We do expect the Fed to have a bias toward raising rates because its macroeconomic mandates have been largely met. On the goal of maximum employment, it is hard to argue there is still slack in the labor market with wages rising and the unemployment rate at 4.9%; also, last week’s jobs report was solid (we look to the less volatile private market payroll leader ADP’s report vs. the official Bureau of Labor Statistics figures). On the goal of keeping inflation in check, there is still progress to be made, but we expect inflation to be rising in the remainder of 2016 and into 2017, which will likely embolden the Fed to take action.

But that is not to say the Fed will be hiking quickly; in fact, we believe quite the opposite. In December of 2015 the Fed projected four rate hikes in 2016 which, of course, have not come to fruition. Over the course of this year, the data-driven central bank was stymied by weaker-than-expected economic growth and market volatility. Crucially, the Fed has significantly reduced its projected estimate of the neutral interest rate (the rate that would be in effect in an idyllic, not-too-hot, not-too-cold “Goldilocks” economy). Without actually coming out and saying it, this is essentially an admission on the part of the central bank that the low
interest rate policy has not been as stimulative as it had hoped it would be. Rate hike expectations have understandably been reined in, leaving us at a crossroads.

**The new neutral**

Why did the Fed lower its neutral rate estimate? While there are many influences on the neutral rate, the most important has been the abysmal productivity growth for U.S. workers (measured as output-per-hour) over the last several years. When productivity is low, the returns to capital are meager and there’s little demand to borrow money for new business ventures or to expand an existing one. Figure 1 shows five-year annualized growth of productivity which measured 0.5% in the second quarter of 2016, sharply lower than historical norms, and the lowest since the early 1980s. We believe the lack of U.S. worker productivity growth is a direct result of the lack of business investment in new equipment and methods during the recovery. This is fairly intuitive: If businesses are not investing in new equipment and technologies, there is no reason to believe that workers would become more productive. In order for gains to be achieved, there must be extensive research, business adoption, and employee training—as opposed to continuing to use the same production methods as in the past.

**Why so low for so long?**

Over the course of the recovery, especially in the early years, businesses were facing a very challenging environment. This included jitters about the economy, a massive financial regulatory overhaul, and a wholesale change to the national

---

*Figure 1: Business capital expenditures lead to productivity growth later on (5-year annualized growth)*

- **Productivity (left)**
- **Business investment in structures, equipment, and intellectual property, 5-year lag (right)**

Productivity growth is the longest pendulum swing of all, and it hasn’t even begun to improve.
healthcare system, which was both costly to businesses and dragged out in the courts for quite some time. In addition to all of the uncertainties, the unemployment rate was very high and labor was extraordinarily cheap. A business that needed to increase production had some incentive to just bring on more bodies rather than trying to make their existing workers more productive.

On the brighter side, business investment has picked up more recently, shown by the upward move in the green line at the end of Figure 1. But we believe it will be quite some time before those more recent investments translate to greater productivity. If the macroeconomic cycle is viewed as pendulums that swing back and forth over the course of expansions and recessions, then the shortest swings are in the areas of GDP, unemployment, and inflation. Productivity growth is the longest pendulum swing of all, and it hasn’t even begun to improve.

**Impact on portfolios**

Because we expect it to be quite some time before productivity improves, it will be quite some time before the Fed’s neutral rate moves up in any meaningful way, and this translates to a very slow rate hike cycle. The Fed has already been emphasizing a gradual pace of interest rate hikes, a pace that is now likely to become even more gradual.

**The good news**

With the Fed on an ever-flatter path of rate hikes, we believe the outlook for equity markets is positive. There are certainly jitters in markets about high valuations as measured by P/E ratios (a company’s share price to its per-share earnings). But, in an apples-to-oranges comparison, current P/E ratios are being likened to historical norms that are not necessarily relevant in a world where the Fed will keep rates so low for so long.

That is not to say there won’t be bumps along the road. Just in time for Halloween, we expect the specter of increasing headline inflation to spook some investors, especially if the market thinks the Fed will turn more hawkish. Look for inflation numbers to move up above 2.5% and possibly above 3%, depending on the trajectory of energy prices. Underneath those high headline inflation figures, though, core inflation (sans the more volatile costs of food and energy, which the Fed focuses on more) will be more tame. We expect core inflation to be moving up, but not enough for the Fed to do a 180 and reverse its views on the new neutral rate and the need for a gradual rate hike pace.
Our positioning

In addition to a shallow rate environment boding well for equity markets and not providing a benefit to bonds overall, we see little risk of recession on the horizon for the near term, economic activity likely to improve as the year progresses, and credit markets apt to remain stable.

For these reasons, the Investment Committee decided last week to add to our small-cap equities position, bringing it up from underweight to a neutral weighting. The increase was funded from a mix of high yield municipal fixed income and U.S. large-cap equities. This move modestly increases the level of equity assets but is risk neutral because of the funding source. We still consider this positioning to be consistent with an overall neutral market view.

Don’t miss this issue’s important “In Focus,” where Chief Economist Luke Tilley focuses on our impending presidential and congressional elections. Read his analysis of the critical issues and the potential impact on your portfolio.

And last but most certainly not least, I’m pleased to share with you that we have a welcome addition to our Wilmington Trust/M&T family. Doris P. Meister recently joined the fold as the head of our wealth management business. Doris has a long and prestigious financial services pedigree and we are confident her voice will be instrumental as we continue to move onward and upward. Look for next month’s “In Focus,” where we chat with Doris about her initial insights and exciting plans for our firm’s future.

Until next month…

Best,

Tony
These are the times that try an electorate’s collective soul. In our Capital Markets Forecast commentary, *Wheat from the chaff: challenges and opportunities*, which was published in January 2016, we described the U.S. economy as “dominant” in the short-term relative to other large, developed economies, but facing significant challenges in the 10-year horizon. Some of our long-term pessimism was merely structural, a function of the aging U.S. workforce that is so common among developed economies. But much of the pessimism sprang from the daunting outlook for U.S. federal government deficits and debt, which threaten the long-term health of the economy.

As of last January, there were five Democratic candidates and 17 Republicans, and we were hoping the primary process would generate a healthy debate about key issues, including the federal debt. We weren’t so naïve to think the political process would be entirely cordial and professional, but at least held out hope for the prospect of changing our minds about the long-term challenges. With two major candidates left standing, their proposed policies, and control of the Senate in the balance, we can find no reason to upgrade our assessment.

CONTINUED
One of the more worrisome aspects of the campaign is the opposition to free trade deals championed by both candidates.

One of two certainties: Taxes
Throughout the primary season, Donald Trump proposed these dramatic individual income tax changes:
• collapse the existing seven brackets into three;
• sharply cut rates (from 39.6% to 25% for the top bracket);
• increase the standard deduction;
• and restrict some of the current itemized deductions.

Trump would have also cut business taxes sharply, as well as real estate and gift taxes. In our view, this plan was excessive and untenable. The nonpartisan Tax Policy Center (TPC) estimated his proposal would reduce revenues by $9.5 trillion over the first decade. In August, he hewed more toward traditional Republican proposals with smaller yet still significant cuts. The top rate would come down to 33%, and corporate taxes would be cut more than half. The new proposal is more realistic, but would still worsen budget deficits unless they were accompanied by sharp spending cuts. We do acknowledge that lower taxes would have a stimulative effect for the economy, but not enough for such cuts to “pay for themselves,” as is so often argued by supporters.

Hillary Clinton’s plan calls for raising individual income taxes to improve the budget situation (with the burden entirely Shouldered by higher-income individuals), and increasing estate and gift taxes. She proposes to complicate the process for U.S. companies to move their tax residences overseas, impose a tax on unrepatriated earnings held offshore (reducing U.S. tax liability), assess a fee on the largest financial institutions, and impose taxes on high-frequency traders. The TPC estimates her plan would raise revenues by $1.1 trillion over 10 years. Crucially, though, its estimate does not include any dynamic impacts of reduced incentives for workers or the increased incentive for businesses to flee the country, or the increased complication of the tax code. Although higher revenues are generally welcomed to help close the long-term budget gap, Clinton is adamantly opposed to reducing the benefits promised in the Social Security and Medicare programs, apparently for any generation, and even argues that benefits should be expanded.

Trading in trade deals
One of the more worrisome aspects of the campaign is the opposition to free trade deals championed by both candidates. Trump’s vows to end or renegotiate the U.S.’s trade deals have been a pillar of his campaign from the start and attracted many of his supporters. Clinton’s opposition—and her more pessimistic stance on free trade in general—is a more recent development. As Secretary of State, she joined President Obama in supporting the Trans-Pacific Partnership (TPP), a pact that supporters say will deepen ties with member-nations, grow the economy, and create jobs. Clinton’s shift away from the TPP may be an effort to draw in supporters of Bernie Sanders who is vehemently anti-trade and sees the pact as being driven by big business. No matter who is elected, the rejection of trade could portend a reversal of decades of incremental openness and, in our view, further challenge long-term U.S. economic growth.

To build—perchance to increase the debt—ay, there’s the rub!
The one area for potential positivity is that both candidates support increased expenditures on the nation’s infrastructure. It is a truism that all candidates love infrastructure but no one likes to pay for it. Clinton has proposed a $275 billion, 5-year plan to rebuild the country’s traditional infrastructure of roads and bridges with some devoted to energy and Internet equipment. She couches the plan in terms of an attempt to create jobs, but with the unemployment rate already below 5%, the more important outcome would be the long-term
impact on productivity. Shortly after Clinton delivered her plan in a speech, Trump indicated he would spend “at least double” what Clinton proposed, but did not provide details. It is encouraging that both want to spend on this important item, but unless it is actually paid for in some way, we have not escaped our daunting, long-term budget problem.

**And the tie goes to…the Senate?**

As we go to press, Senate polling shows that Democrats could pick up four seats if the election were held today, splitting the chamber evenly at 50 apiece. One may see this as challenging to any progress in Washington as neither side would be anywhere near the number of votes to end filibusters and accomplish the passage of legislation. Cynically, however, if you find any of the proposals discussed above to be problematic, take solace in the notion that the odds of them being voted into law in their present polarizing states are slim at best.

Straining to find some levity in this bleak outlook, I’m reminded of something humorist Will Rogers once quipped: “Never blame a legislative body for not doing something. When they do nothing, they don’t hurt anybody. When they do something is when they become dangerous.”

It is encouraging that both want to spend on infrastructure, but unless it is actually paid for in some way, we have not escaped our daunting, long-term budget problem.

Thomas Nast’s political cartoons printed in *Harper’s Weekly* during the 1870s resulted in the donkey and elephant becoming the symbols of the Democratic and Republican parties.
U.S. Equities

- U.S. equities were up slightly in August with rotation away from the safe high-yielding sectors of utilities and telecom and into more cheaply priced financials and technology. Energy continues to perform well as production declines portend higher prices in 2017.

- 2Q earnings are likely to print a decline of roughly 4% on a year-over-year basis with 3Q expectations now predicting a 3.7% decline as well. A return to positive year-over-year earnings growth is expected by 4Q as the energy drag abates.

- With a solid high-single-digit return of just under 8% for the S&P 500 year to date, equity markets may only produce modestly positive returns in the near term. Solid U.S. economic strength should provide relatively good market support in a low-yield, low-growth environment.

- The macro view is mixed favoring industrials, consumer staples, and utilities. The quant model favors telecom, industrials, and technology. The fundamental view is more positive on healthcare, financials, and technology, which have reasonable valuations given their long-term growth potential. We find large-cap and small-cap equities equally attractive.

International Equities

- We expect weaker returns for European and Japanese vs. U.S. equity markets. European and Japanese bank earnings expectations and valuations have been hard-hit by negative government bond yields. The market’s expectations of additional massive Japanese monetary or fiscal stimulus have repeatedly been dashed.

- Markets have generally been taking a wait-and-see attitude toward the Brexit negotiations which are expected to begin in early 2017. The upcoming Italian referendum on reforms to the Italian Senate, if rejected, may produce some short-lived volatility, but do not point to Italy following the U.K. out of the EU.

- Emerging markets (EM) have continued to do well, supported by rising share prices for Asian technology stocks and some buoyancy in commodity prices. Also, EM banks are not saddled with negative interest rates.
Fixed Income

As of August 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>Barclays U.S. Aggregate Bond Index</td>
<td>–0.1%</td>
<td>5.9%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Barclays U.S. Investment Grade Credit Index</td>
<td>0.2%</td>
<td>9.2%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Barclays Ba High Yield Index</td>
<td>1.5%</td>
<td>11.9%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Barclays 60% High Yield Total Return/40% Municipal Total Return Index</td>
<td>0.3%</td>
<td>7.3%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Barclays U.S. Mortgage Backed Securities Index</td>
<td>–0.1%</td>
<td>3.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond Index</td>
<td>0.2%</td>
<td>4.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond New York Index</td>
<td>0.2%</td>
<td>4.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td>S&amp;P Municipal Bond California Index</td>
<td>0.2%</td>
<td>4.7%</td>
<td>7.4%</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
• U.S. Treasury yields moved nowhere fast. August’s daily yield changes were the most muted in years.
• As the month ended, Fed Chair Janet Yellen and other Federal Open Market Committee members said the case for raising rates has strengthened; this led the short end to move higher in yield.
• Federal Fund Futures imply a 60% probability that the Fed will raise rates at its December 14 meeting.
• Treasury yield curve continued to flatten and we expect it to flatten further.

Investment-grade corporates
• Investment-grade (IG) credit performed well during the month of August. Spreads tightened across industrials, financials, and utilities.
• Energy continues to outperform with oil above $45/barrel.
• The global search for yield continues; U.S. IG credit looks attractive relative to other developed markets.
• Primary market slowed to a crawl during the second half of the month; however, an active start to the month helped month-to-date volume reach $120.3 billion.

High-yield corporates
• High-yield bond yields drifted down to a 14-month low over August’s last week amid climbing oil prices, steady mutual fund inflows, oscillating stocks, and a balanced Fed committee minutes release.
• Oil prices have now increased 16% month-to-date to north of $45/barrel as investors ascribe some probability to an OPEC production deal being reached.
• In response, yields for high-yield energy bonds of about 8% are down over 100 basis points (1.00%) from several weeks ago and are at a low since mid-June 2015 when oil was trading above $58/barrel.
• Month-to-date, high-yield bonds are up close to 2%, with energy, telecom, and chemicals outperforming.

Municipals
• Municipal yields were unchanged in August, with the 10 year staying at 1.42%, steady in the face of a 15 basis points increase in the 10-year Treasury.
• While supply was modestly firm during the dog days of August, demand continues to drive municipal markets.
• Now up to 46 consecutive weeks of mutual fund inflows, with year-to-date flows at an impressive $45 billion.
• Puerto Rico has performed well post PROMESA legislation, but key determinants remain the fiscal board’s make-up (nominations due 9/15) and how it will balance the debt vs. pension obligations.

International
• We believe international non-dollar fixed income will be an unattractive asset class for the near future. There is little scope for price appreciation given that yields are already largely negative.
• Dollar-denominated emerging markets are generally an attractive asset class for yield-oriented portfolios. The asset class has significant concentrations among certain sovereign issuers. Political risks for some of these—Brazil, Turkey, Russia, and the Philippines—remain elevated, which means that spreads could suddenly widen, suppressing price returns.

CONTINUED
ASSET CLASS OVERVIEW

Real Assets and Nontraditional

### AS OF AUGUST 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>11.7%</td>
<td>18.2%</td>
</tr>
<tr>
<td>Barclays Inflation</td>
<td>2.5%</td>
<td>12.4%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Bloomberg Commodity</td>
<td>–1.8%</td>
<td>5.6%</td>
<td>–8.8%</td>
</tr>
</tbody>
</table>

### AS OF JULY 31, 2016

<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>Fund Weighted</td>
<td>1.9%</td>
<td>3.1%</td>
<td>–0.1%</td>
</tr>
<tr>
<td>Equity Hedge</td>
<td>2.6%</td>
<td>2.2%</td>
<td>–1.4%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>2.0%</td>
<td>4.2%</td>
<td>–0.9%</td>
</tr>
<tr>
<td>Macro</td>
<td>0.9%</td>
<td>3.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Relative Value</td>
<td>1.3%</td>
<td>3.8%</td>
<td>1.1%</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.

Real Assets

- Real estate, inflation-linked bonds, and commodities have been standout performers thus far in 3Q and year to date.
- Commodities have snapped back after several difficult years mainly on the strength of oil and gas. Despite the asset class showing strong gains, there continues to be weakness in areas including livestock and grains.
- Inflation-linked bonds have shown tremendous performance even as inflation remains low; real yields remain negative in the developed world and are at some of the lowest levels ever seen. While recent returns are unlikely to continue, we believe inflation in the U.S. is headed higher.

Nontraditional Hedge

- After a difficult start to 2016, hedge fund strategies recouped losses and all four strategies are now up on the year through July.
- The broad-based HFRI Fund Weighted Composite Index, which is an equal-weighted index of over 2000 funds, has now notched gains in five consecutive months, the longest such stretch since 2013.
- In a reverse from years past, larger funds have underperformed the average fund although the HFRI Asset Weighted Composite trails the Fund Weighted Composite by 300 basis points.

Nontraditional Private Markets

- Private equity deal volume during the first half of 2016 declined from the boom years 2014 and 2015, returning to 2013 levels.
- As deal volumes have fallen, debt as a percent of purchase price has also fallen dramatically to under 50% from a peak of greater than 60% in 2013.
- Purchase prices have increased thus far in 2016 to a post-crisis peak, though this may be more representative of the fact that high-quality companies can still be sold in a down volume year while lower-quality companies may not be able to find buyers.

CONTINUED
## Investment positioning

Portfolio targets effective September 1, 2016 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>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Large-Cap Core*</td>
<td>23.0%</td>
<td>26.5%</td>
<td>▼ –4.8%</td>
<td>16.3%</td>
<td>21.4%</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>▲ 4.8%</td>
<td>8.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td>International Developed</td>
<td>19.5%</td>
<td>19.1%</td>
<td>—</td>
<td>12.7%</td>
<td>12.4%</td>
</tr>
<tr>
<td>International Emerging Markets</td>
<td>9.7%</td>
<td>9.7%</td>
<td>—</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total Equities</td>
<td>89.0%</td>
<td>88.8%</td>
<td>0.0%</td>
<td>57.0%</td>
<td>59.2%</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
<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>
<td>23.8%</td>
</tr>
<tr>
<td>High-Yield– Tax-Exempt</td>
<td>0.0%</td>
<td>0.0%</td>
<td>—</td>
<td>2.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Fixed Income</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>32.0%</td>
<td>26.8%</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Inflation-Linked Bonds</td>
<td>0.8%</td>
<td>2.5%</td>
<td>—</td>
<td>0.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>U.S. REITs</td>
<td>0.8%</td>
<td>1.1%</td>
<td>—</td>
<td>0.8%</td>
<td>1.5%</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>Total Real Assets</td>
<td>4.0%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>4.0%</td>
<td>7.0%</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>1.2%</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>—</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 8 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 September 1, 2016 (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 equities
- Slightly overweight tax-exempt high yield
- Overweight real assets due to opportunities in U.S. TIPS
- Combined weights of risk-oriented assets in equities, high yield, and REITs equal to benchmark levels

* 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).

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.
Disclosures

Wilmington Trust is a registered service mark. Wilmington Trust Corporation is a wholly owned subsidiary of M&T Bank Corporation. Investment management and fiduciary services are provided by Wilmington Trust Company, operating in Delaware only; Wilmington Trust, N.A., a national bank; and Manufacturers and Traders Trust Company (M&T Bank), member FDIC. Wilmington Trust Investment Advisors, Inc., a subsidiary of M&T Bank, is a SEC-registered investment adviser providing investment management services to Wilmington Trust and M&T affiliates and clients.

These materials are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this report. As a result, M&T Bank and Wilmington Trust do not disclose certain client relationships with, or compensation received from, such entities in their reports.

The information in Capital Perspectives has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This commentary is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on the investor’s objectives, financial situation, and particular needs. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will succeed.

Any investment products discussed in this commentary are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by M&T Bank, Wilmington Trust, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain “qualified investors”—that is, investors who meet certain income and/or investable assets thresholds. Past performance is no guarantee of future results. Investing involves risk and you may incur a profit or a loss.

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.

CONTINUED
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:
This publication is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Although the information contained herein was prepared from sources believed to be reliable, Wilmington Trust does not make any representations concerning the completeness or accuracy of such information. Opinions are subject to change without notice. Before acting on any information included in this publication you should consult with your professional adviser or attorney.