Summary

At its April 10, 2017 meeting, the Capital One Asset Management (“COAM” or “Firm”) Asset Allocation Committee made no change to its tactical positioning.

Guidance

With no change to our tactical position, we remain Equal Weight to Equities and Cash, Underweight to Bonds and Overweight to Diversified Alternatives. While we did not increase our allocation to Emerging Market Equities in this meeting, the asset class is showing reasons for optimism. We encourage Portfolio Managers to ensure that clients are allocated to the space inline with our current tactical positioning, with an emphasis on Emerging Markets Equities vehicles that are tactically biased away from China.

Discussion

After enjoying strong results in the months following the U.S. presidential election, equity markets appear to be taking a breather as we move into the second quarter. Investors, it seems, are evaluating the results of the first weeks of the new administration and Congress, while also assessing U.S. Federal Reserve strategy and its economic implications.

This appears in many ways to be a natural reaction to the rapid move in the equity markets over the last few months. Soft measures of investor, business, and consumer confidence (i.e. surveys) have strengthened significantly, but improvement in hard economic data (such as manufacturing growth) has continued to be modest as the growth surge suggested by the leading soft indicators has not yet materialized. While changes in expectations often precede changes in current data, sluggish economic reports appear to be driving some re-evaluation of nearer term outlooks. Analysts’ estimates of both first quarter and full year 2017 domestic earnings have been scaled back significantly in the past several weeks. Consensus estimates for first quarter 2017 at the beginning of April, for example, were less than 2/3 of where it stood for the same quarter at the end of September 2016. Still, consensus forecasts for earnings growth of near 9% for the first quarter represent considerable improvement from the 7 negative quarters turned in by S&P 500 constituents from Q1 2015 to Q3 2016.

In part, markets seem to be reconsidering the likely pace of the major policy changes proposed by the Trump administration and the Congressional Republican majority. Early setbacks on a promised travel ban and on Obamacare reform as well as a bruising fight over the President’s Supreme Court nominee have underscored the difficulty of effecting changes in Washington. We believe investors had overly optimistic expectations for the speedy implementation of major reforms and the recent market pause reflects a movement toward more realistic views on the time horizons for reform and for the economic response.

We continue to believe that several of the Trump Administration’s stated priorities – a reform of regulatory agencies, a re-evaluation of the tax code particularly around corporate earnings stranded offshore and a significant infrastructure buildout, to name a few key items – have the potential to drive more robust growth in the intermediate term. Indeed, consensus estimates of U.S. economic growth show an upward trend toward a 2.5% growth rate by mid-2018. With this as backdrop, we view the upside potential of U.S. stocks to be somewhat constrained by the current valuation levels, but still attractive relative to most other investment options. Risks exist, of course. Diplomacy by Twitter and saber rattling about an erosion of trade agreements, for example, both raise concerns about possible trade wars. Overall, though, U.S. stocks remain a compelling piece of investment portfolios.

Internationally, too, outlooks are improving, though more significant risks remain in some areas. Valuations in both emerging and developed stock markets are on the surface compelling versus the U.S. and there are signs of increased economic activity in both. However, international developed markets – particularly in Europe – face several challenges. British Prime Minister Theresa May has provided official notice initiating the process for the United Kingdom’s exit from the European Community.
Union. Populist movements around the continent, while not immediately threatening the existence of the Union, do cast doubt on the level of popular support the Union enjoys while simultaneously making needed reforms more difficult to implement.

The picture is more promising in the emerging markets. China has reported a modest pickup in GDP growth, but structural issues remain in place as well. However, most emerging market countries are seeing growth in their manufacturing sectors. Moreover, earnings growth is strengthening in most of these countries with analysts’ consensus estimates for earning growth outpacing the equivalent expectations for the S&P 500. We are not yet ready to increase our Emerging Equity weight in target portfolios, but we are watching the space closely. We encourage Portfolio Managers to review client accounts to ensure appropriate levels of Emerging Equity holdings with an emphasis on markets outside of China.

As we saw when then-Fed Chairperson Ben Bernanke mentioned the possibility of a tapering of Quantitative Easing in 2014, Emerging Markets Equities (and Fixed Income) can be particularly sensitive to actions by the U.S. Federal Reserve. The suggestion of tightening and subsequent dollar strength sent emerging markets into a tailspin hitting both fixed income and equity instruments. With the Federal Reserve foreshadowing three increases in the Fed Funds rate this year, there is some risk of disruption in the emerging markets, but the planned increases seem to be mostly built into current prices in the Emerging Markets Equity space. In our analysis, emerging economies and their stocks can absorb a measured increase in U.S. rates, but there may be some turbulence around the time of actual increases which may provide a particularly attractive entry point. We will monitor as markets react to Fed action and expectations.

Of course, Fed actions are important to many investment instruments outside the emerging markets. Domestic bond markets are displaying some uncertainty regarding the Fed’s projections. Fed consensus, for example, points to a Fed Funds rate of about 2% as of December 2018. Market projections, meanwhile, are hovering around 1.75%. Market acceptance of the Fed’s projections fluctuates with new Fed statements and new economic information, but in our view the market’s skepticism is justified. As we noted, economic growth is accelerating more slowly than some had hoped and this will tend to hold the Fed back from aggressive tightening at least in the short- to intermediate-term. With that, we remain comfortable with a mildly underweight to domestic Fixed Income which should help offset market risk without suffering too much drag from rising rates. Within domestic bonds, we remain cautious regarding riskier corporate issues where there is little additional yield available to compensate investors for risk.

Following is the Firm’s Quarterly Tactical Position Rationale and Outlook for each of the asset classes in our client portfolios. It provides our current and near term views for asset classes that are considered for inclusion. From time to time, this Outlook may change inter-quarter if a tactical change is implemented.

<table>
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<tr>
<th>Asset Class</th>
<th>Q4 2016 Tactical Position</th>
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<th>Tactical Position Rationale</th>
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<tbody>
<tr>
<td>Stocks</td>
<td>Under Weight</td>
<td>Neutral Weight</td>
<td>Improved Equity Outlook:</td>
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<tr>
<td></td>
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<td></td>
<td>• While U.S. economic growth remains modest, the fiscal and regulatory policy outlook has improved substantially with the advent of the Trump Administration.</td>
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<td>• The Trump policy prescription of deregulation in finance, energy and healthcare; tax reform and infrastructure investment holds the potential to drive stronger U.S. growth, most significantly in 2018 and beyond but possibly also driving better growth this year.</td>
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<td>• Oil prices are stabilizing around $50/bbl. and U.S. production is ramping up, which supports a modestly better capital spending outlook.</td>
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<td>• The Fed is guiding expectations for a non-threatening and modest rise in short-term interest rates over the next few years.</td>
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<td>• Apart from the recent transitory acceleration in energy price inflation, reflecting the stabilization of oil prices in the last year, core inflation measures remain modest and well-anchored.</td>
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<td>• Corporate earnings growth has accelerated, modestly so far, marking a significant reversal from the contraction in the last two years. Improved outlook.</td>
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Positive outlook: High valuations temper enthusiasm for more aggressive equity exposure at this point, although we are monitoring market conditions for opportunities to do so. Policy missteps and execution risk are also potential caveats to the improved policy outlook.

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| Bonds             | Over Weight               | Under Weight              | The bond market has shifted focus from QE-heavy Europe and Japan and deflationary currents in Asia, to the stronger growth outlook in the US:  
  • Core inflation trends remain modest but risks have shifted toward a bias to higher inflation driven by potential Trump Administration fiscal policies.  
  • Intermediate-term interest rates rose sharply in the second half of 2016, closing the chapter, for the near-term at least, of preoccupation with “new normal” rates under 2%.  
  • Interest rate volatility risks are relatively balanced, with a bias to modestly higher rates this year.  
  • We continue to prefer high quality in the bond market, given historically narrow credit risk premiums. | -1           | Negative outlook: The long policy arc for implementing the Trump agenda moderates the near-term necessity for more defensive duration strategy, given how much interest rates have already risen. |
| Cash              | Equal Weight              | Equal Weight              | Outlook for Cash returns is improving modestly as the Fed moves toward normalization:  
  • The FOMC raised the Fed Funds rate to 0.88% in March and offers guidance to 1.38% this December. Despite some initial skepticism, the markets have largely incorporated this expectation.  
  • We assess the Fed’s modest goal is to raise the Fed Funds rate. | 1            | Positive outlook: The Fed’s guidance of a gradual and modest rise in the Fed Funds rate this year is largely discounted in the market. |
| Diversified      | Under Weight              | Under Weight              | Re-established a modest position in Diversified Commodities as a result of the improved U.S. growth outlook and stronger pricing in Asia as Emerging Markets stabilize.  
  • OPEC agreement last September to effect modest reductions in oil production has helped stabilize the crude oil market at $50-55/bbl.  
  • Given the problematic history of OPEC production quotas, some skepticism toward the current agreement may be warranted, however so far it appears the production cuts are being implemented and the agreement is holding.  
  • Industrial Metals are also in an upswing, driven higher by strong Chinese demand. Chinese authority policy measures have kept industrial metal demand high. | 1            | Positive outlook: The improved U.S. growth outlook and signs of stability from the Emerging Markets tilts the odds in favor of higher commodity prices. Increased oil production in the U.S. is the primary risk to oil prices and should be monitored closely. Corporate tax reform that includes a “border tax” would likely drive the Dollar higher and could be disruptive to commodity prices. |
| Alternatives      | Over Weight               | Over Weight               | COAM established exposures to Multi-Strategy hedge funds and analogous mutual funds in Summer 2015 to provide diversification with low correlation to traditional assets:  
  • Remain attractive investments in challenging financial markets, with favorable risk characteristics.  
  • The objective is to provide attractive risk-adjusted returns with lower volatility. | 0            | Neutral outlook: Given expectations for increased market volatility as the Fed moves to normalize monetary policy and the new administration in the U.S. attempts to implement aggressive policy change an allocation to multi-strategy hedge funds should help limit downside risk and contribute positive return. |

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## Asset Allocation

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<tr>
<td>U.S. Equity</td>
<td>Over Weight</td>
<td>Over Weight</td>
<td><strong>Relative Merits of US Equities:</strong>&lt;br&gt;• The Trump Administration has been a driver of positive sentiment and a more attractive growth outlook in the U.S. v. international markets.&lt;br&gt;• US is much further along toward monetary normalization, offering investors a more resilient economy.&lt;br&gt;• Better balance between savings, investment and consumption.&lt;br&gt;• US energy independence has created oil price volatility, but also a more competitive manufacturing base.&lt;br&gt;• Favorable outlook for the US Dollar.</td>
<td>1</td>
<td>Positive outlook: We remain tilted in favor of US equities as they are expected to continue to outperform Non US markets in the year ahead, however valuations and earnings growth uncertainty warrant caution a careful approach in the near term. Our baseline case is a bias in favor of mid-cap and small-call equities relative to benchmarks, due to typically stronger earnings growth and relative insulation from dependence on export markets and currency translation effects.</td>
</tr>
<tr>
<td>Non-U.S. Developed Market Equity</td>
<td>Under Weight</td>
<td>Under Weight</td>
<td><strong>Headwinds persist for Europe and Japan, but we see improving conditions:</strong>&lt;br&gt;• Eurozone economies have been perking up recently, driven by higher rates of inflation as oil prices have firmed up reversing the deflationary scare in 2015 that carried over into 2016, still Japan continues to fight deflationary forces.&lt;br&gt;• Eurozone quantitative easing (“QE”) has materialized in better growth and inflationary pressure as evidenced by the European Central Bank (“ECB”) recent reduction of its bond buying program.&lt;br&gt;• Developed market governments are heavily indebted with little fiscal flexibility, which could serve as a restraint to more meaningful growth.&lt;br&gt;• Uncertainty looms as the long-term economic implications of BREXIT are unknown.</td>
<td>0</td>
<td>Neutral outlook: COAM remains cautious as quantitative easing in Europe and Japan have supported financial asset prices, while the desired economic growth and inflation remains elusive. A sense of diminishing marginal returns has attached to the ECB and BOJ monetary stimulus programs, with negative interest rates and flat yield curves distorting consumer and savings behavior.</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
<td>Under Weight</td>
<td>Under Weight</td>
<td><strong>Re-established a modest position in EM equity:</strong>&lt;br&gt;• Several EM regions have stabilized in recent months as both their economies and currencies have stabilized. In addition, EM equities should benefit from the improved growth outlook in the U.S.&lt;br&gt;• Initial EM re-entry designed to underweight China, which has stabilized from aggressive government intervention, but remains subject to an uncertain outlook.&lt;br&gt;• Chinese fiscal stimulus has driven commodity prices higher.&lt;br&gt;• Debt acceleration in China has reached high levels and raises systemic risk potential.</td>
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<td>Neutral outlook: We have selectively added EM exposure in response to improved conditions in select regions.</td>
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| REITs            | Under-weight              | Under-weight              | COAM exited the class in the Fall of 2014 due to our assessment of excessive valuations:  
• Elevated valuations and low cap rates continue to dominate sector dynamics.  
• Late cycle behaviors becoming more prevalent: increased supply, rent weakness, marginal M&A.  
• Our observation is more REITS are transitioning to disposition mode.  
Negative outlook: REITs have underperformed as interest rates rose from summer 2016 lows. Our bias to continued upward pressure on interest rates, combined with elevated valuations, warrants continuing caution toward REITs. | -1            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Master Limited Partnerships | Neutral                  | Neutral                  | MLPs have tracked oil prices closely since early 2015:  
• Through-put models were designed to insulate against commodity price volatility, however, elevated default risk in E&P drove risk premiums up for capital market dependent MLPs.  
• Recent signs of stabilization in crude oil prices have guided MLP risk premiums lower.  
Neutral outlook: Valuations are attractive in the class however near-term concerns related to pressures on cash flow, dividend stability, access to capital markets and the outlook for product prices warrant only modest positions at this time. | 0             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Investment Grade Bonds | Over Weight              | Over Weight              | Headwinds for Investment Grade Taxable Bonds:  
• While U.S. economic growth remains on a modest track, the much improved policy outlook from the Trump Administration has raised expectations for accelerated growth in 2017 and beyond, prompting the Fed to raise rates at a pace faster than the market had initially anticipated.  
• Oil prices have stabilized in the last year, partially attributable to OPEC supply constraints, driving acceleration in top-line inflation rates.  
• Fed monetary policy continues to gradually drive short-term interest rates higher.  
• Longer-term interest rates broke out of the new normal/ lower for longer rate environment last summer, as recession fears receded and the post-election policy outlook improved.  
• Longer-term interest rates normalizing along with Fed policy.  
• Credit risk premiums remain cyclically low, pointing to defensive credit postures.  
Neutral outlook: Intermediate U.S. Treasury yields rose roughly 1.0% from July through December last year, pricing in a fair amount of accelerating growth and inflation that has mostly yet to actually materialize. Intermediate term bonds’ risks and reward potential look relatively evenly balanced in the near-term. As market conditions offer opportunities we expect to express a bias to shorter duration tactics in expectations of gradually rising rates this year. | 0             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| US High Yield Bonds  | Under-weight              | Under-weight              | COAM has eliminated exposure to High Yield due to credit risk spread compression:  
• Reduced long high yield positions in late 2014 as spreads compressed to cyclical lows.  
• Reduced intermediate high yield positions in early 2016 as spread volatility offered a good tactical opportunity.  
• Reduced remaining short duration high yield positions in January 2017 as credit risk premiums compressed near historic lows.  
Negative outlook: Historically narrow high yield credit risk premiums indicate unattractive total return potential and exposure to late-cycle expansion in credit spreads. | -1            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| International Bonds         | Under Weight               | Under Weight               | COAM exited the International government bond asset class in Summer 2015:  
  • Quantitative easing in Europe and Japan drove yields on government bonds to historic lows.  
  • We assess the sector as unattractive on a yield basis and subject to downside currency risk.                                                                                                                                                                                                                                                                                                                                                                           | -1            | Negative outlook: Sovereign credit yields in Europe remain heavily supported by the ECB’s quantitative easing program. The inevitable end of QE later this year or next will likely result in significantly higher interest rates in Europe. |
| Emerging Market Bonds       | Under Weight               | Under Weight               | COAM exited EM bonds in Summer 2015 prompted by persistent headwinds for EM debt:  
  • Improving commodity prices have been supportive of EM economics and budgets.  
  • Slow global growth and a strong Dollar, which elevates default risk in heavily indebted countries with Dollar-denominated debt.  
  • Continuing devaluation risk in China and potential contagion from China’s excessive leverage are prime risk factors for EM borrowers.                                                                                                                                                                                                                                                                  | -1            | Negative outlook: The precursor to a more constructive outlook on EM debt is a better outlook for EM equities, which is starting to happen. We still see more risk than reward in EM debt, with higher interest rates in the U.S. and a strong Dollar exerting negative pressures on EM credit quality. |
| Municipal Bonds             | Neutral                    | Under Weight               | Unfunded municipal pension liability is the dominant risk factor in the Muni market:  
  • COAM structures portfolios to insulate against pension risk.  
  • Detroit, Puerto Rico, Chicago and Dallas are flashpoints that illuminate poor governance.  
  • Judicial resolution remedies frequently establish poor precedents from a G.O. perspective.  
  • Complacency and willful ignorance are pervasive at the local municipality level.  
  • COAM focuses on essential service revs without pension liability, State G.O. issuers where constitutions and case law have established G.O. debt seniority over pensions, and local issuers that have converted to defined contribution pension plans.                                                                                                                                                                                                                               | 0             | Neutral outlook: Muni yields are generally rich to Treasuries, leading us to a cautious approach to the sector. Given the relatively rich municipal market, we employ modest positions in short high-grade corporate bonds and US Treasury backed pre-refunded bonds where they can add after-tax value. |
Terminology:
Overweight – Meaningfully above the long-term strategic target for the asset class
Underweight – Meaningfully below the long-term strategic target for the asset class
Equal Weight – In-line with the long-term strategic target for the asset class

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<tr>
<td>-2</td>
<td>Very Negative: Extremely unattractive performance outlook in the near-to-intermediate term</td>
</tr>
<tr>
<td>-1</td>
<td>Negative: Unattractive performance outlook in the near-to-intermediate term</td>
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<tr>
<td>0</td>
<td>Neutral: Balanced performance outlook in the near-to-intermediate term</td>
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<tr>
<td>1</td>
<td>Positive: Attractive performance outlook in the near-to-intermediate term</td>
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<tr>
<td>2</td>
<td>Very Positive: Extremely attractive performance outlook in the near-to-intermediate term</td>
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Not Bank Guaranteed

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May Lose Value