WILMINGTON TRUST

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June | 2020

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

2020 Midyear Outlook: Research, Relief, and Reopenings

In this issue:

2020 Midyear Outlook: Research, Relief, and Reopenings 1
Tony Roth

Avoid the Most Common Investing Pitfall 7
Meghan Shue

Asset Class Overview: International Equities 11
Clement K. Miller, CFA

Investment Positioning 12

Disclosures 14

Tony Roth
Chief Investment Officer

For months now, an invisible virus has dominated headlines and our national consciousness until it recently receded as the blight of racism reared its ugly head once again. It's always present, often just lurking below the surface, but at times like this, it reemerges tragically, publicly, and violently. These two equally insidious forces—one nature-made, one man-made—are actually interconnected. In the wake of the tragedy in Minneapolis, we see scores of cities with shoulder-to-shoulder protesters and the U.S. Surgeon General Dr. Jerome Adams has warned the close contact could contribute to the nation's next spike in COVID-19 cases. Both crises are also sure to impact the election in November and deepen the human, economic, and market tolls.

We will monitor these impacts as we go forward and this month, we detail the most recent developments of the virus and the growing chasm in terms of how investors see prospects for the future. The bulls (optimists) tend to be focused on the rapid progress of vaccine research, unprecedented levels of stimulus injected by the global monetary and fiscal authorities, and the accelerating pace of state reopenings. The bears (pessimists) are often more focused on the likelihood of a second wave and lasting scars on the global economy, particularly small businesses.

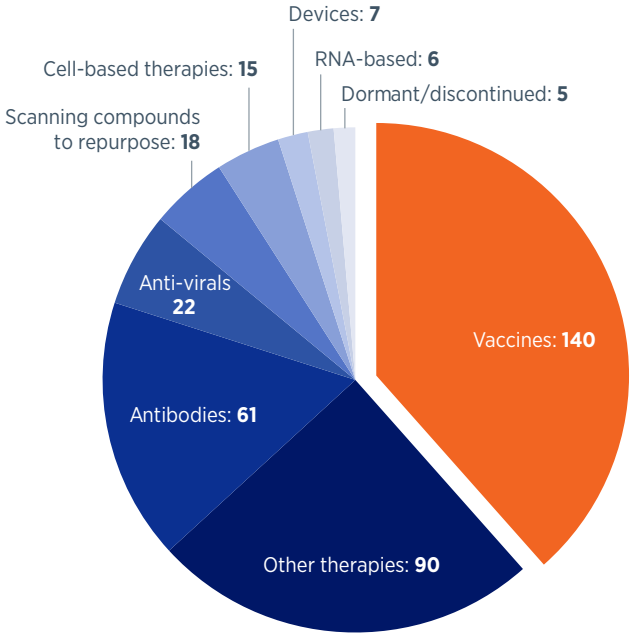
Despite an invisible pressure to "take sides," we think it unwise to drive a stake in the ground and claim omniscience on the path forward. As noted in May's *Capital Perspectives,* the virus remains in charge, and no one knows what course it will permit. Instead, I wanted to use this month's letter to shed light on the three key areas we are most closely monitoring—areas that will determine whether the economy and markets fork right or left—as well as how we are managing portfolios at this extraordinary time.

Continued

Figure 1

Research effort unparalleled in recent history

Potential COVID-19 treatments and vaccines in research pipeline



Data as of May 20, 2020.

Represents the number of each kind of treatment or vaccine currently in some stage of the research process.

Source: Milken Institute.

The economy and markets are together levered to progress on three fronts: vaccine research, stimulus relief, and the reopening of economies around the world. *All three offer reasons to be cautiously optimistic.*

In our view, the economy and markets are together levered to progress on three fronts: vaccine research, stimulus relief, and the reopening of economies around the world. *All three offer reasons to be cautiously optimistic.*

Vaccine research

In the past couple of weeks we have received promising, albeit early, trial data on vaccines in development. Interim Phase 1 data (see box, "The phases of clinical trials") from Moderna's mRNA vaccine showed "neutralizing antibodies"—in other words, the vaccine created antibodies to neutralize the effects of COVID-19, rendering it powerless to cause infection—but data were only released on a very small number of participants. University of Oxford released positive data on the effects of an investigational vaccine and is now undergoing Phase 1 trials. Chinese company CanSino Biologics recently released the first full, peer-reviewed Phase 1 trial results for a COVID vaccine. Novavax announced on May 25 that it had begun Phase 1 clinical trials with preliminary results expected in July. According to the Milken Institute, there are 140 COVID-19 vaccines in development (up from 86 in early May; Figure 1) with eight of those having advanced to human trials.[1]

Perhaps more encouraging—and unusual—than the speed of development and number of horses in this race, is that companies, foundations, and governments are throwing all the chips on the table and providing funding for Phase 2 and 3 trials and even manufacturing some of these vaccine candidates before Phase 1 trials are completed. This is a high-stakes bet but would serve to greatly reduce the timeline of getting vaccines distributed to the masses—and returning to normal.

Vaccine optimism has helped to power the stock market higher, but we must all

Continued

1 Data as of May 28, 2020, according to COVID-19 vaccine tracker published in Regulatory Affairs Professionals Society (RAPS.org): https://www.raps.org/news-and-articles/news-articles/2020/3/covid-19-vaccine-tracker.

2 Wong, Chi Heem; Kien Wei Siah; Andrew W Low. "Estimation of clinical trial success rates and related parameters." Biostatistics, Volume 20, Issue 2, April 2019, pages 273–286.

We are also guarding against the possibility that trial results of Phases 2 and 3 could take longer if COVID-19 case growth slows, as a reduced rate of spread would require more time to show whether a given vaccine is effective.

pause and recognize that there is still a long road ahead. The success of these leading candidates is by no means guaranteed. A 2018 study[2] published in *Biostatistics* journal found that vaccines have historically had a 76% chance of moving from Phase 1 to Phase 2, but vaccines in Phase 2 ultimately resulted in only a 40% probability of final approval. We are also guarding against the possibility that trial results of Phases 2 and 3 could take longer if COVID-19 case growth slows, as a reduced rate of spread would require more time to show whether a given vaccine is effective. *Cautious optimism is warranted.*

Stimulus relief

Unprecedented times call for unprecedented measures, and that is exactly what central banks and fiscal authorities have delivered. The speed, scope, and magnitude of relief programs have been stunning, with the U.S. Congress authorizing four rounds of support worth $3.8 trillion and the Federal Reserve launching several programs worth $2.3 trillion. In particular, we are most focused on the "cash transfers" from government to individuals, which have included direct payments to households, unemployment insurance, government medical aid, and the intention that small business Paycheck Protection Program (PPP) loans be converted into grants. The scale of the government's efforts can be seen in the April personal income data. Job losses led to nearly $1 trillion in lost wages and income, but cash transfers totaled $3 trillion. While impressive by historical standards, more will be needed and the well is clearly running drier with each subsequent trip. The response from the U.S. government thus far has been one of swift bipartisan action, but as the economic toll continues to mount, partisan divisions are reforming around issues of state aid, legal liability protection for employers, vote-by-mail, and a growing debt burden.

The phases of clinical trials

The Food and Drug Administration's categories for describing the clinical trial of a drug based on the study's characteristics, such as the objective and number of participants, are as follows:

Phase 0:
Exploratory study involving very limited human exposure to the drug, with no therapeutic or diagnostic goals (e.g., screening studies, microdose studies)

Phase 1:
Studies that are usually conducted with healthy volunteers and that emphasize safety. The goal is to find out what the drug's most frequent and serious adverse events are and, often, how the drug is metabolized and excreted.

Phase 2:
Studies that gather preliminary data on effectiveness (whether the drug works in people who have a certain disease or condition). For example, participants receiving the drug may be compared with similar participants receiving a different treatment, usually an inactive substance (called a placebo) or a different drug. Safety continues to be evaluated, and short-term adverse events are studied.

Phase 3:
Studies that gather more information about safety and effectiveness by studying different populations and different dosages and by using the drug in combination with other drugs.

Phase 4:
Studies occurring after the FDA has approved a drug for marketing. These include postmarket requirement and commitment studies that are required of or agreed to by the sponsor. These studies gather additional information about a drug's safety, efficacy, or optimal use.

Source: ClinicalTrials.gov.

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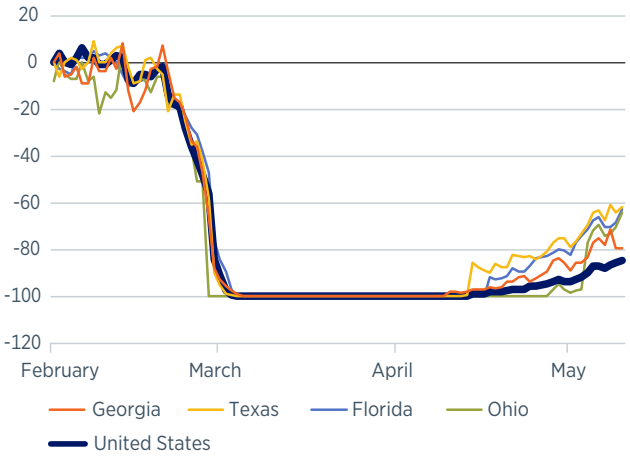
Figure 2

A bumpy road back to "normal"

2a: OpenTable seated diners y/y percentage change

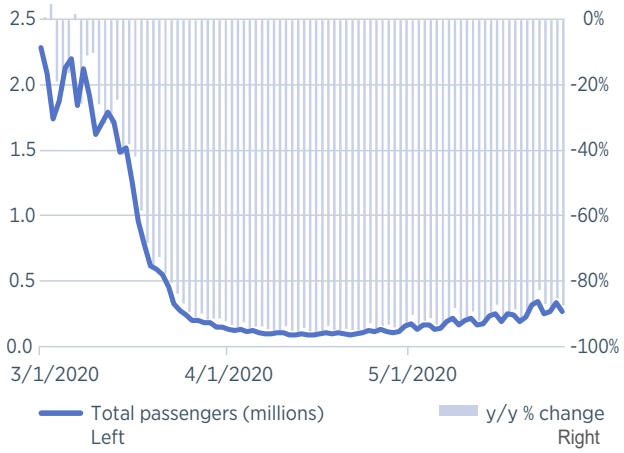


Data as of May 27, 2020.

Shows year-over-year seated diners at restaurants on the OpenTable network across all channels: online reservations, phone reservations, and walk-ins.

Source: OpenTable.

2b: U.S. TSA airport checkpoint throughput



Data as of May 26, 2020.

Shows the daily volume of travelers passing through TSA checkpoints.

Source: Transportation Security Administration.

Success is defined both by people feeling comfortable enough to emerge from their homes when lockdown orders are lifted, and most fundamentally as avoidance of a second wave of disease incidence.

The expanded unemployment insurance included in the CARES Act of $600 per week will be a thorny issue and one that is very much in flux on Capitol Hill at the moment. It is set to expire on July 31, 2020, and the benefits present a "catch 22." The expanded benefits are a support for consumer spending but make it more challenging for lower-paying industries like restaurants and retailers to rehire workers,[3] the very industries that stand to benefit from more cash in consumers' pockets. And there is, of course, the wrinkle that these benefits are expiring just three months before a presidential election. This is not a statement on whether these benefits should be expanded or how a transition policy should look, but rather an expectation that further cash transfers will be both necessary and more difficult to obtain going forward. Nonetheless, particularly in an election year, we believe Washington would be hard-pressed to pull the rug out from under the incipient recovery. *Again, cautious optimism is warranted.*

Economic reopenings

The success of economic reopenings is of critical importance to the recovery of the global economy and sustainability of the equity market rally. Success is defined both by people feeling comfortable enough to emerge from their homes when lockdown orders are lifted, and most fundamentally as avoidance of a second wave of disease incidence. The longer any opened community goes without succumbing to a rebound in infections, the more comfortable its inhabitants will feel.

On the first metric, real-time mobility data are showing a pickup in areas of the country that have relaxed restrictions albeit at severely depressed levels (Figure 2a). Even in a best-case scenario, we expect reopenings to be a mixed bag, with some industries recovering more quickly than others, either because they are more

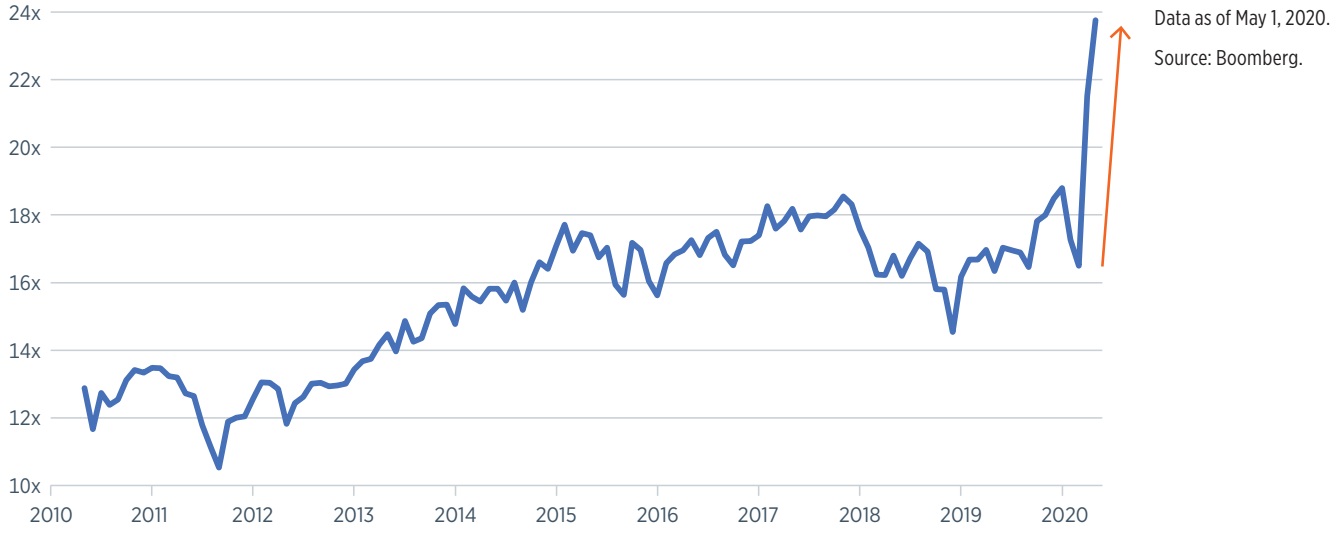
Continued

3 It is estimated that those earning less than $62,000 per year would make more under the expanded unemployment insurance program than they would at their jobs.

Figure 3

Priced for perfection

S&P 500 price-to-earnings ratio (based on next-12-month earnings estimates)



At current equity market levels, we believe markets are discounting very positive outcomes on all three criteria while leaving little room for disappointment.

"socially distant-friendly" or because they are innovating and adapting their business models to the current environment. Some industries, like airlines, are likely to experience lower-than-normal levels of activity for a while (Figure 2b).

Whether a second wave occurs remains to be seen. What we can see so far from states and countries that have reopened is encouraging; that is, in general, a continued decline in case counts and a stable-to-declining rate of hospitalizations, either due to effective social distancing, improvements in sanitary conditions, or even seasonality. We would caution, however, that it is too early to claim victory. Many experts fully expect a second wave to occur in the U.S. in the fall (coinciding with flu season), but the magnitude of that wave's apex and the extent of further economic disruption is the subject of intense debate among those experts. *Once again, we advise cautious optimism on this final criteria.*

Positioning portfolios in a pandemic

The status of vaccine research, stimulus relief, and economic reopenings give good reason for a constructive outlook, but we nonetheless retain a slightly defensive stance in portfolios. At current equity market levels (the S&P 500 above 3,000 at the time of writing), we believe markets are discounting very positive outcomes on all three criteria while leaving little room for disappointment. Not only are estimated earnings on the high side of our expectations, but the market multiple being placed on those earnings is well above the highs for the cycle (Figure 3). Usually investors pay a much lower multiple on future earnings as volatility and uncertainty spike. Even accounting for stimulus from the Federal Reserve and the equity risk premium of stocks over bonds or other assets, we believe that equities are reaching the high end of a rational range. Simply put, the risk-versus-reward tradeoff does not look particularly attractive for equity investors, as failure of any one of the three factors

Continued

we have discussed would be sufficient to reset the market lower, perhaps meaningfully. Last, as we move through the year, we believe markets will necessarily start to discount a possible democratic outcome to the U.S. presidential election—along with the higher taxes and less friendly business climate such an administration would bring—which in our view is in no way baked into the cake today.

We continue to position client portfolios somewhat defensively, with a slight underweight to equities versus our long-term benchmark, overweight positions to fixed income and hedge funds, and elevated levels of cash. We expect growth-oriented companies (those that generate higher levels of organic growth and are less dependent on the economic cycle than "value stocks") to outperform over the next 12–18 months, but the possibility of a market rotation into cheaper, cyclical names is as likely as a correction lower, so it is prudent to diversify among value, quality, and minimum volatility factors. The economic impact of the virus mitigation efforts thus far is literally off the charts, and the margin of error for future estimates is the widest we have ever seen. At this juncture, caution is warranted but it is incredibly important to maintain a healthy exposure to equities and avoid large swings into or out of the market, for reasons we describe in this month's "In Focus." We will continue to invest your assets in a judicious manner and keep you informed as we navigate this uncharted territory and our views evolve.

Until next month,

Tony

To stay in the know, be sure to listen to our Wilmington WealthWise podcasts and read our Wilmington Wire blog posts for real-time updates.

IN FOCUS

Avoid the Most Common Investing Pitfall

Meghan Shue
Head of Investment Strategy

At a glance:

- **Market timing is much harder to do successfully than a long-term buy-and-hold approach**
- **Patience is critical even when the market seems overextended; maintain an equity exposure appropriate for your risk profile**
- **Historically, the initial rally off a market bottom has been sharp and included some of the best days for the S&P 500**
- **A successful investment strategy consists of a diversified portfolio that is rebalanced periodically**

Of all the investment axioms that we rely upon and refer to as investors, there is one that rises to the level of an anthem: buy low, sell high. Investing can be a complicated business, but success ultimately comes down to the ability to accomplish this simple objective. Now consider that anthem in reverse order: sell high, buy low. It seems like this should yield the same results, but selling out of the market and buying back in at a lower level—referred to as market timing—is much harder to do successfully than a long-term buy-and-hold approach.

Patience in the current market rally

Market timing is one of the many potential pitfalls of long-term investing. Though it may seem counterintuitive, no action—that is, sitting on your hands—can often be the best action to take in your portfolio, particularly against the alternative of moving large portions of your portfolio from stocks to cash and back again.

But what if the market is "obviously" overextended, and it seems clear to investors that they should be getting defensive and moving to cash? (They won't call this market timing, but that's what it is.) Many are arguing that the current situation falls into this category. The economy is in shambles, we just hit the highest unemployment rate on official record in the shortest amount of time imaginable. Some states are starting to open up their economies, but the pace is gradual and the prospects for success are incredibly uncertain. Yet the equity market appears disconnected from this reality, registering at just –5% year to date after a blistering 37% rally from the March lows. Based on our wider-than-normal range of earnings estimates for next year (given economic uncertainty and a lack of corporate earnings guidance), the S&P 500 looks to be anywhere from fairly valued to 20% overvalued.

We are positioning portfolios defensively, but modestly so, for reasons our CIO Tony Roth outlined in his this month's letter. Even though we are cautious on the path forward for the economy and markets, we strongly advocate for staying in the market with an exposure to equities at a level appropriate for a particular investor's long-term risk profile.

Timing it right…twice

One of the major reasons for avoiding a "sell high, buy low" strategy with dramatic moves into and out of the market is the difficulty in timing the market not once, but twice. Investors must successfully exit the market in the vicinity of the market top and make the correct decision to re-enter the market somewhere near the bottom. Of these two decisions, it is this second one that is harder, and potentially more detrimental to portfolio returns.

Consider a scenario where investors sell their stock holdings and move to cash ahead of a severe market pullback of 20%–30%. It is incredibly difficult to redeploy that cash into the market when the economic data and news flow are the bleakest, but history

Continued

Figure 1

Historical worst and best days for S&P 500

S&P 500 worst days	Daily return	Days (either before or after) market top
7/26/1934	-7.8%	**267**
8/12/1932	-8.0%	**18**
10/5/1932	-8.2%	**20**
10/26/1987	-8.3%	**43**
10/10/1932	-8.6%	**23**
7/21/1933	-8.7%	**3**
9/29/2008	-8.8%	**245**
7/20/1933	-8.9%	**2**
12/1/2008	-8.9%	**289**
10/15/2008	-9.0%	**257**
10/5/1931	-9.1%	**242**
10/18/1937	-9.1%	**158**
3/12/2020	-9.5%	**16**
3/16/2020	-12.0%	**18**
10/19/1987	-20.5%	**38**
	Median	**38**

S&P 500 best days	Daily return	Days (either before or after) Market bottom
3/15/1933	16.6%	**12**
10/6/1931	12.4%	**172**
9/5/1939	11.9%	**22**
9/21/1932	11.8%	**14**
10/13/2008	11.6%	**100**
10/28/2008	10.8%	**90**
6/22/1931	10.5%	**247**
4/20/1933	9.5%	**14**
3/24/2020	9.4%	**1**
3/13/2020	9.3%	**7**
8/8/1932	9.3%	**48**
10/21/1987	9.1%	**31**
6/19/1933	8.9%	**2**
8/3/1932	8.9%	**45**
7/24/1933	8.8%	**27**
	Median	**27**

Data as of May 12, 2020.

Analysis reflects price return going back to December 31, 1929.

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

One of the major reasons for avoiding a "sell high, buy low" strategy with dramatic moves into and out of the market is the difficulty in timing the market not once, but twice.

tells us *that* is the backdrop that has typically accompanied the market bottom. And once the market does form a bottom, the initial rally off that bottom has historically been incredibly sharp. Timid investors waiting for the "perfect" time to re-enter the market may quickly find themselves 15%–20% or more into the equity market's rally before they receive assurance that the economy is on the mend. After such a move, the feeling of regret can be profound, and it can be tempting to once again (usually incorrectly) conclude that the market has "overshot."

Stocks wait not for the news to get better, but rather for it to get less bad. In the global financial crisis, the S&P 500 bottomed in March; the unemployment rate stood at 8.7% at that time and would not peak until hitting 10% seven months later. That same month retail investor sentiment, as measured by the American Association of Individual Investors, registered the most bearish it has ever been, with 50% of those surveyed identifying as "bearish." The S&P 500 returned 40% in the six months after the March 2009 market bottom—before going on to return another 259% until the February 19, 2020, market top. This "investor inertia" can be difficult to overcome and dangerous for long-term wealth creation.

Historically, the largest market moves, both up and down, have tended to occur around inflection points. Figure 1 shows the best and worst 15 days for the S&P 500 going back to 1929, along with their proximity to the closest market cycle bottom or top. It is worth noting that six of the 15 best days for the S&P 500 occurred within three work weeks of the market bottom.

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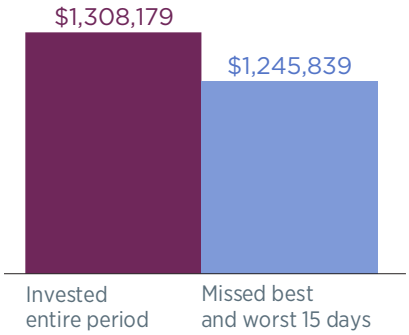
Figure 2

Missing just a few days can damage a portfolio's long-term value



Data as of May 11, 2020.

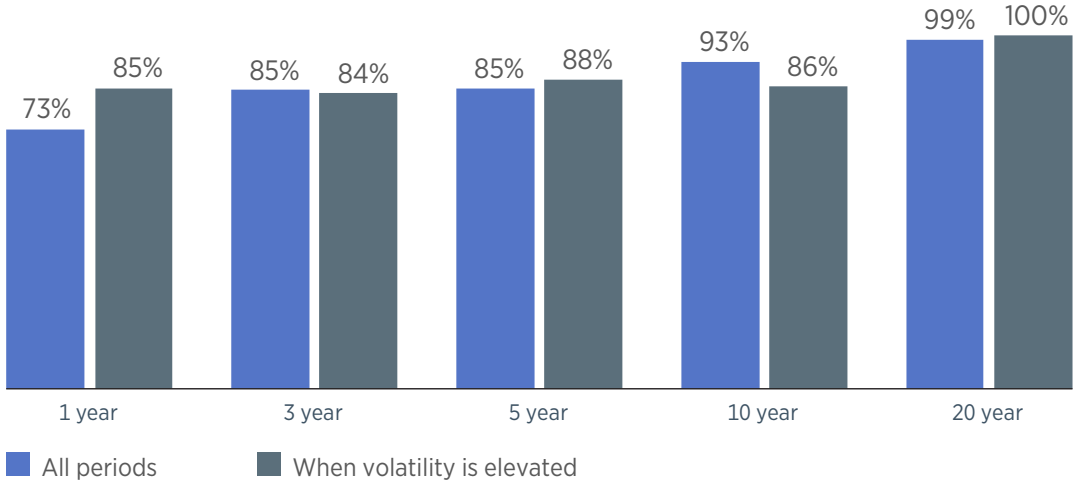
Analysis reflects a $10,000 investment in the S&P 500 price index on December 9, 1929, with the second bar showing the ending value if the investor missed the best and worst 15 days over that period.

The hypothetical illustration is not intended to be indicative of the past or future performance of any specific investment option. 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 which will reduce returns. Past performance cannot guarantee future results.

Figure 3

Betting against the market is usually a losing proposition for long-term investors

Percent of rolling periods with positive returns



Data as of May 12, 2020.

Data begins January 1, 1945, coinciding roughly with the post-WWII era.

Source: Macrobond.

Represents rolling 1-, 3-, 5-, 10-, and 20-year periods for the S&P 500 Index using daily index data. The second set of bars coincide with forward-looking returns after 3-month annualized volatility exceeds one standard deviation above the historical mean.

To successfully avoid those worst days, one could assume an equal probability of missing the best days as the market moves higher. The investor who opted to skip the market's worst 15 days and sacrificed the best 15 actually would have ended up with less money—not to mention higher blood pressure—than the investor who remained in the market through all of the ups and downs (Figure 2).[1]

Odds have been with the bulls

Another reason why turning over a portfolio of stocks and moving to cash can end badly for an investor is because the odds have been with the bulls. Going back to 1945, the market was higher 12 months, hence 73% of the time (Figure 3). For an investor with a time horizon of three, five, or 10 years, the odds have been overwhelmingly in favor of the market heading higher, which is why a long-term buy-and-hold strategy is so successful. In periods where volatility is elevated, as it is today, forward return prospects are even better. Simply put, betting against the market in an attempt to sell high and buy in at a lower price is usually a losing proposition, particularly for investors with a time horizon of more than a few years.

[1] A version of this analysis often quotes a portfolio invested over the whole period versus a portfolio that misses just the best 10 or 15 days, but for our purposes we think it is a more illustrative depiction to show a portfolio that misses the best and the worst days.

Continued

Investors who are psychic will be successful all the time. As for the rest of us, most will fail to have the foresight or the stomach to get back into the market at precisely the right time.

A successful investment strategy over the long term consists of two components: 1) stay the course and remain in the market, with an appropriately diversified portfolio invested according to an investor's individual risk profile; and 2) rebalance that portfolio periodically, particularly when large and sudden market movements shift the portfolio's risk out of alignment with the target objective. Investors who are psychic will be successful all the time. As for the rest of us, we may occasionally get lucky with dramatic shifts of their portfolio into and out of the equity market, but most will fail to have the foresight or the stomach to get back into the market at precisely the right time. These actions can have a detrimental effect on a portfolio's long-term appreciation and an individual's opportunity to achieve his or her financial goals.

ASSET CLASS OVERVIEW

International Equities

Clement K. Miller, CFA
Portfolio Manager

	AS OF MAY 29, 2020		
	Month	YTD	Trailing 12-month return
MSCI EAFE (Developed) Index	4.4	–14.3	–2.8
MSCI EAFE (Developed) Growth Index	5.5	–6.6	7.4
MSCI EAFE (Developed) Value Index	3.0	–22.1	–13.0
MSCI Euro Area Index	6.5	–17.9	–6.6
MSCI UK Index	1.1	–24.4	–14.9
MSCI Japan Index	5.9	–7.1	–6.6
MSCI Emerging Markets Index	0.8	–16.0	–4.4
MSCI Asia ex Japan Index	–1.2	–12.1	0.0
MSCI China Index	–0.5	–5.0	12.1

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indexes are not available for direct investment.

What we are seeing now

There is a rolling global equity market recovery as investors look past shelter-in-place orders and a deep recession to a recovery. Chinese stocks were the first to begin to turn upward, followed by Japanese and other Asian stocks. Investors saw the governments in this region aggressively applying public health playbooks that incorporated lessons learned from the 2003 SARS experience. While China's economy appears to be stabilizing, largely on the strength of revived domestic demand, Japanese stocks have also performed relatively well, particularly as the safe-haven yen has appreciated against the euro and pound sterling. However, investors have been less sanguine about Europe, where the virus spread with unusual speed and authorities were late to impose quarantines. Though by May, investors were becoming more optimistic. The infections curve was flattening, and public health authorities were announcing phased reopenings. While forward valuations have become elevated, there is no sign yet of a pullback.

What's changing

One notable impact of COVID-19 has been the extent to which cyclical/value industries (airlines, hospitality, automakers, miners, oil) have suffered while growth industries (e-commerce, internet media, tech hardware, and biotechnology) have benefited. Developed country value stocks returned –22.05% during the year while growth stocks returned –6.56%. The growth-value dispersion is not a new phenomenon, but rather an acceleration of a long-term trend. (See our related blog post.)

COVID-19 has also influenced geopolitical developments. In fashioning a massive fiscal relief package, Germany and other EU members took a big step toward financial federalism, easing investor concerns about virus-induced stress on eurozone integrity. The virus has caused delays in UK–EU negotiations on post-Brexit arrangements, and it seems probable that the transition period, which ends this December, will be delayed. Knowing the U.S. and Europe are focused on domestic economic recovery, China is seizing opportunities to advance its regional security interests, particularly with respect to Hong Kong. Meanwhile, political leaders in Brazil, India, Russia, and elsewhere are struggling to find the resources and political will to contain the virus.

What we expect

The magnitude of the global equity rally since March suggests investors are highly confident in a rapid global economic recovery, but we are more cautious. A recovery could be derailed by a second massive wave of infections and new rounds of business closures and shelter-in-place orders. As massive as the monetary and fiscal rescue programs are, they could prove ineffectual in the face of a resurgent virus and the lack of widespread availability of vaccines and therapeutics. With stocks reaching elevated valuations, risks now seem skewed to the downside. Barring a second wave of COVID, we expect the rally in European and Japanese stocks will persist, but not for the recuperation to evolve into more durable economic expansion, given demographic and other structural constraints. While Asia ex-Japan stocks offer attractive growth opportunities, we anticipate that they will exhibit considerable volatility, as the U.S. and China ratchet up their rhetorical warfare over China's handling of the virus, Hong Kong, technology, and trade.

Investment Positioning

Portfolio targets effective June 1, 2020, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	31.5%	Underweight
U.S. Small-Cap	5.5%	Neutral
International Developed	16.0%	Neutral
Emerging Markets	5.5%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Underweight
Nontraditional Hedge	5.0%	Overweight
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

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

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

Source: WTIA.

Investment Positioning

Portfolio targets effective June 1, 2020, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large-Cap	24.3%	Underweight
U.S. Small-Cap	4.3%	Neutral
International Developed	11.6%	Neutral
Emerging Markets	4.1%	Underweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Overweight
High-Yield–Tax-Exempt	2.0%	Underweight
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Underweight
Nontraditional Hedge	6.0%	Overweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

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

Source: WTIA.

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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 will reduce returns.

An overview of our asset allocation strategies:
Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

Continued

Disclosures Continued

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

Definitions:

Alpha is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Sharpe ratio refers to a risk-adjusted measure calculated using standard deviation and excess returns to determine reward per unit of risk. The higher the ratio, the greater the risk-adjusted performance.

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