The three legislative weeks in July that follow the Fourth of July recess are setting up to be pivotal for the Trump administration’s agenda and for markets. There are very few legislative days left in the fiscal year, which ends September 30. Republicans long ago set a goal of having meaningful success before their August recess. To make things more complicated, the nation’s debt ceiling will likely need to be addressed sometime in the fall. All of this sets up to be very challenging to pass the healthcare legislation before the end of the fiscal year. If they fail to do this, the Republicans will be pushing tax reform—their next major item and the one that could provide the biggest boost to markets—into very uncertain territory. Investors must acknowledge that legislation, and by extension U.S. markets, could go either way over the course of the summer. As a result, we maintain our humble neutrality to U.S. equities while we hold to overweight to non-U.S. equities.

As we write, the prospects for any change to the nation’s healthcare law prior to the August recess appear to be dim. Both conservative and moderate Senate Republicans alike seem unable to embrace Senate Majority Leader Mitch McConnell’s bill and there is seemingly little room for negotiation. Events have taken such a disheartening turn for members of the Senate Republican leadership...
that they—urged forward by President Trump—seem now to be flirting with the once-thought politically impossible: repeal without simultaneous replace.

Even if it were to pass some form of healthcare legislation, the Senate bill is likely to differ in some very fundamental ways from the version that already passed the House. The two would need to be reconciled, although there are only 15 legislative days left on the calendar in July for the Senate, and only 13 in the House. So while success this summer indeed appears remote, and while we wouldn't know the political ramifications of a legislative victory until the 2018 election cycle, in our view, the investment implications would be immediate. We expect U.S. equities would respond very positively to a signal that the Trump administration legislative agenda is back on track. At this stage though, the vagaries of this political cycle being what they are, we simply cannot count on any particular outcome.

One area where our outlook has turned decidedly more positive is the healthcare sector itself. Indeed, markets have noticed the progression of healthcare legislation, with that sector surging in recent weeks to be the best performing over the first half of 2017. This month, we increased our allocation to the healthcare sector. After being pummeled by rhetoric about drug price controls from both parties during the 2016 campaign and during the Trump transition period, that concept has essentially disappeared from any of the legislative language. Valuation of the sector is attractive, and pharmaceuticals form such a large portion we believe a higher allocation now is appropriate (Figure 1). Importantly, we feel the sector can continue to perform in the face of just about
any legislative outcome over the summer.

Stepping back from the legislative debate and taking a look at the economy more broadly, we still expect final data to show that growth recovered in the second quarter, following the weak first. Consumer spending looks to be bouncing back from the stall speed registered to start the year and we expect this to continue as hiring and wage growth continue. It’s worth noting that capital investment by businesses, which moved up sharply to start 2017, is on track for another solid quarter. As we have said in the past, we believe businesses are responding to the lack of available labor by looking to make themselves more efficient through capital investment, a dynamic that has been lacking for most of the recovery and, to be fair, still has not shown itself in spades in the economic data. However, we believe the latter will occur; it is just a matter of time.

Labor markets and inflation prospects

On the puzzling question of labor markets versus labor market inflation, we again think patience will vindicate our view that higher inflation is headed our way. Labor markets themselves remain quite solid with continued job growth, very low layoffs, and a close to 16-year low in the unemployment rate. The 222,000 jobs added in June and upward revisions to previous months are very encouraging and support our view that the labor market is solid and the expansion continues. Overall, inflation has thus far surprised to the downside, partly because of a big impact from large wireless carriers that engaged in significant price competition earlier in the year, as well as some other factors. But the weak inflation data have not been enough to throw the Fed off course, as it hiked rates in June—marking the third time in seven months. We expect one more rate hike this year in December, backed by the emergence of higher wages, and an announcement confirming the commencement of changes to its balance sheet between now and then.

On the international front

Across the globe, the situation has also not changed sufficiently to lead us to adjust our positioning. Developed international economies continue to grow more quickly than anticipated at the start of the year, and emerging market economies are generally doing well, too. The upside surprise in economic growth and business activity has been a boost to both international equity asset classes this year. Strong performance and the continued brightening of the global growth picture led to significant upward revisions of forward earnings estimates for international equities for the remainder of 2017, a solid leading indicator of equity market performance.
Developed international economies continue to grow more quickly than anticipated at the start of the year, and emerging market economies are generally doing well, too.

**Our positioning**

We head into July and August comfortable with our positioning of a mild but meaningful overweight to risk, with a bias to international equities. The global growth backdrop benefits risk assets generally, while the uncertainty about U.S. policy merits the neutral domestic stance, as it did when we first moved to it in April. Despite the continued decline in longer-term rates, we think stronger economic data combined with continued rate hikes from the Fed will push the longer end of the curve later in the year, supporting our underweight to core fixed income. Much of how the markets progress will turn on legislative developments in Washington in July and then again in September. We will, of course, be watching closely.

Please note that this is a combined July–August issue of *Capital Perspectives*. I’ll see you in September and, until then, enjoy!

Best,

Tony

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Hedge funds: in the beginning...

The first hedge fund was launched in the middle of the 20th century, but it was not until the early 2000s that hedge funds began to receive widespread attention. As the tech bubble burst, leading the S&P 500 index to lose nearly half of its value, hedge funds, on average, preserved capital and many even managed to capture strong gains. From then on it was off to the races as these exclusive investments continued to generate compelling results. When the financial crisis hit in 2008, hedge funds did not fare quite as well as they did during the early 2000s, but they still performed much better than stocks. The broad-based HFRI Fund Weighted Composite (hedge fund index) dropped only about half as much as the S&P 500 during this time and, again, many hedge funds were actually up.

Investors began applying modern portfolio theory (MPT) to hedge fund analysis. MPT breaks down returns into alpha (manager skill), and beta (the returns of the asset class in which the manager invests). For a U.S. large-cap stock manager that is long-only (hoping to benefit from an increase in prices), the alpha is the amount that the manager outperforms (or underperforms) that benchmark; and the beta exposure could be considered to be a benchmark like the S&P 500. In any given time period, much if not most of the return can be explained simply by observing the behavior of the markets in which that manager invests.

For example, in a year that the market is down 20%, a manager could still lose 15% despite having demonstrated skillful stock selection. The aforementioned impressive hedge fund returns could also be divided into alpha and beta, but the betas are trading strategies, such as merger arbitrage, trend-following, or convertible arbitrage that are enabled by freedom from restrictions on tools such
as “shorting” (hoping to benefit from a decrease in prices) securities or leverage (investing borrowed money). These new betas saw dramatically different results than traditional betas, depending on market environments. Trend following, for example, tended to perform very well in poor stock markets.

Efficient frontier analysis started to include hedge funds. A portfolio is considered “efficient” if it has the highest expected level of return for its level of risk. In general, increasing diversification will typically lead to portfolios with better risk-return outcomes. Consider the two-asset portfolio with large-cap stocks and bonds, and then a three-asset portfolio that also includes hedge funds (Figure 1). Due to the strong returns and nontraditional betas, portfolios with hedge funds outperform those without, showing the potential of much more efficient portfolios.

Wealthy individuals and large institutions such as pensions and endowments continued to pile into hedge funds, driving growth in industry assets under management from $500 million in the year 2000 to nearly $2 trillion by the end of 2007.

**Rise of liquid alternatives**

Investors that did not qualify or were not willing to accept the high fees and illiquidity of traditional hedge funds began to clamor for exposure to hedge fund-like strategies so they too could increase portfolio efficiency. These investors looked to liquid alternatives, sometimes called “hedge funds for the masses.”

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**Figure 1:**
Efficient frontier

Sources:
Hedge Fund Research, Morningstar
Liquid alternatives can be broadly defined as mutual funds or exchange-traded funds that pursue strategies outside of traditional long-only stock and bond portfolios. Products that could be defined as liquid alternatives have been around for some time, but limited demand meant that few managers paid attention to the space and there were only a few funds with low asset levels—none of which followed true hedge fund strategies. As demand grew, however, the industry refocused its efforts. Fund companies figured out ways to work within the regulations to create products that were close to true hedge fund strategies. More managers who ran private hedge funds became willing to accept lower fees in exchange for investor diversification and increased assets.

The promise of liquid alternatives was undeniable—hedge fund strategies providing alternative beta exposure at much lower fees, low minimums, and daily liquidity. Still smarting from two 40+% stock market drawdowns in 10 years, the hope for improved portfolios led to explosive growth in the number of funds and assets under management (AUM) tagged with the “alternative” designation (Figure 2).

**Beta products in alternatives clothing**

Unfortunately many of the investors who piled into liquid alternatives found the investment experience less than satisfactory. Investors discovered that in many cases “cheaper than hedge funds” meant expensive, as it is not uncommon to find expense ratios of greater than 2%. Additionally, while true hedge fund managers began managing mutual fund money, the managers tended to not be the ones who ran the most successful private funds. What’s more, alternative mutual fund strategies were often watered-down versions of flagship private funds. Perhaps the largest...
disappointment was that many of the products billed as “alternative” ended up exhibiting a large degree of traditional beta, performing poorly in down markets when investors expected them to protect. As a result, growth has stalled, with 2016 seeing negative flows for the first time since the turn of the century.

Selecting liquid alternative strategies
Despite unsatisfactory results in recent years for the category as a whole, there have been a number of liquid alternative funds that have performed as advertised, generating solid, diversified returns. A rigorous structured manager research effort is required to identify the strategies most likely to succeed. While each strategy is measured across a wide range of criteria, we look for funds that have some or all of the characteristics below:

• True alternative beta exposure—
While many funds in the liquid alternative category provide exposures that can be created by investing in long-only stocks and bonds, and add little to portfolio efficiency, there are a number of strategies that provide truly diversifying alternative beta exposure.

• Low expense ratio—
High costs will turn reasonable gross returns into disappointing net returns. Unsurprisingly, lower-fee liquid alternatives have performed better than higher-fee options. Over the past five years, U.S. strategies with expense ratios higher than 1.5% have underperformed funds with expense ratios below 1.5% by 240 basis points (2.40%) a year.

• Appropriate scale—
Although there is a persistent belief that small funds are able to take advantage of investment opportunities not available to larger managers (thereby leading to higher returns), this is not the case with liquid alternatives. Funds require significant scale to set up and maintain advanced investment infrastructure, trade more sophisticated strategies, and attract the best investment talent. Over the trailing five years, funds with assets greater than $200 million have outperformed smaller funds by over 300 basis points.

Conclusion
Nine years into a bull market, many investors have thrown caution into the wind, pursuing higher returns regardless of risk. While this strategy has generally served them well as the price of risk assets (where the return is uncertain) keep rising, reducing portfolio risk can help investors withstand increased volatility when it arises. Including diversifying liquid alternatives in a traditional stock and bond portfolio can help achieve this goal.
**Equities**

**U.S. Equities**

- Large-cap stocks appreciated 0.6% in June as the market consolidated from a run that’s been strong year to date (YTD); small-caps rebounded to 3.5% after a weak start to the year, likely benefiting from a shift away from big growth names like Google and Amazon in search of value.

- Along with real estate and materials, sector winners were financials (boosted by positive regulatory reviews for banks/insurers) and healthcare (boosted by biotech’s rally, based on a growing comfort that the administration’s healthcare policies won’t cause adverse pricing on new drugs).

- Laggards were telecom, utilities, consumer staples (after stretching valuations on lower interest rates), and technology (which took a breather on profit-taking and concerns they’ve moved too far too fast).

- Stock market valuation remains full and increasingly dependent on core economic growth prospects and less on government help from new policies.

- Earnings estimates remain solid with positive estimate changes from most sectors, though energy is the wildcard as oil prices remain low, so the magnitude of this year’s expected earnings growth may erode as prices dip.

**International Equities**

- Brexit negotiations have grown more complex and uncertain now that PM Theresa May’s Conservatives have lost their governing majority; this could negatively impact European markets, which have done well in the wake of the French elections.

- Chinese authorities appear to be gently pressing on the credit brakes to slow the economy; we will be watching if Beijing presses harder, which could impact returns in emerging markets.

- North Korea’s missile launches may create divisions among the U.S., South Korea, China, and Japan, and have adverse market impacts.

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### Our sector inputs and allocations, as of July 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>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>1</td>
<td>3</td>
<td>1</td>
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<td>10</td>
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<td>8</td>
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<td><img src="asset" alt="Allocation for Industrials" /></td>
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<td><img src="asset" alt="Allocation for Materials" /></td>
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<tr>
<td>Staples</td>
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<td>11</td>
<td>10</td>
<td>3</td>
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<tr>
<td>REITs</td>
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<td>7</td>
<td>11</td>
<td>4</td>
<td><img src="asset" alt="Allocation for REITs" /></td>
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Sources: Bloomberg, WTIA

- Benchmark: Russell 1000
- Current allocation

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**Asset Class Overview**

**Fixed Income**

<table>
<thead>
<tr>
<th>Source/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>2.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Bloomberg- Barclays U.S. Investment Grade Credit Index</td>
<td>0.3%</td>
<td>3.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Bloomberg- Barclays Ba High Yield Index</td>
<td>0.5%</td>
<td>4.8%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Bloomberg- Barclays 60% High Yield Total Return/40% Municipal Total Return Index</td>
<td>-0.3%</td>
<td>5.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Bloomberg- Barclays U.S. Mortgage Backed Securities Index</td>
<td>-0.4%</td>
<td>1.4%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond Index</td>
<td>-0.2%</td>
<td>3.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond New York Index</td>
<td>-0.2%</td>
<td>3.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond California Index</td>
<td>-0.2%</td>
<td>3.7%</td>
<td>-0.5%</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. Treasuries**
- The Fed continued to tighten monetary policy by raising the federal funds rate by 25 basis points, or bps, (0.25%) to a band of 1%–1.25%, setting the stage for a reduction in its $4.5 trillion balance sheet as well as for further rate hikes.
- As a result, interest rates rose by roughly 10bps as the yield curve moved higher in a parallel fashion.
- Mid-June, Treasury inflation-protected securities (TIPS) break-evens declined to their lowest level since before the U.S. elections as hopes for fiscal stimulus waned and inflation and commodity prices declined.
- Oil had a late-month rally causing TIPS to trim some of their relative performance losses to nominal Treasuries.

**Investment-Grade (IG) Corporates**
- Most sectors performed well except retail and energy—the only index component whose spreads widened; lower oil prices led to increased volatility in sector spreads, but also a modest widening of energy spreads.
- The retail sector experienced volatility after Amazon’s announcement to acquire Whole Foods. BBB-rated and most impacted was Kroger (the largest U.S. supermarket), about 25–30bps on concerns that Amazon’s entrance into the competitive supermarket space could lead to further margin pressure and credit deterioration.
- IG demand stayed strong as mutual fund and ETF asset flows remained constant, albeit at a slower pace than the previous month; demand was met with a muted new issue calendar, while corporate supply totaled $83.8 billion, down from $147.5 billion in May.
- As expected, corporate supply has slowed as we enter the summer; for the year, corporate supply of $705 billion is up 6% from the same time period in 2016; declining M&A funding requirements could moderate the pace of issuance during the second half of 2017, providing a positive for the asset class.

**High-Yield (HY) Corporates**
- HY returns were negative as the energy sector experienced its most severe setback in 12 months, with oil prices averaging about $43/barrel.
- HY new issue activity was about $18.0bn ($7.1 billion ex-refinancing) for June, which comes after an active May that saw 54 HY deals price totaling $38.0 billion.
- 304 new HY deals have priced for $166.5 billion YTD, compared to $152.2 billion over the same period last year (+9%).
- Leveraged loans provided a modest loss, the decline in loan prices accelerated, energy and retail sectors underperformed, and price volatility in HY bonds picked up.

**Municipals**
- YTD muni performance has been up, but ended June on a negative note.
- Lower supply and consistent demand has pushed the relative value of munis toward their most expensive positions of the year; in the 10-year maturity range, high grades are trading at 87% of the yield of a U.S. Treasury note, down from 94.4% at year end.
- After almost two years, Illinois has a budget, as its General Assembly has overrode the governor’s budget bill veto; there’s still a massive hole from which to recover.

**International**
- Our expectations for a falling U.S. dollar will boost returns of non-dollar bonds; it’s uncertain that European/Japanese long bond yields will rise, offsetting currency impact.
- Returns from U.S. dollar-denominated emerging markets bonds will likely come exclusively from their relatively high coupons; we don’t envision that changes in long bond yields or oil prices will have a sizable impact on principal returns.

*Continued*
ASSET CLASS OVERVIEW

Real Assets, Hedge Funds, and Private Markets

<table>
<thead>
<tr>
<th>AS OF JUNE 30, 2017</th>
<th>Month to date</th>
<th>Year to date</th>
<th>Trailing 12-month return</th>
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<tr>
<td>S&amp;P Developed Property</td>
<td>0.9%</td>
<td>6.6%</td>
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<tr>
<td>Barclays Inflation</td>
<td>−1.4%</td>
<td>0.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Bloomberg Commodity</td>
<td>−0.2%</td>
<td>−5.3%</td>
<td>−6.5%</td>
</tr>
</tbody>
</table>

Sources: FactSet, Bloomberg.

Real Assets
• Global-Listed Real Estate rose in June, with the U.S. showing strength after several months of underperformance relative to Europe and Asia
• Commodities finished only slightly down in June, but this masked continued volatility in energy markets where crude was down roughly 5% in the month and nearing 20% for the year

Hedge Funds
• Hedge Fund performance in aggregate was up slightly overall, with particular strength in equity long/short strategies
• Diversifying strategies such as systematic macro and equity market neutral have seen the lowest returns YTD, which is not surprising as global equity markets rallied during the first half of the year

Private Markets
• According to a recent survey by Preqin, an industry data provider, investors remain positive on private equity with 48% of respondents intending to increase their long-term allocation and only 6% looking to decrease exposure
• Investors continue to expect private markets offerings to outpace public markets; 80% of respondents believe the outperformance will be greater than 2% per year
• Investors are especially optimistic about prospects for private equity funds focusing on buyouts of small- to mid-sized companies, due to lower valuations compared to large company buyouts, as well as a large opportunity set of potential targets

Sources: FactSet, Bloomberg.

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

Portfolio targets effective July 1, 2017 for high-net-worth clients with Hedge Funds

<table>
<thead>
<tr>
<th>Strategic Asset Allocation (long term)</th>
<th>Tactical Asset Allocation (short term)</th>
<th>Change this month</th>
<th>Strategic Asset Allocation (long term)</th>
<th>Tactical Asset Allocation (short term)</th>
<th>Change this month</th>
<th>Strategic Asset Allocation (long term)</th>
<th>Tactical Asset Allocation (short term)</th>
<th>Change this month</th>
</tr>
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<tbody>
<tr>
<td><strong>Equities</strong></td>
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<td></td>
</tr>
<tr>
<td>U.S. Large-Cap*</td>
<td>46.0%</td>
<td>46.0%</td>
<td>—</td>
<td>32.6%</td>
<td>32.6%</td>
<td>—</td>
<td>15.2%</td>
<td>15.2%</td>
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<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>
<td>—</td>
<td>1.5%</td>
<td>1.5%</td>
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<tr>
<td>International Developed</td>
<td>19.5%</td>
<td>19.8%</td>
<td>—</td>
<td>12.7%</td>
<td>14.6%</td>
<td>—</td>
<td>5.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>9.7%</td>
<td>10.2%</td>
<td>—</td>
<td>3.6%</td>
<td>4.6%</td>
<td>—</td>
<td>1.0%</td>
<td>1.7%</td>
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<tr>
<td>Total Equities</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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<td>22.7%</td>
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<tr>
<td><strong>Fixed Income</strong></td>
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<tr>
<td>U.S. Investment Grade–Tax-Exempt</td>
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<td>—</td>
<td>30.0%</td>
<td>25.8%</td>
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<td>64.3%</td>
<td>55.3%</td>
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<tr>
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<td>—</td>
<td>2.0%</td>
<td>3.0%</td>
<td>—</td>
<td>2.0%</td>
<td>4.3%</td>
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<tr>
<td>Total Fixed Income</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>32.0%</td>
<td>28.8%</td>
<td>0.0%</td>
<td>66.3%</td>
<td>59.6%</td>
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<tr>
<td><strong>Real Assets</strong></td>
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<td></td>
</tr>
<tr>
<td>U.S. Inflation-Linked Bonds</td>
<td>0.8%</td>
<td>1.0%</td>
<td>—</td>
<td>0.8%</td>
<td>1.5%</td>
<td>—</td>
<td>0.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>U.S. REITs</td>
<td>0.8%</td>
<td>0.5%</td>
<td>—</td>
<td>0.8%</td>
<td>0.8%</td>
<td>—</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>International REITs</td>
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<td>1.4%</td>
<td>—</td>
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<td>4.3%</td>
<td>0.0%</td>
<td>4.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td>5.0%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>5.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Cash &amp; Equivalents</strong></td>
<td>2.0%</td>
<td>2.3%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>1.9%</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>
<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: Totals may differ slightly from the allocation building blocks due to rounding.

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CONTINUED
Positioning in response to our outlook

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

Based on current Growth & Income Strategy for High-Net-Worth with Hedge Funds, 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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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.
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 & 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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