

TARGET ALLOCATION ETF MODELS



Allocations as of January 16th, 2018

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Key Takeaway: The risk rally may have room to run.

- **U.S. earnings are outpacing analyst estimate revisions.** Analysts have improved their outlook for 2018 earnings, but in our opinion, they have further to go to account for tax reform, increasing confidence, and strong 2017 earnings. We believe growth prospects for the U.S. and Emerging Markets (EM) lead those of non-U.S. developed regions.
- **We like a diversified style, not a defensive one.** We're leaning into the risk-on theme by aligning style tilts with our growth outlook. Momentum and cyclical stocks are both consistent with our bullish view, but also different enough that each may help to diversify the other.
- **Lower corporate tax rates are a potential tailwind for investment grade bonds.** The deduction of debt interest by U.S. corporations may have relatively less benefit in a world with lower tax rates, and the net result may be a reduction in debt issued. Basic supply and demand suggests that diminished corporate bond issuance should support corporate bond prices.

Trade Rationale

- **Asset Allocation:** We prefer risk assets and remain overweight equity exposure relative to fixed income across the portfolios. The economic picture currently appears strong globally and has yet to exhibit the signs of imbalances that might suggest an imminent contraction. The ongoing impact of tax reform and deregulation is a boost to the confidence and spending of U.S. businesses and consumers. Positive feedback between liquid capital markets, confidence, and increases in growth is firmly in place.
- **U.S. Equities:** We are modestly increasing our overweight to the U.S. Although the immediate impact of tax reform on reported earnings could be an increase in one-time charges, we are positioning for upward revisions to 2018 estimates that we believe analysts have yet to fully bake in. Within the U.S. we favor a modest increase in momentum stocks, and we remain overweight mid and small cap stocks. This combination provides two slightly different approaches to playing our pro-growth theme. The combined effect on industry sector positioning is close to neutral.
- **International Developed Equities:** We are moving further underweight international developed equities relative to both U.S. and EM stocks. Although growth currently appears strong globally, we see the earnings outlook in developed international equities as weak relative to the other two regions. This allocation shift is being implemented by way of a reduction in currency-hedged equity, with the intent of maintaining current portfolio-level U.S. dollar exposure.
- **Emerging Market Equities:** We are maintaining our overweight position to EM stocks across all portfolios. EM equities may stand to benefit from what is now strong, synchronized global growth. Additionally, many of these economies now show substantial current account surpluses and solid balance sheets. We are keeping our overweight reasonably modest, and believe that it complements the U.S. overweight.
- **Fixed Income:** We are leaning further into corporate credit exposures across most portfolios. This is consistent with our overall bullish outlook, along with our view that the recently passed tax bill is likely to reduce issuance, and this could be a source of price support. Meanwhile, the end of the Federal Reserve's repurchase program should increase net available supply of treasuries and agency mortgage-backed securities vs. last year. We continue to maintain a duration underweight across the portfolios.



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Allocations as of January 16th, 2018

		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		86.0%	74.0%	66.0%	56.0%	46.0%	38.0%	31.0%	22.0%	13.0%	5.0%	-
CIU	iShares Intermediate Credit Bond ETF	25.0%	25.0%	25.0%	22.0%	18.0%	16.0%	13.0%	6.0%	-	-	-
GOVT	iShares U.S. Treasury Bond ETF	6.0%	6.0%	5.0%	4.0%	3.0%	3.0%	3.0%	2.0%	-	-	-
HYG	iShares iBoxx \$ High Yield Corporate Bond ETF	12.0%	8.0%	5.0%	3.0%	-	-	-	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	10.0%	7.0%	5.0%	5.0%	5.0%	3.0%	-	-	-	-	-
LQD	iShares iBoxx \$ Investment Grade Corporate Bond ETF	9.0%	10.0%	11.0%	11.0%	12.0%	10.0%	7.0%	6.0%	5.0%	2.0%	-
MBB	iShares MBS ETF	10.0%	7.0%	5.0%	3.0%	2.0%	-	-	-	-	-	-
NEAR	iShares Short Maturity Bond ETF (Active)	12.0%	9.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	3.0%	-
TIP	iShares TIPS Bond ETF	2.0%	2.0%	3.0%	2.0%	-	-	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF	-	-	-	-	-	-	2.0%	2.0%	2.0%	-	-
International Fixed Income		14.0%	13.0%	11.0%	10.0%	9.0%	7.0%	4.0%	3.0%	2.0%	-	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	14.0%	13.0%	11.0%	10.0%	9.0%	7.0%	4.0%	3.0%	2.0%	-	-
U.S. Equity		-	11.0%	17.0%	25.0%	33.0%	39.0%	45.0%	51.0%	58.0%	65.0%	69.0%
IJH	iShares Core S&P Mid-Cap ETF	-	2.0%	2.0%	2.0%	2.0%	4.0%	5.0%	6.0%	8.0%	9.0%	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%	5.0%	6.0%	8.0%	9.0%
IVV	iShares Core S&P 500 ETF	-	4.0%	7.0%	14.0%	20.0%	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%	3.0%	5.0%	5.0%	5.0%	6.0%	6.0%	8.0%	9.0%
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%	6.0%	9.0%	12.0%	16.0%	20.0%	24.0%	27.0%	30.0%	31.0%
HEFA	iShares Currency Hedged MSCI EAFE ETF	-	-	2.0%	2.0%	3.0%	5.0%	8.0%	9.0%	11.0%	11.0%	11.0%
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%	4.0%	5.0%	6.0%	8.0%	10.0%	11.0%	11.0%	12.0%	12.0%

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Allocation Changes

Since last trade 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		-7.0%	-6.0%	-4.0%	-4.0%	-3.0%	-2.0%	-	-	-	-	-
CIU	iShares Intermediate Credit Bond ETF	-	-	-	-1.0%	-2.0%	-2.0%	-2.0%	-2.0%	-	-	-
CSJ	iShares 1-3 Year Credit Bond ETF	-2.0%	-	-	-	-	-	-	-	-	-	-
GOVT	iShares U.S. Treasury Bond ETF	+6.0%	+6.0%	+5.0%	+4.0%	+3.0%	+3.0%	+3.0%	+2.0%	-	-	-
HYG	iShares iBoxx \$ High Yield Corporate Bond ETF	-4.0%	-4.0%	-	-	-	-	-	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	-7.0%	-8.0%	-8.0%	-8.0%	-8.0%	-8.0%	-7.0%	-6.0%	-5.0%	-3.0%	-
LQD	iShares iBoxx \$ Investment Grade Corporate Bond ETF	+3.0%	+4.0%	+4.0%	+5.0%	+6.0%	+6.0%	+4.0%	+4.0%	+3.0%	+2.0%	-
MBB	iShares MBS ETF	-	-2.0%	-3.0%	-2.0%	-	-	-	-	-	-	-
NEAR	iShares Short Maturity Bond ETF (Active)	-	-	-	-	-	+1.0%	+2.0%	+2.0%	+2.0%	+3.0%	-
TIP	iShares TIPS Bond ETF	-	-	-	-	-	-	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF	-3.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-	-	-	-2.0%	-
International Fixed Income		+7.0%	+6.0%	+4.0%	+4.0%	+3.0%	+2.0%	-	-	-	-	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	+7.0%	+6.0%	+4.0%	+4.0%	+3.0%	+2.0%	-	-	-	-	-
U.S. Equity		-	-	-2.0%	+1.0%	+1.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%	+2.0%
IJH	iShares Core S&P Mid-Cap ETF	-	+2.0%	-	-	-	-	-	-	+2.0%	+1.0%	-
IJR	iShares Core S&P Small-Cap ETF	-	-	-	-	-	-	-	-	-	-	-
IVE	iShares S&P 500 Value ETF	-	-	-	-	-	-	-	-1.0%	-3.0%	-4.0%	-4.0%
IVV	iShares Core S&P 500 ETF	-	-2.0%	-2.0%	-	-2.0%	-	-	-	-	-	-
IVW	iShares S&P 500 Growth ETF	-	-	-	-	-	-	-	-	-	-	-
MTUM	iShares Edge MSCI USA Momentum Factor ETF	-	-	-	+1.0%	+3.0%	+2.0%	+2.0%	+3.0%	+3.0%	+5.0%	+6.0%
USMV	iShares Edge MSCI Min Vol USA ETF	-	-	-	-	-	-	-	-	-	-	-
International Equity		-	-	+2.0%	-1.0%	-1.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
HEFA	iShares Currency Hedged MSCI EAFE ETF	-	-	-	-2.0%	-3.0%	-3.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
IEFA	iShares Core MSCI EAFE ETF	-	-	-	-	-	-	-	-	-	-	-
IEMG	iShares Core MSCI Emerging Markets ETF	-	-	+2.0%	+1.0%	+2.0%	+1.0%	-	-	-	-	-

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