Positioning Portfolios for a Trump Presidency

Michael Jones, CFA
CHAIRMAN AND CHIEF INVESTMENT OFFICER

We expected the initial panic over Trump's surprise election to create an attractive buying opportunity in global equity markets. Instead, Trump's acceptance speech arrested an equity market freefall, and by the time US markets opened the morning after his election, equity prices had fully recovered. We believe the quick recovery and subsequent moves higher by global equity markets were driven by Trump initially emphasizing policies favorable to investors (e.g. tax reform, deregulation and stimulus) and deemphasizing policies that could impair corporate earnings (e.g. renegotiating NAFTA).

Although our portfolios were denied an opportunity to "buy low", we nonetheless executed our "Trump Sweep" strategy (see Strategic View dated 11/8/2016 for more on our "Trump Sweep" scenario) of more aggressively positioning portfolios for rising equity markets. This more aggressive positioning is consistent with our belief that the likely policies of a Trump administration will prove, on balance, favorable for equity markets. However, the Trump presidency could significantly change which asset classes and market sectors lead the market higher.

Our current "Trump Sweep" portfolio positioning, when combined with our pre-election portfolio adjustments, have substantially altered our portfolio composition. The purpose of this report is to summarize the changes to our Advantage portfolios[1] in the weeks before and after the US Presidential election, to reiterate the rationales behind those changes, and to provide a high-level overview of our new portfolio positioning. Starting at the beginning of the 4th quarter, our major portfolio changes through November 18th were:

Pre-election:

- Lowered the average maturity and interest rate sensitivity (duration) of our fixed income portfolios.
- In our balanced and equity solutions, reduced emerging market exposure by varying amounts depending on the portfolio, and increased portfolio weightings in developed international stocks.
- Slightly reduced overall portfolio risk by selling high yield in our more conservative portfolios and reducing US small cap exposure slightly across all portfolios.

Post-election:

- In our balanced and equity solutions, increased portfolio allocation to US large cap stocks, with an emphasis on increasing our exposure to US financial companies.
- Increased our weighting in developed international stocks.
- Funded the above purchases by further reducing emerging market exposure, selling some bond positions and reducing portfolio cash levels.
- Further reduced the interest rate sensitivity (duration) of our fixed income portfolios.

(see next page)

---

[1] RiverFront's Advantage portfolios may be invested in stocks, bonds and exchange-traded products (exchange-traded funds (ETFs) and exchange-traded notes (ETNs)). Advantage is offered through separately managed accounts or on model delivery platforms, depending on the Sponsor Firm.

The table below summarizes the cumulative allocation changes to our balanced and equity Advantage portfolios before and after the US presidential election. As shown in the table, we have increased equity weightings in our balanced Advantage portfolios approximately 1.4% to 4.1%, depending upon the portfolio. The increased equity weighting has been focused on US equities, while our emerging market exposure has dropped substantially.

	CIB			MG&I			DEI			GA			GG		
Asset Class	9/30	11/18	Change	9/30	11/18	Change	9/30	Current	Change	9/30	Current	Change	9/30	Current	Change
US Equity	26.7	30.4	3.7	43.4	48.9	5.5	43.5	50.2	6.7	43.8	49.4	5.6	47.8	52.0	4.2
Developed Intl	5.4	5.2	-0.1	9.1	10.7	1.6	27.5	30.9	3.4	32.2	37.1	4.9	33.8	39.8	6.0
Emerging Market	0.0	0.0	0.0	3.1	0.0	-3.1	11.4	3.9	-7.4	13.9	4.9	-9.0	16.0	5.9	-10.1
Total Equity	**32.0**	**35.6**	**3.6**	**55.5**	**59.6**	**4.1**	**82.4**	**85.1**	**2.7**	**90.0**	**91.4**	**1.4**	**97.6**	**97.7**	**0.1**
Investment Grade	44.3	47.2	2.8	20.4	24.0	3.6	3.0	2.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
High Yield	16.6	14.4	-2.2	16.7	14.4	-2.3	10.0	10.0	0.0	6.5	6.6	0.1	0.0	0.0	0.0
Cash	7.0	2.8	-4.2	7.5	2.1	-5.3	4.6	2.0	-2.6	3.5	2.1	-1.4	2.4	2.3	-0.1
Total Fixed Income	**68.0**	**64.3**	**-3.6**	**44.5**	**40.4**	**-4.1**	**17.6**	**14.9**	**-2.7**	**10.0**	**8.6**	**-1.4**	**2.4**	**2.3**	**-0.1**

Source: RiverFront Investment Group, data through 11/18/2016. Note: Dynamic Fixed Income is not included in the above analysis, as it does not contain an equity component. For information on its current positioning, please visit www.riverfrontig.com. The information provided above is intended for illustrative purposes only and not intended as an investment recommendation. Past performance is no guarantee of future results. The portfolio weights and statistics shown are based on RiverFront's Separately Managed Accounts (SMA) and are not calculated or derived from any Unified Managed Account (UMA) or Model Delivery Platform (MDP).Please see below for additional disclosure information.

We believe that Republican control of the Presidency and Congress paves the way for comprehensive corporate tax reform, lower personal tax rates and a substantial rollback in the regulatory burdens faced by US companies. Third quarter earnings already show signs of recovery from the oil shock of the past 2 years, and we think the expected Trump policies have the potential to add further upside momentum to US corporate earnings. In our view, banks are likely to be a primary beneficiary of reduced regulation and lower legal costs, so our US equity purchases following the election have emphasized adding to our financial stock weighting.

We funded the increased US equity exposure largely through a reduced emerging market equity weighting. Stimulus programs in China allowed emerging markets to lead global equity markets higher throughout most of 2016. However, Trump's election could lead to increased import restrictions and political pressure on companies to reduce outsourcing to lower cost labor markets – Ford has already scrapped plans to relocate some production to Mexico, and Apple is rumored to be exploring options to assemble iPhones in the US. High debt burdens and continued reliance on US exports could make the Chinese economy vulnerable to any backlash against their exports to the US, and we believe that China sets the tone for the rest of the emerging markets.

We funded our balanced portfolios' increased equity weightings predominately through a reduction in cash balances, and our bond weighting in balanced portfolios decreased only slightly. However, this small change in overall bond allocation masks a much larger change in the risk positioning of our fixed income portfolios.

We sought to shelter portfolios from the post-Brexit volatility by extending our portfolio interest rate sensitivity, as measured by duration, to as much 7.3 years, compared to a benchmark of about 5.6 years. By early fall we began aggressively reducing this interest rate sensitivity, as campaign rhetoric from both presidential candidates made clear that budget deficits and potential inflationary pressures would likely rise in 2017.

In our view, Trump's election increases downside risk for bond markets, and we therefore made further reductions in our bond portfolio duration. Trump has laid out an aggressive series of stimulus plans, including tax cuts, tax reform and major infrastructure spending. These stimulus measures could increase inflationary pressures in the economy, especially if combined with increased trade barriers. During his campaign, Trump pressured the Fed to be more aggressive in raising interest rates, and the inflationary potential of his policies might encourage Fed officials to comply with his wishes.

Net of all of our fixed income risk reducing trades, we have reduced Moderate Growth & Income's bond portfolio duration to about 4.1 years, and made similar duration reductions in our other fixed income portfolios. This means that our portfolios have moved from our pre-Brexit positioning of having more exposure to changing interest rates than our market benchmark (e.g. 7.3 duration vs 5.9) to currently having appreciably less exposure to changing interest rates than our benchmark (e.g. 4.1 duration vs 5.9).

To summarize, the combination of our pre and post-election trades have moved our Advantage portfolios to a more aggressive posture, with an increased equity weighting. This increased equity weighting has been dominated by a 5.0% to 7.0% increase in US equities, supplemented by a smaller 1.5% to 3.5% increase in developed international equities. We partly offset these increased equity weightings by lowering emerging market exposure by 3.0% to 10.0%, depending on the portfolio. The bond component of our balanced portfolios has moved from our aggressive pre-Brexit posture to a defensive posture designed to protect portfolios from rising rates. We will continue to monitor market developments and believe that additional investment opportunities could arise as Trump provides more clarity regarding his policy priorities.

Important Disclosure Information

****Abbreviations in the table above stand for the following strategies: CIB – Conservative Income Builder, MG&I – Moderate Growth and Income, DEI – Dynamic Equity Income, GA – Global Allocation, GG – Global Growth.***

Past performance is no guarantee of future results.

The portfolio weights and statistics shown are based on RiverFront's Separately Managed Accounts (SMA) and are not calculated or derived from any Unified Managed Account (UMA) or Model Delivery Platform (MDP). While our SMAs and models for UMAs and MDPs will have similar investment weightings, there may be differences between the models; as such, there will be differences in the current portfolio weights/statistics in actual client accounts.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

Strategies seeking higher returns generally have a greater allocation to equities. These strategies also carry higher risks and are subject to a greater degree of market volatility.

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities. In a rising interest rate environment, the value of fixed-income securities generally declines.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

Using a currency hedge or a currency hedged product does not insulate the portfolio against losses.

Diversification does not ensure a profit or protect against a loss.

Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. In addition, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.

RiverFront Investment Group, LLC, is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. The company manages a variety of portfolios utilizing stocks, bonds, and exchange-traded funds (ETFs). RiverFront also serves as sub-advisor to a series of mutual funds and ETFs. Opinions expressed are current as of the date shown and are subject to change. They are not intended as investment recommendations. Any discussion of the individual securities that comprise the portfolios is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any individual security mentioned.

RIVERFRONT INVESTMENT GROUP

1214 East Cary Street, Richmond, Virginia 23219 TEL 804) 549-4800 RIVERFRONTIG.COM