

TARGET ALLOCATION ETF MODELS



Allocations as of October 11th, 2017

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Key Takeaway: Signs point to continued global growth.

- **Emerging Market earnings currently have momentum.** Emerging Markets have had a terrific year, and yet we still foresee continued support from strong fundamentals. Recent changes in earnings estimates - our preferred guide for regional equity positioning - point to the region as the one with the most potential. Bottom line: We think the rally has room to run.
- **Even a neutral currency view still requires risk management.** The dollar's 2017 decline and recent rebound have dominated markets, but we prefer to avoid that volatility rather than predict where things go next. That said, even simply maintaining our current U.S. dollar exposure can require portfolio changes.
- **Higher-risk equities need fixed income to act as ballast.** We're cautious on duration, but still see treasuries as a key fixed income position. Particularly as we lean into attractive equity regions that come with more downside risk, it becomes important to ensure that the portfolios overall seek the right balance.



Trade Rationale

- **Asset Allocation:** We continue to prefer risk assets and remain overweight equity exposure relative to fixed income across the portfolios. Sustained economic expansion, relatively attractive risk premium versus bonds and strong corporate earnings growth reinforce our conviction in equities. Overall, we see a positive picture globally and believe a stable growth environment should contribute to the persistent low volatility regime.
- **U.S. Equities:** We remain overweight to the U.S. relative to other regions but are slightly reducing that overweight. We have seen a strong pickup in earnings momentum globally, and domestic valuations currently do not appear as attractive as their international counterparts. That said, U.S. forward earnings may be underestimated, as sell-side analysts have yet to account for potential tax reform. Within the U.S. we are maintaining exposure to momentum stocks and believe the expansionary environment should provide a continuing tailwind.
- **International Developed Equities:** We maintain a slight underweight to international developed equities relative to both U.S. and Emerging Market (EM) stocks. Within International Developed, we are shifting towards a larger allocation in currency-hedged equity. However, this should be viewed in the context of the larger portfolio, and the trade aims to simply maintain our current U.S. dollar exposure at the portfolio level.
- **Emerging Market Equities:** We have improved our outlook for emerging market equities, moving from a neutral to overweight position. EM equities have shown strong improvement in economic and earnings growth, and substantial current account surpluses. We believe the asset class could benefit disproportionately from an environment of sustained global growth. Additionally, the asset class currently exhibits cheap relative valuations. Dollar positioning elsewhere in the portfolio seeks to mitigate some of the potential downside risk EM may face from rising interest rates and policy normalization.
- **Fixed Income:** We continue to maintain a duration underweight across the portfolios, in anticipation of potentially further rises in yields over coming quarters. Inflation prints and market prices of inflation are lower than we think they will be on a go forward basis. Within fixed income we are taking some profits from investment grade and dollar EM bonds and moving that money into treasuries, on the back of the uptick yields of recent weeks. The portfolio's overall duration underweight remains intact. Note though that, for portfolios with higher equity, duration is close to neutral so that fixed income may act as a potential ballast in portfolios dominated by equity risk.



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Allocations as of October 11th, 2017

		Asset Allocation (% Equity / Fixed Income)										
		0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
												
U.S. Fixed Income		93.0%	80.0%	70.0%	60.0%	49.0%	40.0%	31.0%	22.0%	13.0%	5.0%	-
CIU	iShares Intermediate Credit Bond ETF	25.0%	25.0%	25.0%	23.0%	20.0%	18.0%	15.0%	8.0%	-	-	-
CSJ	iShares 1-3 Year Credit Bond ETF	2.0%	-	-	-	-	-	-	-	-	-	-
HYG	iShares iBoxx \$ High Yield Corporate Bond ETF	16.0%	12.0%	5.0%	3.0%	-	-	-	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	17.0%	15.0%	13.0%	13.0%	13.0%	11.0%	7.0%	6.0%	5.0%	3.0%	-
LQD	iShares iBoxx \$ Investment Grade Corporate Bond ETF	6.0%	6.0%	7.0%	6.0%	6.0%	4.0%	3.0%	2.0%	2.0%	-	-
MBB	iShares MBS ETF	10.0%	9.0%	8.0%	5.0%	2.0%	-	-	-	-	-	-
NEAR	iShares Short Maturity Bond ETF (Active)	12.0%	9.0%	7.0%	6.0%	6.0%	5.0%	4.0%	4.0%	4.0%	-	-
TIP	iShares TIPS Bond ETF	2.0%	2.0%	3.0%	2.0%	-	-	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	-
International Fixed Income		7.0%	7.0%	7.0%	6.0%	6.0%	5.0%	4.0%	3.0%	2.0%	-	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	7.0%	7.0%	7.0%	6.0%	6.0%	5.0%	4.0%	3.0%	2.0%	-	-
U.S. Equity		-	11.0%	19.0%	24.0%	32.0%	37.0%	43.0%	49.0%	56.0%	63.0%	67.0%
IJH	iShares Core S&P Mid-Cap ETF	-	-	2.0%	2.0%	2.0%	4.0%	5.0%	6.0%	6.0%	8.0%	9.0%
IJR	iShares Core S&P Small-Cap ETF	-	-	-	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	5.0%	5.0%
IVE	iShares S&P 500 Value ETF	-	-	-	-	-	-	3.0%	6.0%	9.0%	12.0%	13.0%
IVV	iShares Core S&P 500 ETF	-	6.0%	9.0%	14.0%	22.0%	23.0%	25.0%	24.0%	25.0%	24.0%	25.0%
IVW	iShares S&P 500 Growth ETF	-	-	-	-	-	-	-	3.0%	6.0%	9.0%	10.0%
MTUM	iShares Edge MSCI USA Momentum Factor ETF	-	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
USMV	iShares Edge MSCI Min Vol USA ETF	-	3.0%	6.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
International Equity		-	2.0%	4.0%	10.0%	13.0%	18.0%	22.0%	26.0%	29.0%	32.0%	33.0%
HEFA	iShares Currency Hedged MSCI EAFE ETF	-	-	2.0%	4.0%	6.0%	8.0%	10.0%	11.0%	13.0%	13.0%	13.0%
IEFA	iShares Core MSCI EAFE ETF	-	-	-	2.0%	3.0%	3.0%	2.0%	4.0%	5.0%	7.0%	8.0%
IEMG	iShares Core MSCI Emerging Markets ETF	-	2.0%	2.0%	4.0%	4.0%	7.0%	10.0%	11.0%	11.0%	12.0%	12.0%

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Allocation Changes

Since last trade of July 5th, 2017

		Asset Allocation (% Equity / Fixed Income)										
		0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
U.S. Fixed Income		+4.0%	+3.0%	+5.0%	+3.0%	+1.0%	+1.0%	-	+1.0%	+1.0%	-	-
CIU	iShares Intermediate Credit Bond ETF	-	-	-	-	-	+1.0%	-	+1.0%	-	-	-
CSJ	iShares 1-3 Year Credit Bond ETF	-2.0%	-3.0%	-	-	-	-	-	-	-	-	-
HYG	iShares iBoxx \$ High Yield Corporate Bond ETF	+3.0%	+3.0%	-	-	-	-	-	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	+2.0%	+3.0%	+4.0%	+4.0%	+3.0%	+3.0%	+2.0%	+2.0%	+3.0%	+3.0%	-
LQD	iShares iBoxx \$ Investment Grade Corporate Bond ETF	-	-	-	-1.0%	-2.0%	-3.0%	-2.0%	-2.0%	-2.0%	-3.0%	-
MBB	iShares MBS ETF	-	-	-	-	-	-	-	-	-	-	-
NEAR	iShares Short Maturity Bond ETF	+1.0%	-	+1.0%	-	-	-	-	-	-	-	-
TIP	iShares TIPS Bond ETF	-	-	-	-	-	-	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF	-	-	-	-	-	-	-	-	-	-	-
International Fixed Income		-4.0%	-3.0%	-3.0%	-2.0%	-1.0%	-1.0%	-	-1.0%	-1.0%	-	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	-4.0%	-3.0%	-3.0%	-2.0%	-1.0%	-1.0%	-	-1.0%	-1.0%	-	-
U.S. Equity		-	-	-2.0%	-3.0%	-1.0%	-3.0%	-4.0%	-4.0%	-4.0%	-3.0%	-3.0%
IJH	iShares Core S&P Mid-Cap ETF	-	-	-	-	-	-	-	+1.0%	-	-	-
IJR	iShares S&P Small-Cap ETF	-	-	-	-	-	-	-	-	-	-	-
IVE	iShares S&P 500 Value ETF	-	-	-	-	-	-	-	-	-1.0%	-	-1.0%
IVV	iShares Core S&P 500 ETF	-	-	-2.0%	-2.0%	-	-2.0%	-	-1.0%	-	-1.0%	-
IVW	iShares S&P 500 Growth ETF	-	-	-	-	-	-	-2.0%	-2.0%	-3.0%	-2.0%	-2.0%
MTUM	iShares Edge MSCI USA Momentum Factor ETF	-	-	-	-	-	-	-	-	-	-	-
USMV	iShares Edge MSCI Min Vol USA ETF	-	-	-	-1.0%	-1.0%	-1.0%	-2.0%	-2.0%	-	-	-
International Equity		-	-	-	+2.0%	+1.0%	+3.0%	+4.0%	+4.0%	+4.0%	+3.0%	+3.0%
HEFA	iShares Currency Hedged MSCI EAFE ETF	-	-2.0%	-	-1.0%	-2.0%	-	+2.0%	+2.0%	+4.0%	+3.0%	+3.0%
IEFA	iShares Core MSCI EAFE ETF	-	-	-	+2.0%	+3.0%	+1.0%	-2.0%	-3.0%	-4.0%	-4.0%	-4.0%
IEMG	iShares Core MSCI Emerging Markets ETF	-	+2.0%	-	+1.0%	-	+2.0%	+4.0%	+5.0%	+4.0%	+4.0%	+4.0%

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