Investment Committee:

Kevin Nicholson, CFA®

Tim Anderson, CFA®

Rob Glownia, CFA®, CFP®

Adam Grossman, CFA®

Rebecca Felton

Scott Hays, CFA®

Chris Konstantinos, CFA®

Pete Quinn

Doug Sandler, CFA®

Rod Smyth

2020 Strategic Review: All Asset Classes More Expensive. Equities Remain Most Attractive

EXECUTIVE SUMMARY:

• **DEVELOPED INTERNATIONAL:** Developed international equities have spent most of the last decade well below the Price Matters® trendline with only occasional periods of reverting towards trend. Recognizing this, **we have decided to take into consideration both a 'optimistic-case' and 'conservative case' scenario that recognizes both the potential for 1) the 1970-2020 trendline to persist *and* 2) the possibility that 'this time might be different' and the trend going forward may be permanently lower.**

The historical, faster trend line has become our 'optimistic case' scenario and is dependent on significant currency appreciation and significant structural reform. Our 'conservative case' scenario assumes that a new, lower trend is appropriate in the absence of structural reform and rising currencies**.**

- For 2020, we have chosen as our base case scenario an assumption that splits the difference between the 'best case' trend of 6.4% and a 'conservative case' of 4.6%. **We note that under either scenario, developed international is below trend both in absolute terms and relative to the US.**
- However, the distance from trend is less extreme in our 'base case' scenario than with the more optimistic trend-line that we have used in the past. This resulted in lowered expected returns and, therefore, lower model allocations to the developed international asset class for 2020, bringing them in-line with where our portfolios have been throughout 2019.

• **US:** US stocks remain above trend but continue to represent a larger allocation than overseas equities within our portfolios for the reasons described above. Additionally, we believe the above-trend readings are justifiable given the significant structural and fundamental advantages US companies currently enjoy over their foreign peers.

• **EMERGING MARKETS:** After being victimized in 2019 by trade war negotiations between the US and China, **emerging market (EM) equities remain below their long-term trend and are the cheapest asset class in our asset allocation**. Allocations to EM increased in each of our longer time-horizon portfolios.

• **FIXED INCOME: Fixed income allocations increased this year relative to 2019 allocations despite prices increasing and yields falling year over year.** The distinguishing difference for 2020 is that the updated model has built-in some inflation protection (TIPs) and shorter duration (high yield) than we had in 2019. We arrive at this allocation by assuming a steeper yield curve and higher inflation compared to current market expectations.

RE-EXAMINING EAFE'S TREND

Since the inception of RiverFront in 2008, our strategic allocations and often our portfolios have contained a healthy allocation to international equities; both developed and emerging. Over the last 12 years, we modeled each asset class using our proprietary Price Matters® framework for drawing the long-term trend and then calculating each asset class' distance from trend by evaluating price movements over time. During this period, developed international as represented by the MSCI EAFE (Europe, Australasia, and the Far East) Index has remained considerably below the calculated trend of 6.4%; at times nearing 45% below trend.

EAFE has shown few signs of mean reversion since the Great Financial Crisis (GFC); unlike US large caps and emerging markets equities. However, it is not unprecedented to have an asset class remain below trend for an extended period. US large caps, for example, experienced an 8-year period below its trendline with no signs of mean reversion from 1974 to 1982. While not unprecedented, it is unusual and therefore begs the question: 'Is this time different?' **The Plaza Accord and the Japanese stock market bubble had an outsized impact that might call the 6.4% trend-line into question and thus lessen the potential magnitude of future mean reversion.** Additionally, we wanted to understand what would need to happen to re-validate the 6.4% trend-line.

Strategic Guidelines 2020

PRICE MATTERS ® DISTANCE FROM TREND

Asset Class	Total Return 2019	12/31/18 Distance from Trend	11/30/19 Distance from Trend
US Large Cap	31.09%	2.68%	20.70%
US Mid Cap	27.95%	1.60%	16.20%
US Small Cap	25.07%	-3.84%	4.50%
Developed International	22.66%	-44.34%	-38.40%
Developed International (Local Currency)	22.30%	-20.00%	-9.45%
Europe	24.59%	-20.00%	-11.00%
Japan	20.07%	-12.59%	-3.20%
Emerging Markets	18.88%	-18.76%	-16.86%
Investment Grade Bonds*	14.23%	4.25%	2.93%
High Yield Bonds*	14.85%	7.92%	5.82%

* Fixed income is measured using starting yield

*Source: SOURCE: FactSet, CRSP, Bloomberg; Past performance is no guarantee. Shown for illustrative purposes only and not indicative of RiverFront portfolio performance. *Fixed Income asset classes display yield rather than distance from trend. Yield represents Yield to Worst, see the end of this presentation for the full definition and asset class definitions. Trend, according to Price Matters® is the slope of an exponential growth function that closely tracks a real (inflation-adjusted) long term Index for that Asset Class. Distance from Trend is the distance of the trend line relative to the current index level expressed as a percentage.*

Recognizing the Impact of the Plaza Accord on Foreign Currencies and Japan

For a little background, the 1985 Plaza Accord was an agreement amongst the G5 (France, Germany, Japan, UK and the US) to allow the US dollar to depreciate relative to developed international currencies in order to correct trade imbalances with the US. Subsequently, the US dollar index fell nearly 50% over the following five years.

While the agreement did not fix the trade imbalance with Japan, the currency intervention did deliver its intended positive consequences on the European economy and stock market. Europe had been below trend until the Plaza Accord and then post-accord reverted to the trend for the next 10 years. Therefore, in order for our 'best case' scenario trend-line (6.4%) to be achieved, one of the necessary ingredients is that currencies, particularly the euro and yen, need to appreciate significantly.

While it is unlikely that we will experience another collaborative currency intervention like the one agreed to at the Plaza Hotel, significant currency appreciation is not impossible over the coming years. In 2011, both the Euro and the Yen were approximately 35% and 30% higher, respectively. We believe the key to currency appreciation is structural reform. This is why we added the fourth 'R' (Reform) to RiverFront's 3 'R's' framework in our *2020 Outlook.* Effective reform, in our mind, would involve easing of labor rigidity, lower tax regimes and easier business formation in Europe, as well as improved corporate governance and a more open labor market in Japan. While Japan has made meaningful strides in governance, both still lag behind in their labor reform efforts. Given the difficulty of achieving meaningful structural reform, our base case for 2020 uses the lower trendline.

The second and related event that had an outsized impact on developed international equities occurred in Japan between 1986 and 1991. Yen appreciation following the Plaza Accord and the Bank of Japan's attempt to offset it by drastically lowering interest rates kicked off an asset bubble that peaked in 1989, imploding in spectacular fashion over the next couple of decades. A May 23, 2017 article by Brian Richards, a writer for the *Motley Fool,* helps put Japan's dominance in the late 1980's into perspective. According to Richards, in early 1989 eight of the world's largest corporations were headquartered in Japan and Japan accounted for 45% of the world's market cap, well ahead of the US, which was in second place at 33%. Today, Japan is less than 7% of the MSCI-All-Country world index and the US is over 57%. Japan does not have to experience another 1989-like asset bubble to re-validate the 6.4% 'optimistic case' scenario trend line, in our view. However, it does need to reverse the economic stagnation brought on by deflation and poor demographics and return to meaningful economic growth.

SETTING CAPITAL MARKET ASSUMPTIONS FOR 2020

The setting of capital market assumptions is driven by RiverFront's proprietary Price Matters® framework. Throughout the year, RiverFront updates its Price Matters® estimates of expected returns and downside risks for a wide array of global asset classes. Price Matters® return estimates fall as prices rise and increase as prices fall, consistent with historical market behavior. Downside risks are similarly a function of price, as overvalued markets have historically suffered the largest declines.

The strong equity returns experienced in 2019 by domestic, developed international, and emerging market equities make each asset class less attractive on an absolute basis, but relative comparisons introduce some slight allocation shifts for 2020. As shown on the chart below, the equity asset classes that began 2019 above trend ended the year further above trend and those that began below trend moved closer to trend. We believe equity asset classes benefitted from access to cheap capital, stock buybacks, and attractive relative prospects when compared to low yielding fixed income alternatives. Fixed income asset classes had a positive year as well, as yields fell and prices rose. Credit sensitive products saw spreads tighten in both investment graded bonds and high yield bonds as access to capital was plentiful and interest rates were lowered by the Federal Reserve.

Based on the strong economic backdrop and the equity asset class' distance from trends combined with fixed income starting yields, the RiverFront investment team's capital market assumptions were as follows:

- Equities should do better than fixed income.
- Emerging markets remain a cheap asset class.
- Short-duration bonds are preferable to long-duration bonds given today's low starting yields and relatively flat yield curves.

RIVERFRONT'S 2020 ASSET ALLOCATION STRATEGY

RiverFront seeks to set asset allocation models that will maximize returns while meeting the risk constraints appropriate to each strategy's investment horizon. For each strategy, such as Moderate Growth & Income or Global Allocation, there may be multiple asset combinations with different risk profiles that satisfy this objective. At least annually, our investment team selects the long-term risk profile for each strategy based on their assessment of the present risks in the market. In the table below, we present RiverFront's 2020 Strategic Asset Allocations for each of our strategies.

Strategic Guidelines 2020

Asset Classes — *Investment Time Horizon / Equities/Fixed Income (%)*	CIB 3 Years 30/70	MGI 5 Years 50/50	DEI 7 Years 70/30	GA 7 Years 80/20	GG 10 Years 100/0
US Large Cap*	29%	42%	32%	36%	39%
US Small & Mid Cap			5%	5%	5%
Developed International	5%	12%	29%	34%	39%
Emerging Markets			11%	11%	15%
Investment Grade	15%	10%	11%		
Investment Grade – Short Term	15%	15%		7%	
High Yield – Short Term	15%	10%	10%	5%	
Treasuries	12%	5%			
TIPS	7%	4%			

* Approximately 25% allocated to Dividend Growth Stocks

Source: RiverFront. Strategic Asset Allocations shown above are a guide used by RiverFront in managing the Firm's asset allocation portfolios and do not reflect the actual asset allocations of the current RiverFront portfolios.

The table below highlights the changes between the 2020 and the 2019 Strategic Asset Allocations:

Slightly Higher Allocation to US compared to Developed International compared to 2019

Asset Classes — *Investment Time Horizon / Equities/Fixed Income (%)*	CIB 3 Years 30/70	MGI 5 Years 50/50	DEI 7 Years 70/30	GA 7 Years 80/20	GG 10 Years 100/0
US Large Cap*	+2%	-3%	+10%	+7%	+6%
US Small & Mid Cap			-7%	-3%	-5%
Developed International	-3%	-3%	-6%	-4%	-4%
Emerging Markets				-1%	+3%
Investment Grade	-8%	-7%	+4%	-8%	
Investment Grade – Short Term	-17%	+1%		+7%	
High Yield – Short Term	+12%	+3%	+6%	+5%	
Treasuries	+7%	+5%	-7%	-3%	
TIPS	+7%	+4%			

* Approximately 25% allocated to Dividend Growth Stocks

Source: RiverFront.. Strategic Asset Allocations shown above are a guide used by RiverFront in managing the Firm's asset allocation portfolios and do not reflect the actual asset allocations of the current RiverFront portfolios.

- **Equities:**
    - **International:** Allocations were reduced due to our decision to use a more conservative trend-line in our 'base case' scenario in developed international, as expected returns were lowered. The reduced allocation aligns with how the portfolios are currently positioned.
    - **Emerging Markets:** There was a net increase to emerging markets in our longest time horizon portfolio. Given the volatility of the asset class' returns, the allocation was only increased in the portfolios that had more time to endure potential drawdowns. We believe that emerging markets have the greatest growth potential of equity asset classes given its distance from trend and the fact that trade headwinds are starting to dissipate.
    - **Domestic:** Domestic equities had an outstanding year in 2019, thus one would expect lower allocations in 2020. However, across most portfolios domestic equities increased as the beneficiary of developed international reductions. The one exception is within Moderate Growth & Income where a portion of the large cap allocation was shifted to short-duration fixed income to enhance the portfolio yield. Within domestic equities the longer time horizon portfolios reduced exposure to small-caps in favor of large-caps.
- **Fixed Income:** Yields fell in 2019 from 2.68% to 1.91% on the ten-year Treasury. This significant drop in yields also caused credit spreads on investment grade corporates to tighten, driving up price returns. RiverFront believes that investors should only expect coupon income in 2020 and should not expect the price appreciation experienced in 2019. Given the unlikelihood of significantly lower rates, we have removed longer-duration, lower-yielding securities from the shorter time horizon portfolios.
    - **Short-Term High Yield**: This asset class offers approximately 300 basis points in additional yield, relative to Investment Grade Corporates, while shortening duration by almost 6 years as interest rates are expected to rise over the next 3-5 years. The incremental yield pickup is additive to returns across all time frames as long as the economy stays out of recession as we expect.
    - **Treasury Inflation Protected Securities (TIPS):** TIPS were also added to the allocations of Conservative Income Builder and Moderate Growth & Income to help mitigate inflation eroding the

purchasing power of investments. We believe that current market inflation expectations, as represented by breakeven rates of 1.63% over the next five years are too low, and we modeled average inflation of 2.50% over the time horizon of the portfolios.

- **Treasuries:** We added Treasuries in the shorter time horizon portfolios to act as potential shock absorbers to any market drawdowns. Our shorter portfolios have some simulation outcomes that are negative, so it is important to add an allocation to an asset class that is defensive and mitigates potential losses in a worse-case scenario. In the longer horizon portfolios, there were no negative outcomes at the horizon and therefore the use of Treasuries as shock absorbers is not needed.

rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

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

Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

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.

In a rising interest rate environment, the value of fixed-income securities generally declines.

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher rated securities.

Treasury Inflation Protected Securities (TIPS) are Treasury securities that are indexed to inflation in an effort to protect investors from the negative effects of inflation. The principal value of TIPS is periodically adjusted according to the rate of inflation as measured by the Consumer Price Index (CPI), while the interest rate remains fixed. TIPS will decline in value when real interest rates rise. Portfolios that invest in TIPS are not guaranteed and will fluctuate in value. The Consumer Price Index (CPI) is an unmanaged index representing the rate of inflation in U.S. consumer prices as determined by the U.S. Bureau of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time. It is not possible to invest directly in an unmanaged index.

Index Definitions:

Bloomberg Barclays US Aggregate Bond Index (Barclays Agg) is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Standard & Poor's 500 Index (S&P 500) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

CRSP 1925 US Indices Database ©2019 Center for Research in Security Prices (CRSP®), Booth School of Business, The University of Chicago.Used as a source for cap-based portfolio research appearing in publications, and by practitioners for benchmarking, the CRSP Cap-Based Portfolio Indices Product data tracks micro, small, mid- and large-cap stocks on monthly and quarterly frequencies. This product is used to track and analyze performance differentials between size-relative portfolios. CRSP ranks all NYSE companies by market capitalization and divides them into ten equally populated portfolios. Alternext and NASDAQ stocks are then placed into the deciles determined by the NYSE breakpoints, based on market capitalization. The series of 10 indices are identified as CRSP 1 through CRSP 10, where CRSP 10 has the largest population and smallest market-capitalization. CRSP portfolios 1-2 represent large cap stocks, portfolios 3-5 represent mid-caps and portfolios 6-10 represent small caps.

The MSCI All Country World Index (MSCI ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

ICE BofAML US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of $1 billion for sovereigns and $250 million for agencies. "Global" securities (debt issued simultaneously in the eurobond and US domestic markets) and 144a securities qualify for inclusion in the Index. Subordinated US agency securities are excluded from the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Bills, inflation-linked debt and strips are also excluded from the Index; however, original issue zero *coupon bonds are included in the Index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.*

ICE BofAML 1-5 Year US Cash Pay High Yield Constrained Index contains all securities in The ICE BofAML US Cash Pay High Yield Index with a remaining term to final maturity less than 5 years but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis.

ICE BofAML US Inflation-Linked Treasury Index tracks the performance of US dollar denominated inflation-linked sovereign debt publicly issued by the US government in its domestic market. Qualifying securities must have at least 18 months to maturity at point of issuance, at least one year remaining term to final maturity, interest and principal payments tied to inflation and a minimum amount outstanding of $1 billion. Strips are excluded from the Index; however, original issue zero coupon bonds are included in the Index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index.

Asset Class Definitions:

Asset Class	***Indices***	
US Large Cap	*Large Cap Real Return Index, source CRSP*	*See definition above*
US Mid Cap	*Mid Cap Real Return Index, source CRSP*	*See definition above*
US Small Cap	*Small Cap Real Return Index, source CRSP*	*See definition above*
Developed International	*MSCI EAFE (IN US$) Real Total Return Index*	*The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.*
Developed International	*MSCI EAFE (IN LOCAL CURRENCY) Real Total Return Index*	*The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.*
Emerging Markets	*MSCI Emerging Market Equities Real Return Index*	*MSCI Emerging Markets Index measures equity market performance of emerging markets. The index consists of 23 countries representing 10% of world market capitalization.*
*Investment Grade Bonds**	*Bloomberg Barclays US AGG Bond TR USD*	*See definition above*
*High Yield Bonds**	*BofAML US HY Master II TR USD*	*BofAML US HY Master II TR USD is a measure of the broad high yield market. The index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.*
Japan	*MSCI Japan*	*The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 323 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.*
Europe	*MSCI Europe*	*The MSCI Europe Index represents the performance of large and mid-cap equities across 15 developed countries in Europe. It covers approximately 85% of the free float-adjusted market capitalization in each country.*
Treasuries	*G0A0 Treasury and Agency Index*	*The Merrill Lynch US Government Index tracks the performance of US government (i.e. securities in the Treasury and Agency indices)*
TIPS	*G0Q1 US Treasury Inflation Linked Index*	*The BofA Merrill Lynch US Inflation-Linked Treasury Index is an unmanaged index comprised of U.S. Treasury Inflation Protected Securities with at least $1 billion in outstanding face*

		value and a remaining term to final maturity of greater than one year.

It is not possible to invest directly in an index.

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.

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.

Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

RiverFront Investment Group, LLC, is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or expertise. 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.

RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated ("Baird"), a registered broker/dealer and investment adviser.