



# Scale your practice with Model Portfolios

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# We believe wealth management is being redefined in the marketplace

Wealth Management is undergoing a structural, historical shift driven by new regulation like DOL, changing demographics, and technological advances and will be redefined in the marketplace.

Heightened regulatory environment



DOL Fiduciary Rule Officially Kicks In June 9

SEC Approves FINRA, MSRB Rules On Markup Disclosures

Digital advice has exploded and proliferated across the U.S.

Will Robo-Advisors Disrupt Conventional Wealth Management?

Robo-advisors: The future of investing or the latest financial craze?

ETF Growth is Massive

- Launched in 1993, ETFs reached more than \$3.5 trillion in assets globally in 2016<sup>1</sup>
- US ETF AuM has grown 10x since 2004 and 2x since 2012<sup>1</sup>

Changing demographics and client needs

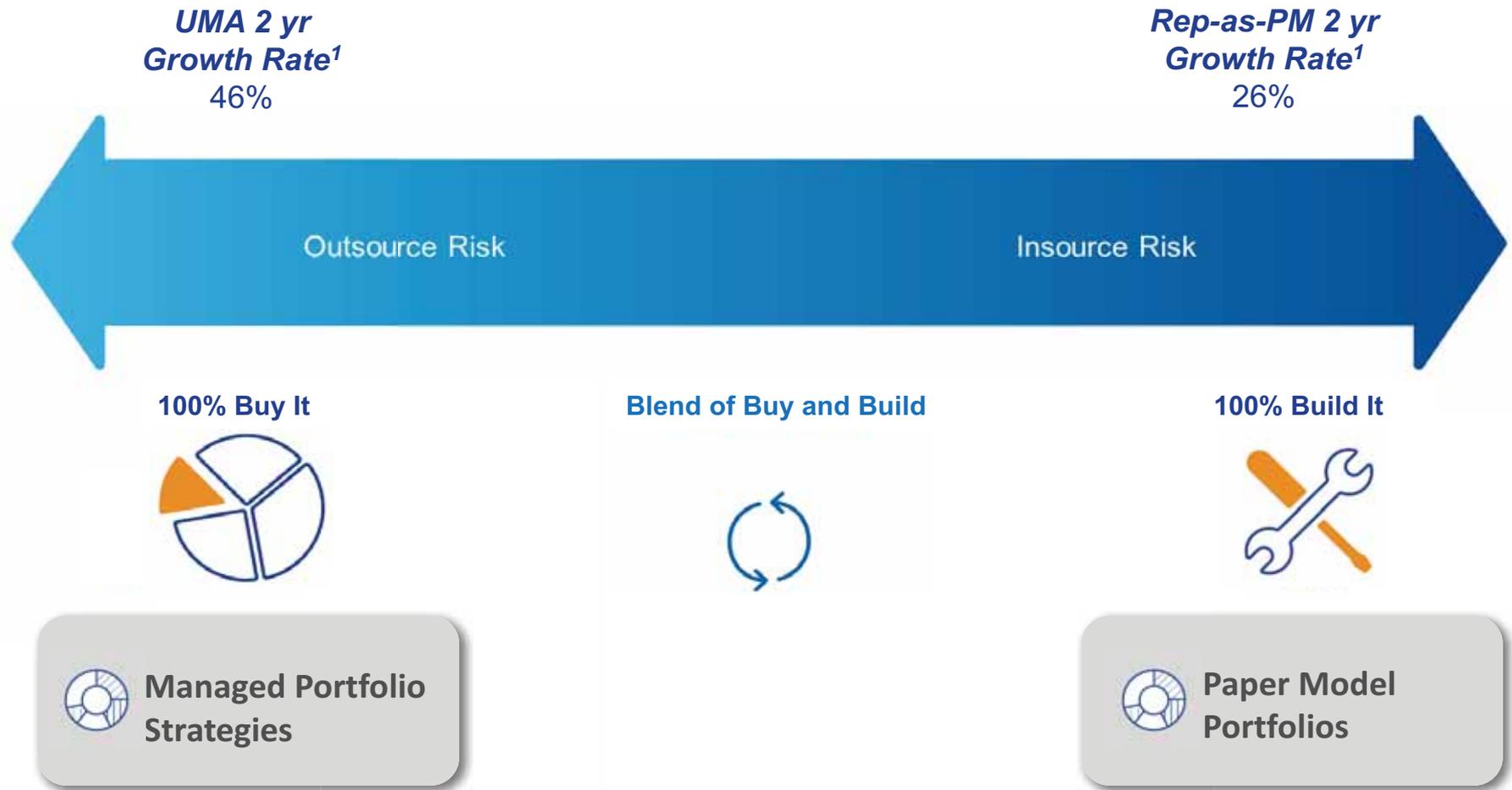
- 50% of investors will outlive their money<sup>2</sup>
- \$13tr may be in motion as Baby Boomers consolidate assets<sup>2</sup>

Holistic wealth management value proposition

- |                                    |                        |
|------------------------------------|------------------------|
| 1. Understand Client Tax Situation | 5. Insurance           |
| 2. Estate Planning                 | 6. Debt Management     |
| 3. Investment Management           | 7. Education Modeling  |
| 4. Retirement Planning             | 8. Net Worth Statement |

<sup>1</sup> Source: Data is as of December 31, 2016 for Europe and December 31, 2015 for the US, Canada, Latin America, and some Asia ETPs. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg, as well as BlackRock internal sources, for the US, Canada, Europe, Latin America and some ETPs in Asia. For Middle East and Africa, assets and net flows data is not available. <sup>2</sup> source USA Today as of 9/2014: <https://www.usatoday.com/story/money/personalfinance/2014/09/24/investors-fear-outliving-retirement-savings/16095591>.

# In fee based advisory advisors barbell between OCIO and Rep-as-PM



For illustrative purposes only.

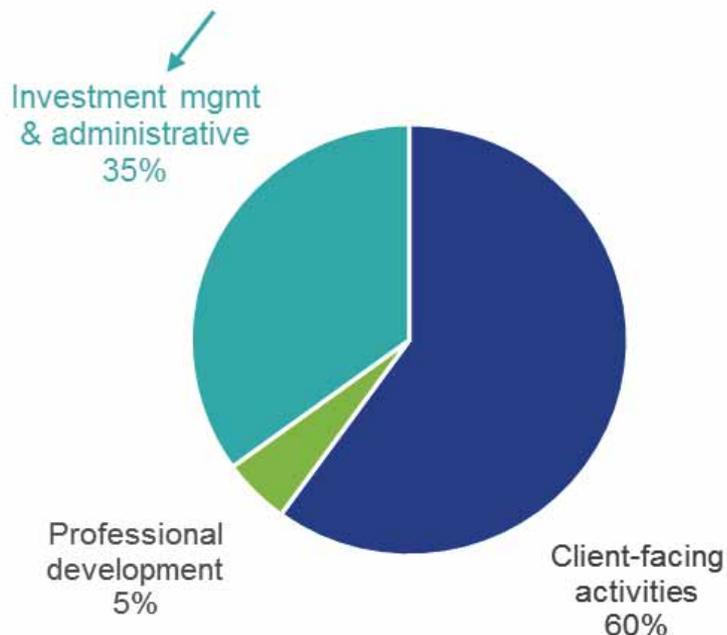
1. Source: Cerulli as of 12/31/16. Definitions: UMA: unified managed account; Rep-as-PM: through which advisers take a step beyond recommending asset allocations and general investment strategies to actually take full discretion over client assets.

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# More time to focus on client relationships

Streamlining your investment practice can earn 400 hours a year for client service/acquisition

Cutting this time in half =  
**~8 hours / week**  
 more to spend on clients & prospects\*



Client acquisition grew AUM  
**23% more**  
 than outperformance alone



\*Source: Cerulli, "U.S. Retail Investor Advice Relationships 2015;" BlackRock. Time savings estimation assumes a 45 hour work week (17.5% x 45 hours).

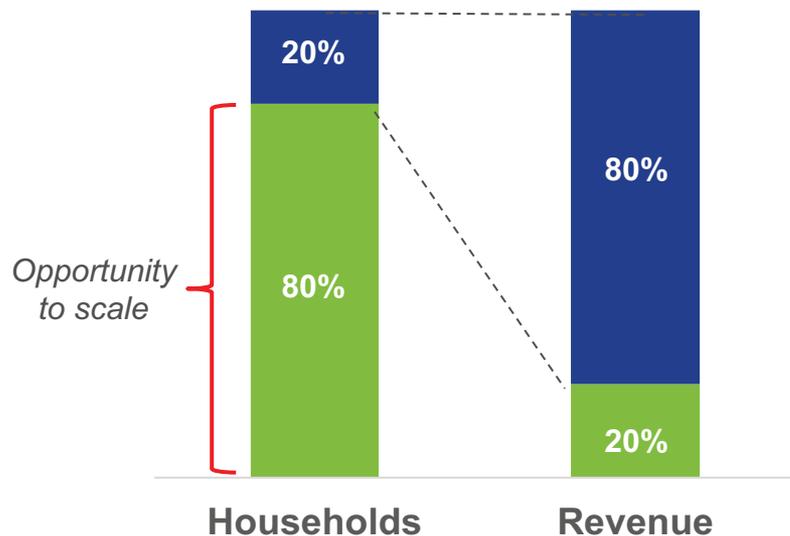
Source: Morningstar, BlackRock. **Past performance is no guarantee of future results.** Market performance assumptions based on the average of yearly returns of a 60/40 portfolio 2007 to 2016, represented by 60% S&P 500 Index and 40% BBG Barclays Aggregate Bond Index. For illustrative purposes only. It is not possible to invest directly in an unmanaged index.

# Potential to free-up time by embracing a models-based practice

## What is your process for delivering a consistent investment experience?

*Efficiently deliver a consistent investment experience to the “80%” of clients that typically generate only 20% of revenue may better position you to grow while potentially reducing risk.<sup>1</sup>*

*Advisors who have adopted a models-based business are more productive.<sup>2</sup>*



**3x** Asset Growth

**4x** New Assets

**9x** Productive Growth

**12x** Loan Originations

1. Source: Based on the commonly used 80/20 principle, more formally known as “the Pareto Principle” from Joseph M Juran’s “Quality Control Handbook.”

2. Source: Wells Fargo 2016 Investor Day, data as of 12/31/2015.

## Access BlackRock's asset allocation guidance – [blackrock.com/models](https://blackrock.com/models)

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# BlackRock Model Portfolios

BlackRock Model Portfolios can enhance an advisor's portfolio construction process with low-cost, asset-allocated portfolios tailored to a range of client objectives.

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Use our models to help free up time and grow your business

-  Scale and simplify your practice
-  Implement cost-effective portfolios across risk-profiles
-  Strengthen your practice with a defined investment process

Screenshots are for illustrative purposes only.

# Helping you scale your practice

## Tactical Updates give Advisors a repeatable, disciplined investment process

### I. Market commentary

QUARTERLY COMMENTARY

TARGET ALLOCATION ETF MODELS

BLACKROCK

Q4 2017 Allocation

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**Key Takeaway:** Signs point to continued global growth.

- Emerging Market earnings continue to have momentum. Emerging Markets have had a terrific year, and we will continue to support them along fundamental, thematic changes to earnings allocation - our preferred guide for regional equity positioning - as well as the region as the one with the most potential. Bottom line: We love the rally but we're not in a rush.
- Even a level of currency skew still requires risk management. The dollar's 2017 volatility and record rebound from depressed markets, but we prefer to avoid that volatility rather than avoid when things go bad. 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 love Treasuries as a key fixed income product. Particularly as we face risk-averse equity regions that come with more downside risk, it becomes important to ensure that the portfolio overall has the right balance.

**A strong push to improve investment outcomes via conversion on equities.**

Relative value, earnings momentum, and the structural growth thesis are the primary drivers of our conversion on equities. We continue to see a strong case for conversion on equities, as we believe the market is currently overvalued and the potential for a strong rebound is high. We continue to see a strong case for conversion on equities, as we believe the market is currently overvalued and the potential for a strong rebound is high.

**But we are favoring higher risk equity exposure with Treasuries.**

While we continue to maintain an overweight in duration across the portfolio, we expect it's important to maintain exposure to quality Treasuries - as measured by their relative negative correlation with stock prices - as a hedge to the portfolio in the event of a market shock. We continue to favor higher risk equity exposure with Treasuries, as we believe the market is currently overvalued and the potential for a strong rebound is high.

Year-over Year % Change in Return (Emerging Markets Relative to US)

Relationship between Emerging Market and US Returns

Recent Shocks: On 10/10/17, the dollar fell to a new low, and the S&P 500 fell to a new low. This was followed by a strong rebound in the S&P 500 and a decline in the dollar. This was followed by a strong rebound in the S&P 500 and a decline in the dollar.

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### II. Risk analysis

Risk Analysis

RISK CONTRIBUTION

These portfolios seek to provide a range of risk and return levels by diversifying across a wide variety of factors that can impact investments, such as financial value, credit spreads and foreign exchange. This chart averages BlackRock's proprietary risk management system - Riskfolio - to show the contribution of individual risk factors.

	9/16	10/16	11/16	12/16	1/17	2/17	3/17	4/17	5/17	6/17	7/17	8/17	9/17	10/17	11/17
Pure Risk	3.23%	1.08%	1.24%	0.49%	0.11%	-0.11%	-0.21%	-0.21%	-0.21%	-0.21%	-0.21%	-0.21%	-0.21%	-0.21%	-0.21%
Credit Risk	0.02%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
FX Risk	-	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%
Equity Risk	-	0.04%	2.21%	3.86%	5.47%	6.94%	8.25%	9.73%	11.08%	12.44%	13.76%	-	-	-	-
Other Risk	-0.01%	0.01%	0.04%	0.05%	-	-0.01%	-	-0.01%	-	-	-	-	-	-	-
Total Standard Deviation	3.24%	3.01%	4.11%	5.17%	6.21%	7.02%	8.03%	9.08%	10.28%	11.08%	12.44%	13.76%	-	-	-

**RISK EXPOSURES - BETAS**

Betas for these portfolios are estimated based on underlying fund holdings and risk factor exposures. They are intended to provide a general sense of the portfolio's relative risk exposure to various risk factors. A positive beta indicates a tendency for co-movement with the benchmark, while a negative beta indicates that the portfolio and the benchmark tend to move in opposite directions.

	9/16	10/16	11/16	12/16	1/17	2/17	3/17	4/17	5/17	6/17	7/17	8/17	9/17	10/17
Return to 10-Year Treasury Rates	-0.08	-0.49	-1.76	-0.88	0.31	1.44	2.37	3.08	4.08	5.74	6.81	-	-	-
Return to 2-Year Inflation Expectations	-0.28	1.22	1.40	2.39	3.10	3.71	4.27	4.98	5.87	6.88	8.30	-	-	-
Beta to Investment Grade Credit Spread	2.08	-1.85	-0.02	-0.02	-0.05	-0.03	-0.02	-0.11	-0.11	-0.11	-0.11	-0.11	-0.11	-0.11
Beta to S&P 500 Index	0.21	0.15	0.24	0.36	0.47	0.58	0.69	0.78	0.86	1.01	1.08	-	-	-
Beta to USDCB (US Dollar Commodity Index)	-0.18	-0.16	-0.22	-0.33	-0.38	-0.49	-0.57	-0.68	-0.75	-0.83	-0.90	-	-	-

Past performance does not guarantee future results. For further information on the Risk Contribution and Risk Exposures, please see the end of this document. This information should not be relied upon as investment advice, research, or a recommendation by BlackRock regarding (i) the Funds, (ii) the use or suitability of the model portfolio or (iii) any security in particular. Only an investor and their financial advisor have enough about their circumstances to make an investment decision.

### III. Trade Rationale and Performance Highlights

Trade Rationale

- Asset Allocation:** We continue to prefer risk assets and remain overweight equity exposure relative to fixed income across the portfolio. Sustained economic expansion, relatively attractive risk premium versus bonds and strong corporate earnings growth continue to be attractive in equities. Overall, we see a positive global growth 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 push 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 active doublets have yet to account for potential tax reform. While the U.S. we are maintaining exposure to momentum stocks and believe the supplementary environment should provide a continuing tailwind.
- International Developed Equities:** We maintain a slight overweight to international developed equities relative to both U.S. and Emerging Market (EM) equities. Within International Developed, we are adding towards a larger allocation in Germany-weighted equity. However, we should be viewed in the context of the larger portfolio, and the trade seems to already exist in U.S. dollar exposure in the portfolio.
- Emerging Market Equities:** We have improved our outlook for emerging market equities, moving from a neutral to overweight position. EM equities have shown strong momentum globally and domestic valuations are attractive. We believe the most likely scenario is that emerging market equities will continue to outperform global growth. Additionally, the event could potentially drive relative valuations. Global positioning elsewhere in the portfolio seems to mitigate some of the potential downside risk EM may face from higher interest rates and policy normalization.
- Fixed Income:** We continue to maintain a duration underweight across the portfolio, in anticipation of potentially further rises in yields over coming quarters. Shorter term and higher price of interest rate lower than we think they will be in a go forward basis. Short-term fixed income we are taking some profits from investment grade and dollar CEF funds and moving that money into Treasuries, on the back of the upside yields of recent weeks. The portfolio's overall duration underweight remains intact. Note though that, for portfolio with higher equity, duration is more in line with total fixed income but not as positive a factor in portfolio dominated by equity risk.

Performance Highlights

Continued economic expansion and positive earnings momentum resulted in yet another positive quarter for risk assets. Despite an increase in geopolitical tensions, volatility remained low (especially low levels). Consistent with the environment, performance was positive across all of the models with the equity heavy portfolios posting higher absolute returns.

Our broad overweight to equity continued to be the primary driver of return across the portfolio. Within equities our regional overweight to the U.S. was the main contributor supported by strong corporate earnings and macroeconomic data. In particular, the portfolio was able to allocate to high-growth and momentum stocks. We maintained a neutral position to emerging markets which also benefited performance as the region continued to advance. However, a moderate underweight to international developed equities slightly detracted from portfolio returns.

While fixed income, an overweight to credit assets and the predominant contributor to return due to the risk on sentiment fell (credit to subprime, government bonds). Specifically, our exposure to U.S. dollar denominated emerging market debt and high yield bonds were (positive) contributors.

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For illustrative purposes only.

# BlackRock Model Portfolios

## Our value proposition

Investment expertise simply delivered

### Diversified, Cost-Effective Portfolios

Adapt to changing market environments, leveraging low-cost, tax-efficient ETFs

### Institutional Capabilities to Individual Investors

Focus on consistency of results by leveraging BlackRock's sophisticated risk analytics and technology

### A Range of Outcomes

Offer a comprehensive model suite and resources to serve as your one-stop-shop for portfolio needs

# BlackRock Model Portfolios Menu

Growth

## TARGET ALLOCATION Comprehensive, Long-term Asset Allocation Strategies

- Total return strategy built as a foundational portfolio or as a complement to existing holdings
- 11 Mutual Fund & ETF or all-ETF portfolios across the risk spectrum with exposure to a broad array of asset classes and sectors



## LONG HORIZON Low Turnover, Long-term Asset Allocation Strategies

- Total return strategy built for the long-term investor
- 11 all-ETF portfolios across the risk spectrum with exposure to a broad array of asset classes and sectors



## TARGET ALLOCATION ESG Comprehensive, Long-term Asset Allocation Strategies with a strong ESG focus

- Total return strategy built with an extensive focus on companies that exhibit positive environmental, social, and governance (ESG) characteristics



Income

## TARGET INCOME Seek Consistent Income Targets with Downside Risk Protection

- Fixed income portfolios seeking a superior risk-return profile vs. the Bloomberg Barclays U.S. Aggregate Bond Index



## FOCUSED INCOME Seek Attractive Income and Protection Against Downside Risks

- Multi-asset portfolios designed to generate income, while seeking to protect against specific risks



# BlackRock Model Portfolios

## Our investment process

### Enhance Diversification

▶ Seek to reduce risk associated with investment goal

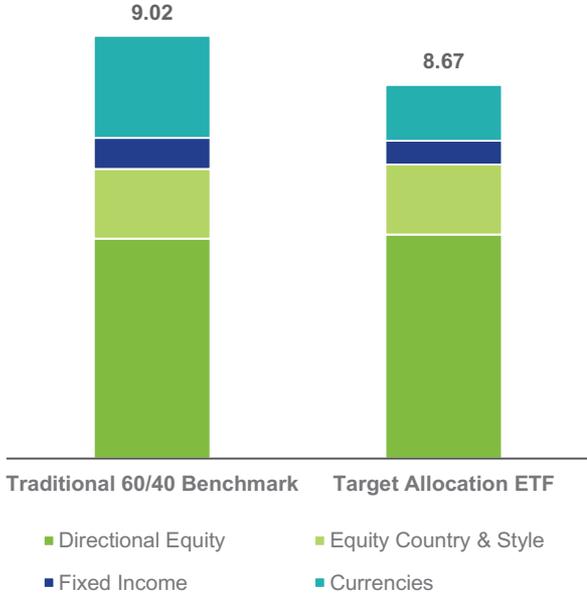
### Tilt Toward Relative Value

▶ Take risk where we have the potential for reward

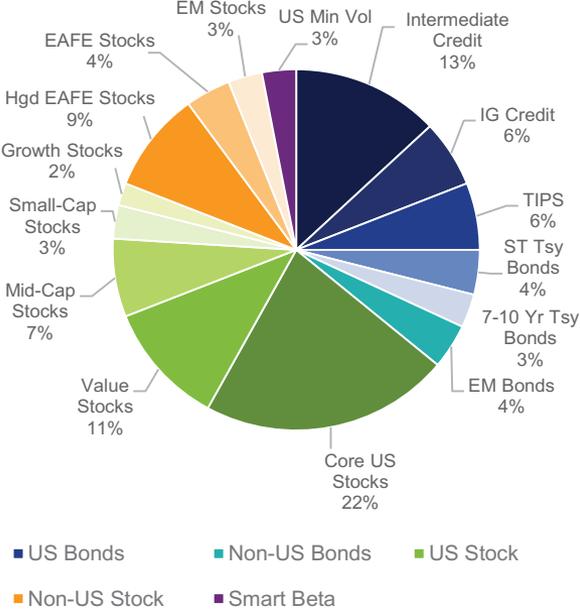
### Manage Downside Risk

▶ Assess and seek protection from downside risks in changing markets

Risk Breakdown\*



Asset Allocation Illustrative Example



Allocation Ranges Illustrative Example



\*Source: BlackRock and BlackRock Aladdin Portfolio Builder, as of 12/31/16. Target Allocation ETF model represented by Target Allocation 60/40 ETF. Traditional 60/40 Benchmark: 42% MSCI ACWI Index; 18% MSCI U.S. Index; 40% U.S. Universal Bond Index. Reflects long-term, strategic position of the Target Allocation 60/40 ETF model. Risk breakdown represents standard deviation.

# Enhance Diversification

## A well-balanced diet

Thinking beyond asset classes can help enhance overall portfolio diversification

### Broad Universe



### Traditional Categories



### Most Basic Elements

#### Nutrients

<b>Fiber</b>	65%
<b>Protein</b>	25%
<b>Carbohydrates</b>	<1%
<b>Fat</b>	10%
<b>Sodium</b>	>1%

Domestic Equity  
 Diversified Credit  
 Small Cap  
 Event Driven  
 Synthetic Overlay  
 Smart Beta  
 Emerging Markets  
 ETFs  
 Loans  
 Energy  
 Real Estate  
 Large Cap  
 Farmland  
 REITs  
 Direct Lending  
 Risk Parity  
 TIPS  
 Private Equity  
 Cash  
 Core Fixed Income  
 Hedge Funds

#### Fund Investment Style

Value	Blend	Growth	
			Size
			Large
			Mid
			Small

#### Interest Rates

#### Inflation

#### Credit

#### Economic Growth

#### FX

#### Volatility

Factors are fundamental building blocks of investment returns

For illustrative purposes only.

# Tilt Toward Relative Value

## Currents beneath the surface

Combine top-down, bottom-up, and big data research to form relative value views

0-6 month horizon

1-3 year horizon

5-10 year horizon

**Sentiment**

**Economic**

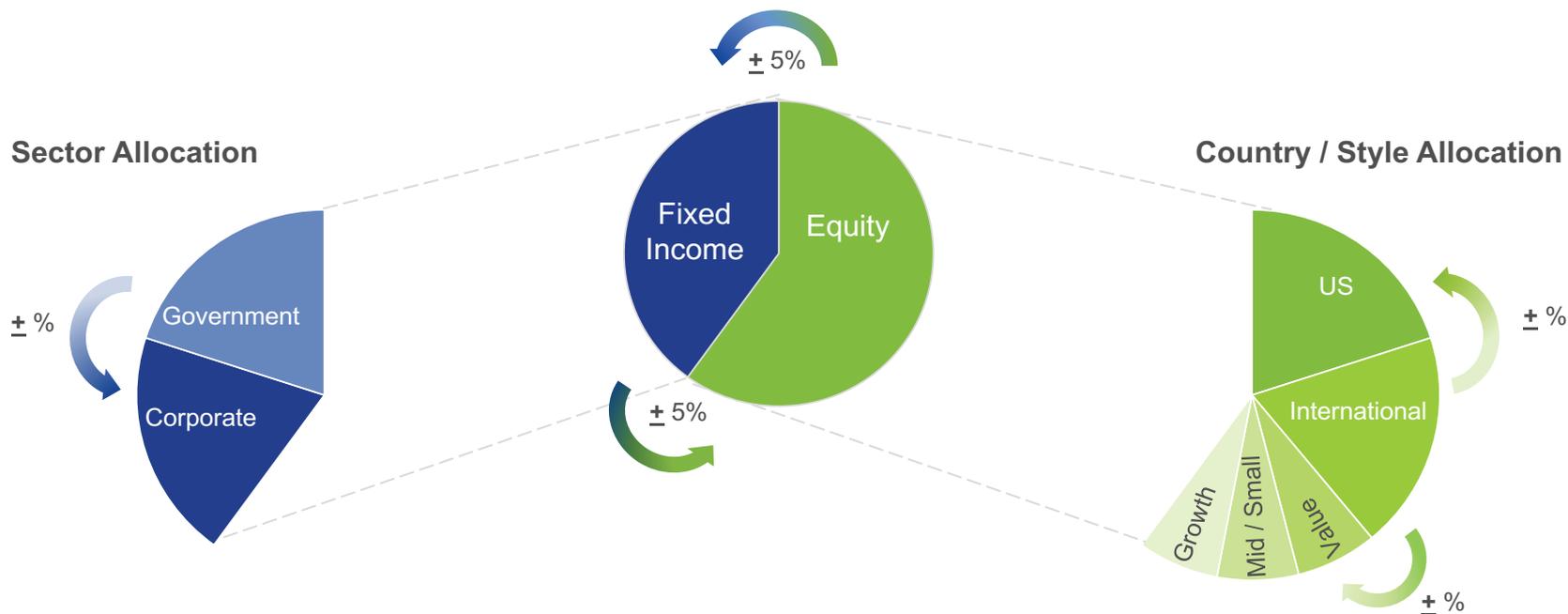
**Valuation**

- Higher frequency insights for risk-on/risk-off, market and style factors

- Fundamental economic momentum

- Equity risk premium
- Term risk premium
- Credit risk premiums

**Tactical Tilts**



For illustrative purposes only.

# Navigate Downside

## Built on industry-leading Aladdin® technology

Leveraging global insight, expertise, and sophisticated risk management & portfolio analytics

Risk & Quantitative Analysis Group

Aladdin® Platform

BlackRock Investment Institute

### Risk Evaluation

Understanding the risk exposures today

Risk decomposition to measure the contribution of every risk source

Portfolio	Exposures Date	Exposure Hierarchy	Program	NAV	CCR	2Y5 Block	Ratio
3LPEEP	9/13/2013	*GEN_A_DEFAULT	GEN	5,407,296,189	USD	250_BLOCK	9/13

Risk Group	Factor Level	Factor Val	Credit Beta	Exposure	Stand alone Risk	Risk Contribution
Equity		100%		400	100	100
Rate		100%		100	100	100
Foreign Exchange		100%		50	50	50
Spread		100%		50	50	50



Critical for day-to-day portfolio management

### Stress Testing

Quantifying potential risks of tomorrow

Stress tests to measure the impact of various market scenarios

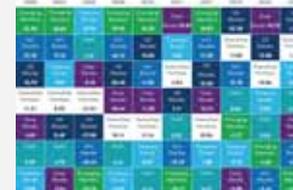


Helps enable appropriate asset allocation for various environments

### Monitoring & Rebalancing

Building a portfolio that can work through time

Asset class research to help provide diversification and reduce volatility



Can translate into a more robust optimized portfolio

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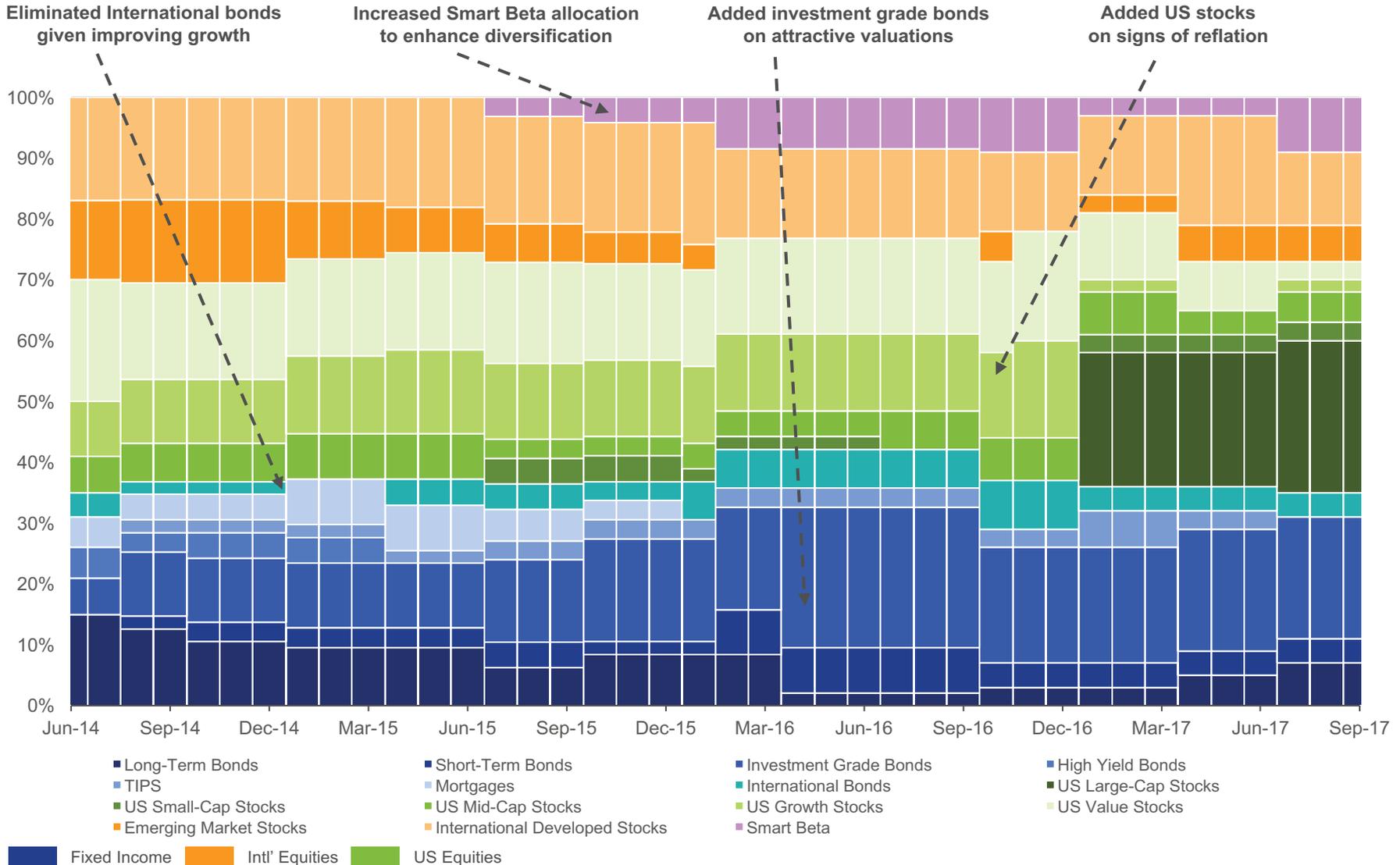
# Model Portfolio Solutions - Global Asset Class Views

<b>Equities vs. Fixed Income</b>	<b>Overweight</b>	Relative attractive risk premium and economic momentum suggest overweighting equities and underweighting bonds.
<b>U.S. Equities</b>	<b>Overweight</b>	Our outlook for forward earnings and the potential for tax reform are driving an overweight to the U.S.
<b>Non-U.S. Developed Equities</b>	<b>Underweight</b>	Valuations currently appear attractive on a relative basis, but the region does not look as promising as either Emerging Markets or the U.S. Prefer currency hedged exposure over local currency.
<b>Emerging Market Equities</b>	<b>Overweight</b>	Improvement in economic growth, attractive valuations, and fundamental momentum boosts our view on Emerging Market equities. In addition, we believe emerging economies will continue to benefit from global synchronized expansion.
<b>Large Cap Equities</b>	<b>Neutral</b>	No strong view on large versus small and mid cap at this time.
<b>Small/Mid Cap Equities</b>	<b>Neutral</b>	No strong view on large versus small and mid cap at this time.
<b>Smart Beta</b>	<b>Overweight</b>	A strategic (not tactical) stance rooted in the diversification potential of smart beta factors.
<b>U.S. Treasuries</b>	<b>Underweight</b>	Monetary policy is continuing to normalize globally, which, along with potential reappearing of rising core inflation in the remainder of the year, has the potential to raise rates across the U.S. Treasury curve.
<b>U.S. Investment Grade Credit</b>	<b>Overweight</b>	The search for yield continues globally and, despite recent narrowing, investment grade spreads are currently attractive relative to duration equivalent government bonds.
<b>High Yield Credit</b>	<b>Overweight</b>	Although credit spreads have narrowed, high yield offers attractive relative value and carry in the current environment relative to other assets within U.S. fixed income. Plus, credit conditions and liquidity in issuance markets currently appear favorable.
<b>Emerging Market Bonds (USD)</b>	<b>Overweight</b>	Despite recent narrowing of spreads, corporate earnings growth currently appears strong and the search for yield continues. However, commodity moves have not been supportive year-to-date and currency volatility is a risk.

Source: BlackRock, as of October 2017. Subject to change.

# Flexibility in practice

## Target Allocation 60/40 ETF Model Portfolio Historical Allocation Changes



Source: BlackRock As of 30 September 2017.

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