companies may not be aware of developing problems since signals from the stock market are hidden by their shares performing well due to passive investment money flowing into their equity. Ultimately, investors are likely to pay the price of this opaque situation, usually when a disappointing earnings announcement is released and the evidence of decay can no longer be avoided.

After struggling for much of 2016, there is some evidence that the tide may be turning. Results for the first quarter of 2017 for large-cap managers are showing signs of improvement, according to Strategas Research Partners. During the most recently completed quarter, 34% of large-cap managers outperformed the S&P 500. While there is still considerable room for improvement, it should be noted that breaking above the 30% level is a milestone, as annual performances by managers over the past three years have failed to exceed that level. The fact that they have performed as well as they did in the quarter that just ended should at least be considered a good omen for active managers.

While economic conditions may give active managers a better environment, some of the factors enumerated earlier will remain and need to be addressed in the coming years. We believe passive investment options will remain cheap and active managers will need to justify the expense of their service or make changes. Information flows will only get quicker and active investors will have to be artful in culling out important information while chalking off the rest as noise. Addressing these hurdles will be critical, in our view, if active managers are to regain their previous position of leadership.

Apart from our large-cap U.S. market, other stock segments also lend themselves to active management, such as international developed and, especially emerging markets, where the enormous breadth of geography and relatively less-developed financial markets result in more varied economic conditions and greater opportunity for active managers to identify winners and avoid losers.

At Wilmington Trust, we have advocated holding a mixture of active and passive managers and managed both of their attendant risks. New tools that we are bringing to clients will help in both our investment planning and the portfolio construction efforts. We want to make sure that our clients benefit from the tactical asset allocation shifts as well as the potential outperformance that individual managers may generate. We believe this can be accomplished through a thoughtful mixture of active and passive styles that is adjusted as market conditions warrant. We will be keeping a careful eye on how the current evolving economic policy shifts impact these investment styles.
Equities

AS OF APRIL 30, 2017

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<thead>
<tr>
<th></th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
</tr>
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<tr>
<td>S&amp;P 500</td>
<td>1.0%</td>
<td>7.2%</td>
<td>17.9%</td>
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<tr>
<td>Russell 2000</td>
<td>1.1%</td>
<td>3.6%</td>
<td>25.6%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>2.5%</td>
<td>10.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>2.2%</td>
<td>13.9%</td>
<td>19.1%</td>
</tr>
</tbody>
</table>

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

- Equities were up roughly 1% in April as good earnings performance by the markets overcame concerns about tax reform prospects; earnings returned the focus to strong fundamentals
- Growth-oriented technology, consumer discretionary, and industrials led performance with positive returns while value-oriented telecom, energy, and financials declined
- Smaller-cap stocks underperformed large early in April but bounced back later in the month as earnings were reported
- The valuation of the U.S. stock market is full, sans fiscal stimulus (tax and regulation cuts), but the improving earnings picture provides a level of support for markets

International Equities

- A re-rating of European stocks is supported by reduced political risk in the wake of the first round of the French elections
- We expect a gradual strengthening of the euro throughout the year, as the European Central Bank considers gradual withdrawal of monetary stimulus, which should translate euro returns into larger dollar returns
- E-commerce, technology hardware, and consumer finance stocks are expected to continue to drive emerging markets stock returns, particularly in Asia. The 2016 surge in value sectors—oil, mining, and banking—appears to be over

Our sector inputs and allocations, as of May 1, 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>
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</thead>
<tbody>
<tr>
<td>Financials</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Telecom</td>
<td>2</td>
<td>3</td>
<td>5</td>
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<td></td>
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<tr>
<td>Technology</td>
<td>3</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Staples</td>
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<td>1</td>
<td>7</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>6</td>
<td>8</td>
<td>2</td>
<td>9</td>
<td></td>
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<tr>
<td>Materials</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>6</td>
<td></td>
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<tr>
<td>Utilities</td>
<td>8</td>
<td>2</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>9</td>
<td>10</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>11</td>
<td>11</td>
<td>9</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Bloomberg, WTIA

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Asset Class Overview

Fixed Income

Sources: FactSet, Bloomberg.

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

<table>
<thead>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Month to date</td>
<td>0.8%</td>
<td>1.0%</td>
<td>1.4%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Year to date</td>
<td>1.6%</td>
<td>2.3%</td>
<td>3.4%</td>
<td>3.8%</td>
<td>1.1%</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Trailing 12-month return</td>
<td>0.8%</td>
<td>2.7%</td>
<td>9.5%</td>
<td>2.7%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

**U.S. Treasuries**
- Prices rose in April as the 10-year note fell 10 basis points, or bps (.10%), in yield while the 2-year note fell only 1bp
- The longer end of the bond market was concerned about lack of stronger hard data (GDP, CPI) and unfolding political drama
- The shorter end of the yield curve took its clues from Fed governors telegraphing that two more rate hikes were probable in 2017
- We expect the yield curve to keep flattening, barring a break in the federal reform logjam
- The Trump reflation trade also lost steam as TIPS underperformed nominal U.S. Treasuries with the 10-year breakeven falling to 1.93%

**Investment-Grade (IG) Corporates**
- Risk premiums held steady; the option-adjusted spread of the Bloomberg Barclays U.S. Credit Index ended April at 110bp, up 2bps from the start of the month; uncertainty about reforms kept limiting risk taking while demand stayed strong, as seen by a robust new issue calendar that was well received by the market
- Sector dispersion was minimal, reflecting the low volatility of the market
- Activity in the primary market slowed as many companies entered blackout periods before releasing earnings; still, activity was solid in the primary market with $105.2bn of IG debt priced during the month; year-to-date (YTD) new issuance totals $615.5bn, up 4% from the same time period last year

**High-Yield (HY) Corporates**
- HY bonds provided a nearly 0.50% gain amid light issuance and steady rate decline
- YTD, HY is up close to a 3.0% gain, with CCC-rated bonds up nearly 4.80%, B-rated bonds up over 2.70%, and BBs up close to 2.60%
- In primary market activity, HY issuance totals $12.7bn month-to-date, or only $5.8bn net of refinancing
- YTD, HY new issue volume stands at $111.4bn and $38.2bn net of refinancing, which is still comfortably above last year’s pace on a gross basis ($75bn through similar YTD period in 2016)

**Municipals**
- Fixed income markets continue to surprise to the upside; yield declines and the resultant positive total returns accelerated from March
- Munis had a ho-hum reaction to the tax reform announcement which for now seems to have helped the market dodge a few bullets, e.g., no apparent change in the status of munis’ tax-exemption
- Supply is still running 12%–13% behind last year’s record issuance; this and May–June’s expected seasonal upswing in reinvestment demand should help support the market
- From a credit perspective, the impact of Westinghouse’s bankruptcy filing will likely impact Georgia and South Carolina municipal joint utility authorities, as both are involved with nuclear power plant construction projects

**International**
- Our expectation of a decline in the U.S. dollar (USD) naturally draws attention to non-dollar bonds as fulfillment, though these bonds usually have long durations, and there is considerable risk that European and Japanese yields will increase as nominal economic growth expectations improve
- USD-denominated emerging markets bonds remain less attractive than U.S. high-yield bonds for which they might serve as a substitute or complement; they now have a lower yield and coupon but longer duration

CONTINUED
Real Assets, Hedge Funds, and Private Markets

### Real Assets (REITs)
- Global-listed real estate gained in April, driven by extremely strong returns in Europe; European REITs were aided in the early part of the month by declining interest rates and then spiked in concert with stocks after the French election.
- Inflation-linked bonds have performed steadily thus far in 2017; while inflation expectations have remained largely flat, they remain well above pre-election levels.

### Hedge Funds
- The hedge fund industry continues to post generally solid returns in a market environment that does not reward hedging.
- Continuing the pattern of the first quarter, macro strategies had the most difficulty, with trend followers struggling in choppy markets.
- Due to a combination of performance and inflows to certain strategies, hedge fund industry assets reached record levels with an estimated $3.07 trillion.

### Private Markets
- Global M&A activity slowed in the first quarter of 2017, trailing the pace of 2015–2016 but on track with 2014 in terms of total transaction values.
- Prices in Europe dropped greatly as investors struggle with uncertainty around eurozone elections and the ultimate impact of Brexit.
- The U.S., on the other hand, saw a flat pricing environment as excitement over potential tax cuts and regulatory rollbacks counterbalanced valuation concerns.

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**Sources:** FactSet, Bloomberg.
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### Asset Class Overview

#### Real Assets, Hedge Funds, and Private Markets

<table>
<thead>
<tr>
<th>S&amp;P Developed Property</th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.4%</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Barclays Inflation</td>
<td>1.4%</td>
<td>2.1%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Bloomberg Commodity</td>
<td>−1.5%</td>
<td>−3.8%</td>
<td>−1.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hedge Fund Research Institute Indexes</th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>0.4%</td>
<td>2.1%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Equity Hedge</td>
<td>0.7%</td>
<td>3.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>0.7%</td>
<td>3.7%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Macro</td>
<td>−0.1%</td>
<td>−0.8%</td>
<td>−4.1%</td>
</tr>
<tr>
<td>Relative Value</td>
<td>0.2%</td>
<td>1.2%</td>
<td>4.2%</td>
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Investment positioning

Portfolio targets effective May 1, 2017 for high-net-worth clients with Liquid Alternatives

<table>
<thead>
<tr>
<th></th>
<th>Aggressive</th>
<th>*</th>
<th>Growth &amp; Income</th>
<th>*</th>
<th>Conservative</th>
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<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>
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<td><strong>Equities</strong></td>
<td>46.0%</td>
<td>46.0%</td>
<td>32.6%</td>
<td>32.6%</td>
<td>15.2%</td>
</tr>
<tr>
<td>U.S. Large-Cap*</td>
<td>46.0%</td>
<td>46.0%</td>
<td>32.6%</td>
<td>32.6%</td>
<td>15.2%</td>
</tr>
<tr>
<td>U.S. Small-Cap</td>
<td>13.8%</td>
<td>13.8%</td>
<td>8.1%</td>
<td>8.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>International Developed</td>
<td>19.5%</td>
<td>19.8%</td>
<td>12.7%</td>
<td>14.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>9.7%</td>
<td>10.2%</td>
<td>3.6%</td>
<td>4.6%</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td>89.0%</td>
<td>89.8%</td>
<td>0.0%</td>
<td>57.0%</td>
<td>22.7%</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>U.S. Investment Grade–Tax-Exempt</td>
<td>0.0%</td>
<td>0.0%</td>
<td>30.0%</td>
<td>25.8%</td>
<td>64.3%</td>
</tr>
<tr>
<td>High-Yield–Tax-Exempt</td>
<td>0.0%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>3.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>32.0%</td>
<td>66.3%</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>1.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>U.S. Inflation-Linked Bonds</td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>1.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>U.S. REITs</td>
<td>0.8%</td>
<td>0.5%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>International REITs</td>
<td>2.5%</td>
<td>1.4%</td>
<td>2.5%</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total Real Assets</strong></td>
<td>4.0%</td>
<td>2.9%</td>
<td>4.0%</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Cash &amp; Equivalents</strong></td>
<td>2.0%</td>
<td>2.3%</td>
<td>2.0%</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>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

* Our positioning chart replaces “U.S. Large-Cap Core Equity” and “Large-Cap Sector Equity” with a single line item, “U.S. Large-Cap.” This change reflects the continued responsibility of our Investment Committee to set the sector weights within the Large-Cap Sector Strategy and recognizes the role of the Portfolio Management Committee to set the weights allocated to this strategy alongside other large-cap manager allocations.

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 2017, which is available on www.WilmingtonTrust.com or upon request from your Investment Advisor. A description of the process 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 May 1, 2017 (for high-net-worth investors)

Based on current Growth & Income Strategy for High-Net-Worth with 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, Domestic Equities, and Hedge Funds
- Overweight International Developed, and Emerging Markets
- Underweight Fixed Income
- Slight overweight High-Yield–Tax-Exempt
- Slight overweight to Real Assets due to higher inflation rates

* Our positioning chart replaces "U.S. Large-Cap Core Equity" and "Large-Cap Sector Equity" with a single line item, "U.S. Large-Cap." This change reflects the continued responsibility of our Investment Committee to set the sector weights within the Large-Cap Sector Strategy and recognizes the role of the Portfolio Management Committee to set the weights allocated to this strategy alongside other large-cap manager allocations.

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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.

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

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. On a quarterly basis we publish the results of all of these strategy models versus benchmarks representing strategic implementation without tactical tilts.

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 exposure, naturally, carry those exposures as well. Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.

CONTINUED
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 our current Capital Markets Forecast 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.

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 & Poor’s, 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”).

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