TRADE NOTICE

TARGET INCOME ETF MODELS

Allocations as of January 16th, 2018

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

- **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.
- **We remain shy on duration.** We do not buy into the conventional wisdom that globalization and technological advances have killed inflation. BlackRock's own GPS measure of inflation, which incorporates big data on price trends, suggests that prices are headed higher. Further, the end of the Federal Reserve's repurchase program should increase net available supply of treasuries and agency mortgage-backed securities vs. last year.

Trade Rationale

- Position changes: Recent curve flattening has created an opportunity to reduce risk while seeking yield in line with conservative income objective of the Core model. There we are reducing 7-10 year treasuries and moving into 3-7 year treasuries. The High and Aggressive models, following good performance and compression in their portfolio yields this quarter, are adding to U.S. Dollar Emerging Market (EM) debt, which we favor as a source of high yield spread over treasuries, in order to add to portfolio yield potential.
- Positioning: The portfolios remain defensively positioned with respect to interest rate risk. We are increasingly of the view that upside risks to inflation are not being sufficiently discounted by the market, which has yet to buy into the notion of even three rate hikes this year. We see rate risks as impacting the curve broadly (as opposed to further flattening) and have positioned accordingly. These views notwithstanding, continued exposure to some U.S. Treasuries is warranted as a diversifier vs. credit positions in the portfolios, in our view.

The Target Income Models are fixed income portfolios that seek a superior yield/risk profile than that of the Bloomberg Barclays US Aggregate Bond Index. The models are designed to help investors, together with their advisors, rethink their core fixed income allocations in an efficient way. These models are optimized quarterly and are intended as tools to assist an advisor with designing a strategy to help their clients pursue their specific income objectives, while managing overall risk. Whether investors are saving for their future or are nearing retirement, their advisors will work with them to select the fixed income portfolio that best reflects their financial needs. As such, the investor and their advisor will determine the initial investment allocation and any subsequent adjustments or rebalances.

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Core Income Model – Tactical Update

The Core Income Model seeks to generate a yield similar to the Bloomberg Barclays U.S. Aggregate Bond Index with less risk.

Ticker	Allocations	Current	Prior	Change
IEI	iShares 3-7 Year Treasury Bond ETF	12.0%	8.0%	+4.0%
IEF	iShares 7-10 Year Treasury Bond ETF	-	4.0%	-4.0%
MBB	iShares MBS ETF	17.0%	17.0%	-
CSJ	iShares 1-3 Year Credit Bond ETF	30.0%	30.0%	-
FLOT	iShares Floating Rate Bond ETF	30.0%	30.0%	-
CIU	iShares Intermediate Credit Bond ETF	7.0%	7.0%	-
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	4.0%	4.0%	-

Moderate Income Model – Tactical Update

The Moderate Income Model seeks to generate more yield than the Bloomberg Barclays U.S. Aggregate Bond Index with approximately the same risk.

Ticker	Allocations	Current	Prior	Change
IEI	iShares 3-7 Year Treasury Bond ETF	9.0%	9.0%	-
IEF	iShares 7-10 Year Treasury Bond ETF	6.0%	6.0%	-
MBB	iShares MBS ETF	25.0%	25.0%	-
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	25.0%	25.0%	-
FLOT	iShares Floating Rate Bond ETF	18.0%	18.0%	-
CIU	iShares Intermediate Credit Bond ETF	9.0%	9.0%	-
CSJ	iShares 1-3 Year Credit Bond ETF	4.0%	4.0%	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	4.0%	4.0%	-

High Income Model – Tactical Update

The High Income Model seeks to generate significantly more yield than the Bloomberg Barclays U.S. Aggregate Bond Index with more risk.

Ticker	Allocations	Current	Prior	Change
IEI	iShares 3-7 Year Treasury Bond ETF	20.0%	23.0%	-3.0%
MBB	iShares MBS ETF	25.0%	25.0%	-
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	30.0%	30.0%	-
EMHY	iShares Emerging Markets High Yield Bond ETF	15.0%	15.0%	-
CLY	iShares 10+ Year Credit Bond ETF	-	3.0%	-3.0%
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	10.0%	4.0%	+6.0%

Aggressive Income Model – Tactical Update

The Aggressive Income Model seeks to generate substantially more yield than the Bloomberg Barclays U.S. Aggregate Bond Index by taking on significantly more credit and rate risk to achieve that objective.

Ticker	Allocations	Current	Prior	Change
IEI	iShares 3-7 Year Treasury Bond ETF	6.0%	6.0%	-
TLT	iShares 20+ Year Treasury Bond ETF	-	4.0%	-4.0%
MBB	iShares MBS ETF	25.0%	25.0%	-
EMHY	iShares Emerging Markets High Yield Bond ETF	30.0%	30.0%	-
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	30.0%	30.0%	-
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	9.0%	5.0%	+4.0%

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