PRESENTED BY

FINANCIAL ADVISOR

BlackRock®

Bringing it all together: portfolio construction trends and techniques

Russ Koesterich
Global Chief Investment Strategist,
Head of BlackRock Model Portfolios & Solutions

Michael Gates
Head of USWA Model Portfolio Investment Research

Wednesday, December 10th 2014

PRESENTED BY FA FINANCIAL ADVISOR

Trend towards advisor use of model portfolios

60%

of Advisors' AUM is in some type of model portfolio

46%

of model portfolio AUM is in Advisors' own model portfolios

75%

of Advisors use model portfolios as the foundation for client portfolios

$1,000,000,000,000

in assets industry-wide in Advisors driven Advisory platforms

Source: BlackRock FA Research, January 2014

Common Advisor Challenges

*How can I build **cost-effective,** flexible client portfolios?*

*How do I incorporate **ETFs into my portfolios**?*

*My client is trying to **generate income** from their portfolio?*

*How do I protect against events like **inflation or rising rates**?*

The shift to fee-based advisory

Advisors are increasingly charging a fixed, asset-based fee for advice. Positioning yourself as a fee-based Advisor can help improve your value to clients by delivering:

SMARTER SOLUTIONS

Taking a more sophisticated, hands-on approach to portfolio construction

PERSONALIZED PORTFOLIOS

Implementing tactical asset allocation

BETTER VALUE

Building portfolios with no overlay fee can keep expenses low for clients

Evolve Your Portfolio for the New World of Investing

Institutional investors pioneered the blending of active and index investments, an approach financial advisors are increasingly adopting.

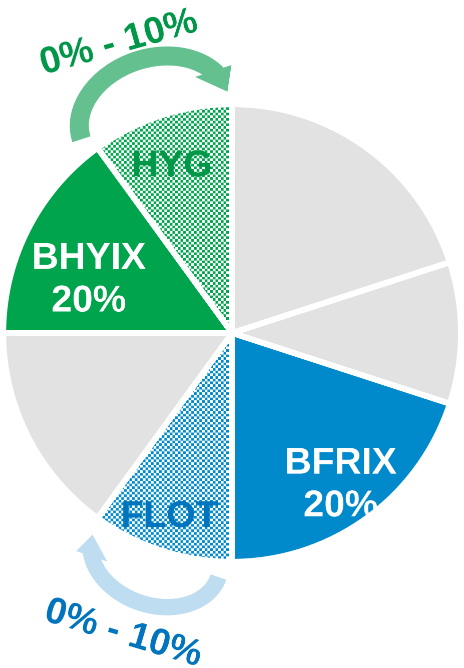
Source: BlackRock. For illustrative purposes only. Total industry net flows over the period were $1.03 trillion. * ETF flows include index mutual funds.

ETFs offer Efficient Market Exposure

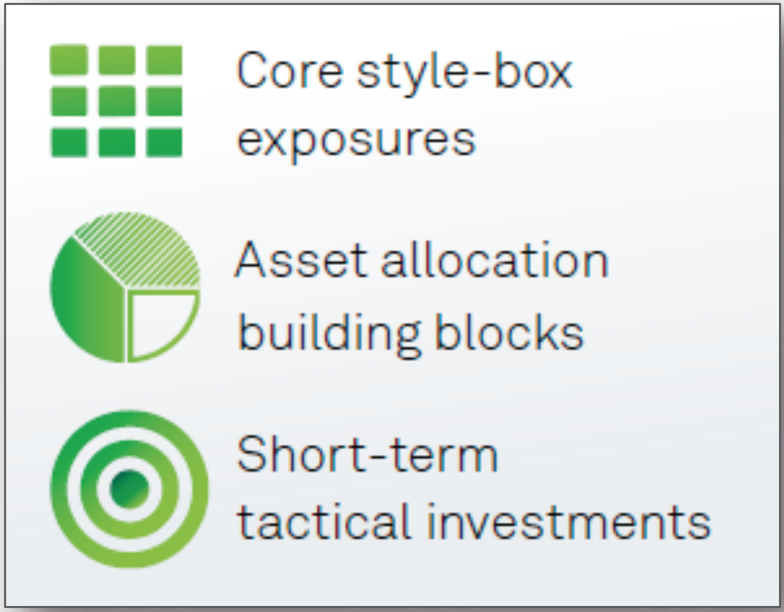
With low fees and a tax efficient structure you can quickly gain the market exposure you need.

ETFs can provide ***liquid exposures*** that can be efficiently rebalanced to take advantage of ***market opportunity***.

Using ETFs and Mutual Funds for Tactical Investments



Consider iShares® ETFs for:

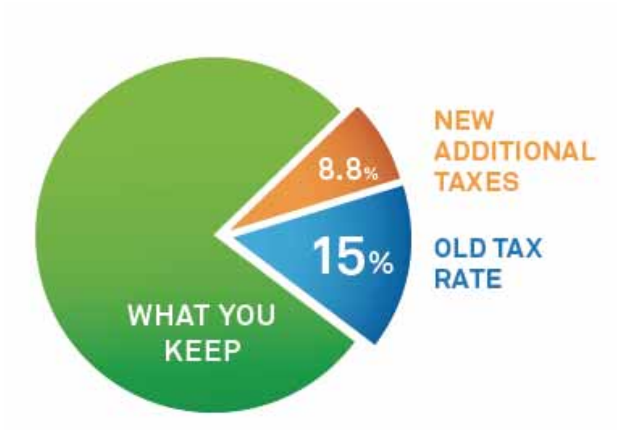


This information should not be relied upon as research, investment advice or a recommendation regarding any security in particular. This information is subject to change. Please see Important Notes at the end of this presentation. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

Taxes Taking a Bigger Bite

Long-term capital gains tax rates have risen by over 50%, and investors are demanding more tax-efficient solutions so they can keep more of what they earn.

23.8% capital gains tax rate



1.5% capital gains distribution

=

0.36% of your investment goes to this year's tax bill

Hypothetical example for illustrative purposes only. 1. Source: BlackRock, Morningstar as of 12/31/13. Represented by the oldest share class of each Open-End Mutual Fund in the United States that incepted on or before 10/31/13. Competitor ETFs represented by the two largest iShares ETF competitors based on AUM. Past distributions are not indicative of future distributions. Transactions in shares of the iShares Funds will generate tax consequences. iShares Funds are obliged to distribute portfolio gains to shareholders.

iShares ETFs can help you keep more of what you earn

The impact of expenses on your fund's performance magnifies over time, making low fees especially important for long-term investments.

iShares Funds cost about 1/3 as much as the typical mutual fund.[1]

You may owe taxes on your funds even if you didn't sell any shares during the year, potentially eating into returns.

On average, the tax costs for iShares Funds are half that of active mutual funds.[2]

[1]Morningstar, as of 6/30/14. Comparison is between the average Prospectus Net Expense Ratio for the oldest share class of iShares ETFs (0.37%) and active Open-End Mutual Funds (1.12%) that are available in the U.S. and have 10 year track records (excluding municipal bond and money market funds).
[2]"Tax cost" is a Morningstar measure of the impact of taxes on capital gains and income distributions on performance. The average tax cost of the iShares ETFs and active Open-End Mutual Funds included in the comparison = 0.53% and 1.05%, respectively.

The traditional active strategy has evolved

Rather than attempting to simply beat a benchmark, many outcome-oriented active strategies seek to achieve investment goals, like generating income or managing interest rate risk.

ASSET ALLOCATION
- Provide instant diversification and opportunistic rebalancing
- A core investment to build around

ALTERNATIVE INVESTMENTS
- More complex strategies that seek to be non-correlated to traditional stocks and bonds
- Can potentially stabilize portfolios in times of market stress

UNCONSTRAINED
- “Go-anywhere” to seek to take advantage of opportunities
- Maximize potential for manager skill to produce higher returns or lower volatility

HIGH-CONVICTION MANAGERS
- Any active management team with a sound, successful investment process you believe in
- Desired outcome: outperformance of a benchmark over a full market cycle after fees and taxes

For illustrative purposes only. Asset allocation and diversification strategies do not ensure profits in falling markets.

Bringing it altogether

Introducing BlackRock Model Portfolios

Put the Best of BlackRock to Work for You with Model Portfolios

SCALABLE ASSET ALLOCATION

SOPHISTICATED RISK ANALYTICS

FLEXIBLE AND COST-EFFECTIVE PORTFOLIOS

Put the Best of BlackRock to Work for You with Model Portfolios

SCALABLE ASSET ALLOCATION

SOPHISTICATED RISK ANALYTICS

FLEXIBLE AND COST-EFFECTIVE PORTFOLIOS

Our Model Portfolios

Asset Allocation

STRATEGIC

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

Income

TARGET INCOME

Core Income · Moderate Income · High Income · Aggressive Income

TAX AWARE TARGET INCOME

Core Income · Moderate Income · High Income · Aggressive Income

BALANCED INCOME

Volatility Focused Income · Inflation Focused Income · Rising Rates Focused Income

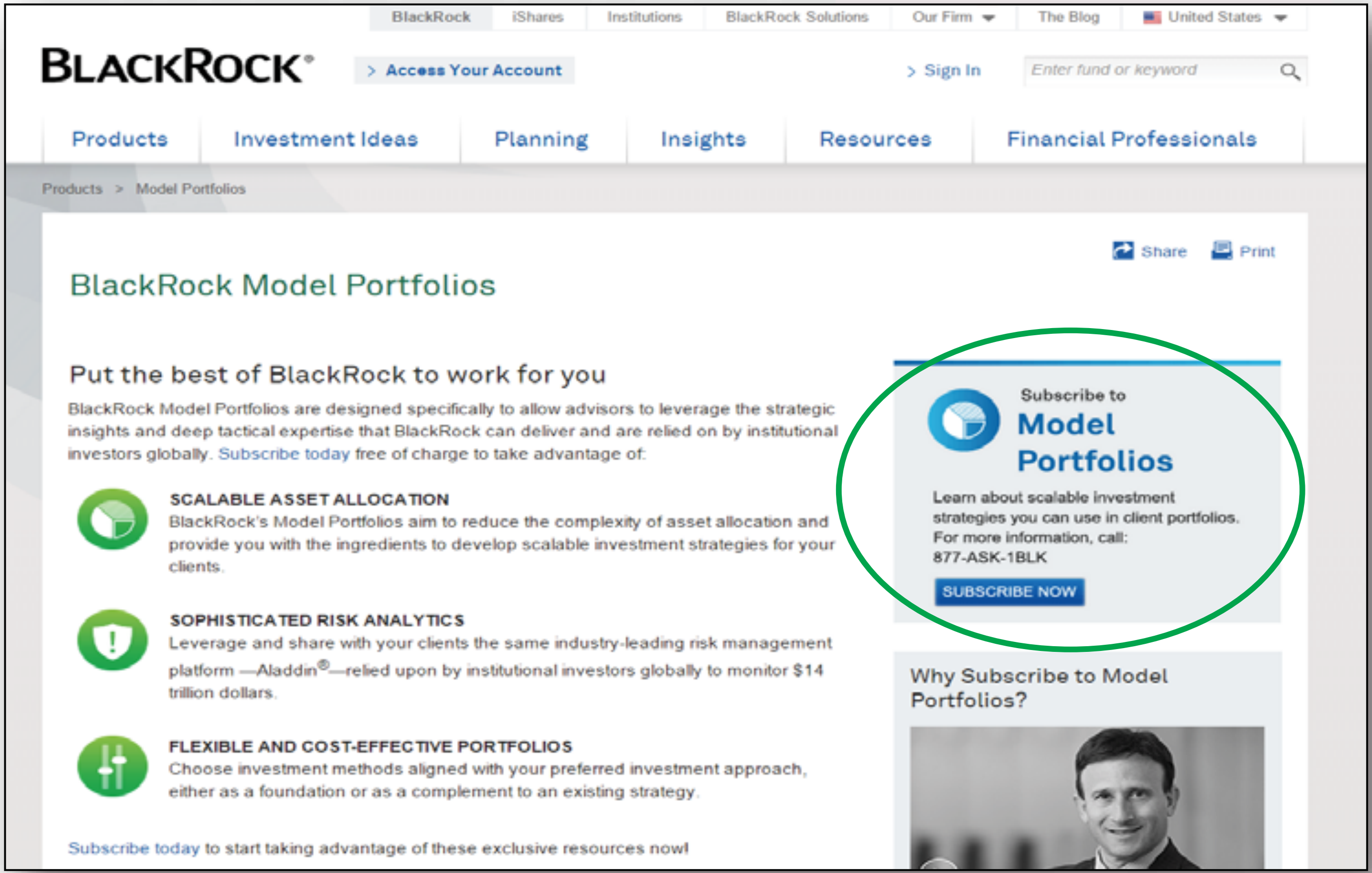
Get Started Today at www.blackrock.com/models

START:

Access at **www.blackrock.com/models**

SUBSCRIBE:

Simply click **"subscribe"** to Model Portfolios



FOLLOW:

As a subscriber you will receive:

- ***Welcome Kit:*** *with the latest materials and letter explaining the benefits*
- ***Monthly Performance:*** *you'll receive portfolio updates and a report on the latest market conditions*
- ***Quarterly Tactical Updates:*** *featuring insights on new allocations, plus risk analytics*
- ***Quarterly Q&A Call with Russ Koesterich:*** *where he answers your questions*

Tactical Updates

Performance Updates

Email Communications

Screenshots for illustrative purposes only.

Tactical Updates….Delivered to Your Inbox

Tactical Updates give you a repeatable, disciplined investment process

- Updated and emailed quarterly

I. Market commentary

II. Performance analysis

III. Allocation updates with rationale

Screenshots for illustrative purposes only.

Put the Best of BlackRock to Work for You with Model Portfolios

SCALABLE ASSET ALLOCATION

SOPHISTICATED RISK ANALYTICS

FLEXIBLE AND COST-EFFECTIVE PORTFOLIOS

BlackRock is trusted to manage some of the world's toughest risks

Aladdin® risk technology monitors $14 trillion for some of the world's largest institutions

- US and European governments have engaged us for critical risk assessments and banking sector stabilization strategies
- Portfolio consulting to help you identify risks and gaps, run scenario tests and optimize investment opportunities

$14 Trillion

Dollars analyzed by our proprietary risk management software, Aladdin®

30,000

Portfolios examined by Aladdin every minute of the day

24/7

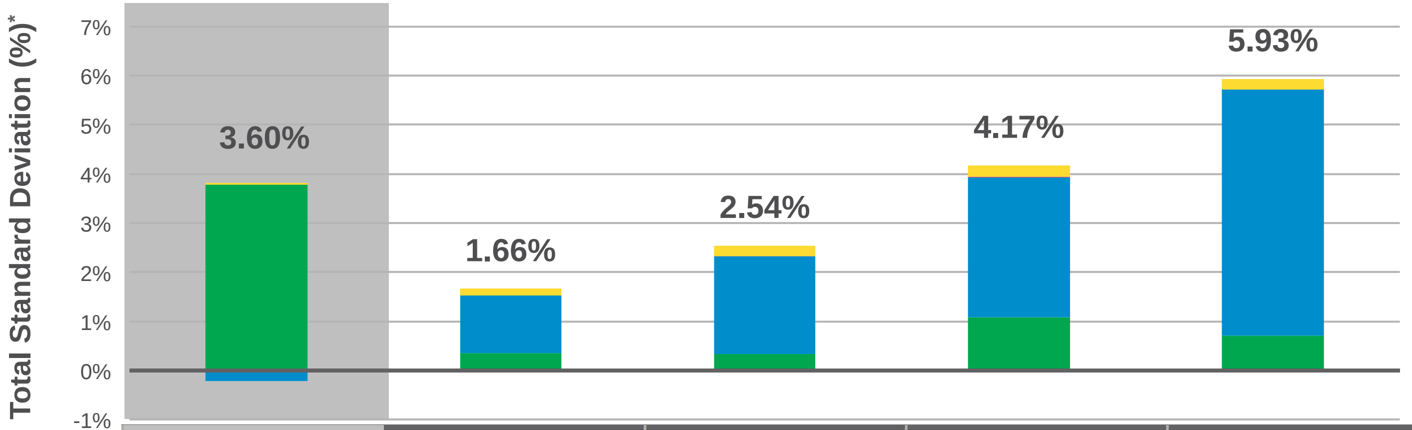
All day, everyday, even while you're sleeping, in-depth analysis is being delivered to the desks of our portfolio managers

As of September 30, 2014.

Gain access to our sophisticated risk analytics

Our institutional insights and risk analytics can provide you and your clients a deeper understanding of investment risks.

BlackRock Target Income Mutual Fund/ ETF Model Portfolios – Risk Contribution



	Barclays US Aggregate Bond Index	Core Income	Moderate Income	High Income	Aggressive Income
Rate Risk	3.78%	0.35%	0.34%	1.08%	0.71%
Credit Risk	-0.22%	1.17%	1.98%	2.85%	5.00%
FX Risk	-	0.01%	0.01%	0.01%	0.01%
Other Risk	0.04%	0.13%	0.21%	0.23%	0.21%
Total Standard Deviation*	**3.60%**	**1.66%**	**2.54%**	**4.17%**	**5.93%**

*Please see Important Notes at the end of this presentation.
All figures as of September 30, 2014. See Model Portfolios website for most up to date information. Asset allocation strategies do not assure profit and do not protect against losses.

Gain access to our sophisticated risk analytics

Provide insights to help understand how client portfolios may react to certain market conditions.

BlackRock Target Income Mutual Fund/ETF Model Portfolios – Beta Exposures					
	Barclays US Aggregate Bond Index	Core Income	Moderate Income	High Income	Aggressive Income
Beta to 10-Year Treasury Rates	**-3.16**	-0.67	-0.80	-1.18	-0.49
Beta to 2-Year Inflation Expectations	**-0.35**	0.41	0.49	0.64	0.80
Beta to Investment Grade Credit Spreads	**-0.17**	-1.53	-2.24	-3.69	-5.76
Beta to S&P 500 Index	**0.00**	0.07	0.10	0.17	0.28
Beta to USDX	**-0.09**	-0.09	-0.13	-0.19	-0.29

The Beta of a portfolio is a number describing the historical volatility of that portfolio in relation to the volatility of a selected benchmark. Betas for the model portfolios are estimated based on underlying fund holdings and risk factor exposures. A positive beta indicates a tendency for there to be co-movement with the benchmark, while a negative beta indicates that the portfolio and the benchmark tend to move in opposite directions. For example then, a beta of +2 would indicate that for a given percentage change in the benchmark, the change in the value of the portfolio has historically tended to be twice that. **Past performance does not guarantee future results.** For beta definition, see Important Notes at the end of this presentation.

All figures as of September 30, 2014.

Put the Best of BlackRock to Work for You with Model Portfolios

SCALABLE ASSET ALLOCATION

SOPHISTICATED RISK ANALYTICS

FLEXIBLE AND COST-EFFECTIVE PORTFOLIOS

BlackRock Model Portfolio & Solutions Team

The Model Portfolios are managed by the Blackrock Model Portfolio & Solutions Team

- 50 team members globally, including **5 PhDs** and **17 CFA charter holders**

Russ Koesterich, CFA
Global Chief Investment Strategist, Head of BlackRock Model Portfolio & Solutions

Michael Gates, CFA
Head of USWA Model Portfolio Investment Research

BlackRock Model Portfolio & Solutions is a single team and platform of resources that delivers investment expertise and services designed to help clients build better portfolios.

Investment Research (15)

Model Portfolios

Portfolio Management

Investment Strategy (7)

Macro-Economic Outlook

Asset Allocation Views

Investment Consulting (23)

Portfolio Construction

Risk Analysis

Functional Support (5)

(#) – Number of team members

Strategic Models – ETF
Investment Process

SELECTION

Start with a *broad universe of iShares ETFs* spanning multiple asset classes.
For long-term portfolios focus on core asset classes
For tactical portfolios analyze the full-spectrum of asset classes (equities, fixed income and non-traditional)

US Treasuries *US High Yield* *US Equities* *International Equities*
EM Debt (USD and Local Currency) *Minimum Volatility Equity* *EM Equities*
US Investment Grade Fixed Income *Developed ex-US Sovereigns* *US TIPS*

SEEK TO MAXIMIZE RISK-ADJUSTED RETURN

REALLOCATION

Seek to deliver portfolio goals with the best possible risk adjusted return, using the following ex-ante inputs:

1. **Return** of each asset class
2. **Volatility** of each asset class
3. **Correlations** across all asset classes

QUARTERLY

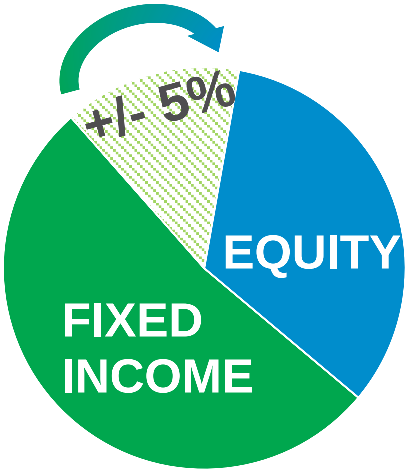
SEEK TO MAXIMIZE RISK-ADJUSTED RETURN

IMPLEMENTATION

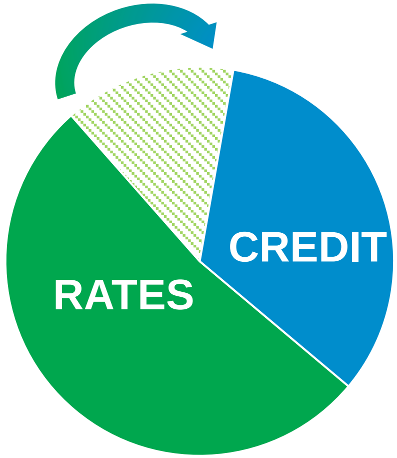
Quarterly asset allocation that seeks to deliver alpha over the target benchmark and can fluctuate from the target benchmark asset allocation.

How does tactical allocation deliver alpha in the ETF-only model?
Two layers of tactical allocations

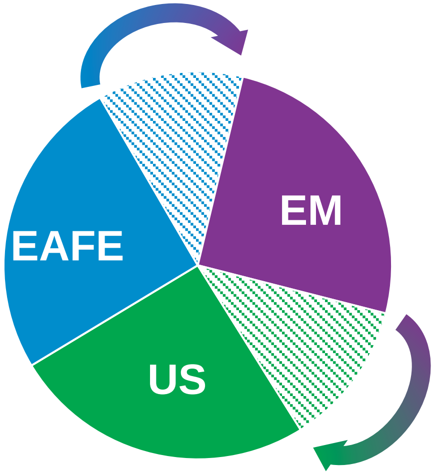
1) Broad Asset Class Tilts



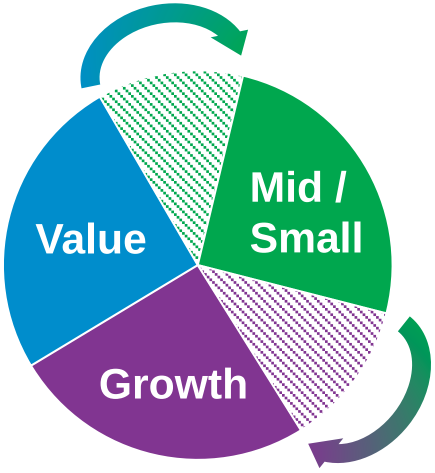
2) Within Asset Class Selection



Fixed Income



Global Equity



U.S. Equity

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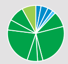
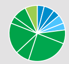
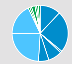
Strategic Models – ETF
Current Portfolios

	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
QUARTERLY ALLOCATION:											
Weighted Average Expense Ratio	*0.28%*	*0.27%*	*0.25%*	*0.24%*	*0.23%*	*0.21%*	*0.20%*	*0.18%*	*0.17%*	*0.17%*	*0.16%*
Standard Deviation	*3.49%*	*3.96%*	*4.98%*	*6.40%*	*7.86%*	*9.31%*	*10.82%*	*12.37%*	*14.01%*	*15.48%*	*16.74%*
US EQUITY	***0%***	***10%***	***14%***	***19%***	***25%***	***31%***	***36%***	***42%***	***47%***	***51%***	***55%***
IVW	0%	3%	4%	7%	9%	10%	10%	12%	12%	12%	12%
IVE	0%	4%	6%	8%	11%	13%	15%	18%	22%	24%	25%
IJR	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	2%
IJH	0%	0%	0%	0%	0%	3%	6%	7%	8%	8%	9%
USMV	0%	3%	4%	4%	5%	5%	5%	5%	5%	6%	7%
INTERNATIONAL EQUITY	***0%***	***2%***	***9%***	***15%***	***20%***	***24%***	***29%***	***33%***	***38%***	***42%***	***45%***
IEFA	0%	0%	5%	8%	11%	13%	16%	19%	23%	24%	25%
IEMG	0%	2%	4%	7%	9%	11%	13%	14%	15%	18%	20%
US FIXED INCOME	***91%***	***80%***	***70%***	***60%***	***50%***	***41%***	***33%***	***24%***	***15%***	***7%***	***0%***
HYG	9%	9%	8%	7%	6%	5%	4%	3%	2%	1%	0%
CIU	25%	25%	24%	19%	16%	13%	10%	6%	2%	2%	0%
LQD	7%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TLT	4%	6%	8%	9%	9%	10%	10%	8%	5%	2%	0%
MBB	25%	22%	18%	15%	12%	8%	4%	3%	2%	2%	0%
TIP	8%	6%	4%	4%	3%	2%	2%	2%	2%	0%	0%
NEAR	13%	9%	8%	6%	4%	3%	3%	2%	2%	0%	0%
INTERNATIONAL FIXED INCOME	***9%***	***8%***	***7%***	***6%***	***5%***	***4%***	***2%***	***1%***	***0%***	***0%***	***0%***
EMB	9%	8%	7%	6%	5%	4%	2%	1%	0%	0%	0%

Allocations as of October 14th, 2014.
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 portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision. Allocations are subject to change.

Blending Active/Index in action

The Hourglass:

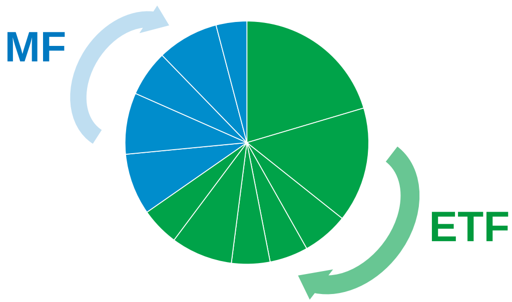
BlackRock's framework for blending mutual funds and ETFs in client portfolios

MF/ETF Models:

The Hourglass in action. Blending high conviction mutual funds and efficient ETFs to achieve better investment results

Mutual Funds

- Access strategies that cannot be wrapped in an ETF, like:
  - Long/short strategies
  - Covered call writing
  - Unconstrained fixed income
  - Illiquid high yield bonds and bank loans
- Utilize active managers where we have conviction product
- Diversify return sources through active risk



ETFs

- Utilize Core iShares ETFs; all with expense ratios <20 bps
- Tax-efficient exposure may minimize capital gains distributions

The strategies discussed are strictly for illustrative and educational purposes and should not be construed as a recommendation to purchase or sell, or an offer to sell or a solicitation of an offer to buy any security. There is no guarantee that any strategies discussed will be effective.

Strategic Models – Mutual Fund/ETF
Investment Process

SELECTION

Start with a *broad universe of iShares ETFs and BlackRock Mutual Funds* spanning multiple asset classes.
For long-term portfolios focus on core asset classes and active managers with a 'go-anywhere' mandate

US Treasuries | *US High Yield* | *International Equities*
EM Debt (USD and Local Currency) | *US Equities* | *EM Equities*
US Investment Grade Fixed Income | *Developed ex-US Sovereigns* | *US TIPS*

SEEK TO MAXIMIZE RISK-ADJUSTED RETURN

REALLOCATION

Seek to deliver portfolio goals with the best possible risk adjusted return, using the following ex-ante inputs:

1. **Return** of each asset class
2. **Volatility** of each asset class
3. **Correlations** across all asset classes

ANNUAL

SEEK TO MAXIMIZE RISK-ADJUSTED RETURN

IMPLEMENTATION

Long-term Mutual Fund and ETF asset allocation that seeks to have similar risk/return characteristics as the target benchmark.

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Strategic Models – Mutual Fund/ETF
Access to the best of BlackRock

FIXED INCOME

SIO & Total Return

Rick Rieder

Global Long/Short Credit

Michael Phelps

EQUITY

Basic Value

Bart Geer

Global Long/Short Equity

Raffaele Savi

MULTI-ASSET

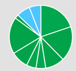
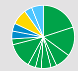
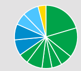
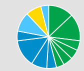
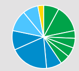
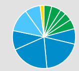
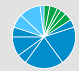
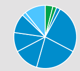
Global Allocation

Dennis Stattman

Multi-Asset Income & Multi-Asset Real Return

Michael Fredericks

Strategic Models – Mutual Fund/ETF
Current Portfolios

	Risk/Return Benchmarks*										
	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
											
Weighted Average Expense Ratio	*0.55%*	*0.58%*	*0.61%*	*0.58%*	*0.55%*	*0.50%*	*0.46%*	*0.44%*	*0.45%*	*0.38%*	*0.32%*
Standard Deviation	*2.5%*	*3.0%*	*3.5%*	*4.7%*	*5.7%*	*7.2%*	*8.7%*	*10.7%*	*12.9%*	*13.9%*	*15.4%*
FIXED INCOME	**86%**	**73%**	**64%**	**52%**	**44%**	**35%**	**27%**	**19%**	**11%**	**6%**	**0%**
BGCIX	10%	8%	6%	5%	4%	3%	3%	2%	2%	0%	0%
BFMSX	8%	4%	0%	0%	0%	0%	0%	0%	0%	0%	0%
BSIIX	20%	20%	20%	13%	10%	9%	7%	4%	2%	0%	0%
MAHQX	18%	15%	15%	15%	15%	11%	8%	6%	4%	4%	0%
AGG	18%	13%	8%	4%	0%	0%	0%	0%	0%	0%	0%
FLOT	5%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%
IEF	0%	2%	5%	5%	5%	5%	4%	3%	0%	0%	0%
IEI	5%	5%	5%	5%	5%	2%	0%	0%	0%	0%	0%
TIP	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TLT	0%	3%	5%	5%	5%	5%	5%	4%	3%	2%	0%
EQUITY	**0%**	**8%**	**16%**	**27%**	**35%**	**45%**	**55%**	**63%**	**76%**	**81%**	**89%**
BDMIX	0%	4%	8%	8%	7%	7%	7%	4%	4%	2%	0%
MABAX	0%	0%	0%	5%	8%	8%	8%	9%	10%	10%	10%
MAGCX	0%	0%	0%	0%	0%	0%	0%	5%	10%	10%	10%
IEFA	0%	0%	0%	0%	0%	10%	20%	20%	20%	22%	24%
IEMG	0%	0%	0%	0%	0%	0%	0%	5%	12%	13%	16%
ITOT	0%	4%	8%	14%	20%	20%	20%	20%	20%	24%	29%
MULTI-ASSET	**14%**	**19%**	**20%**	**21%**	**21%**	**20%**	**18%**	**18%**	**13%**	**13%**	**11%**
BIICX	8%	8%	8%	9%	10%	9%	8%	5%	2%	2%	0%
BRRIX	6%	6%	4%	4%	3%	3%	2%	2%	0%	0%	0%
MALOX	0%	5%	8%	8%	8%	8%	8%	11%	11%	11%	11%

Allocations as of August 29th, 2014. 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 portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision. Allocations subject to change.

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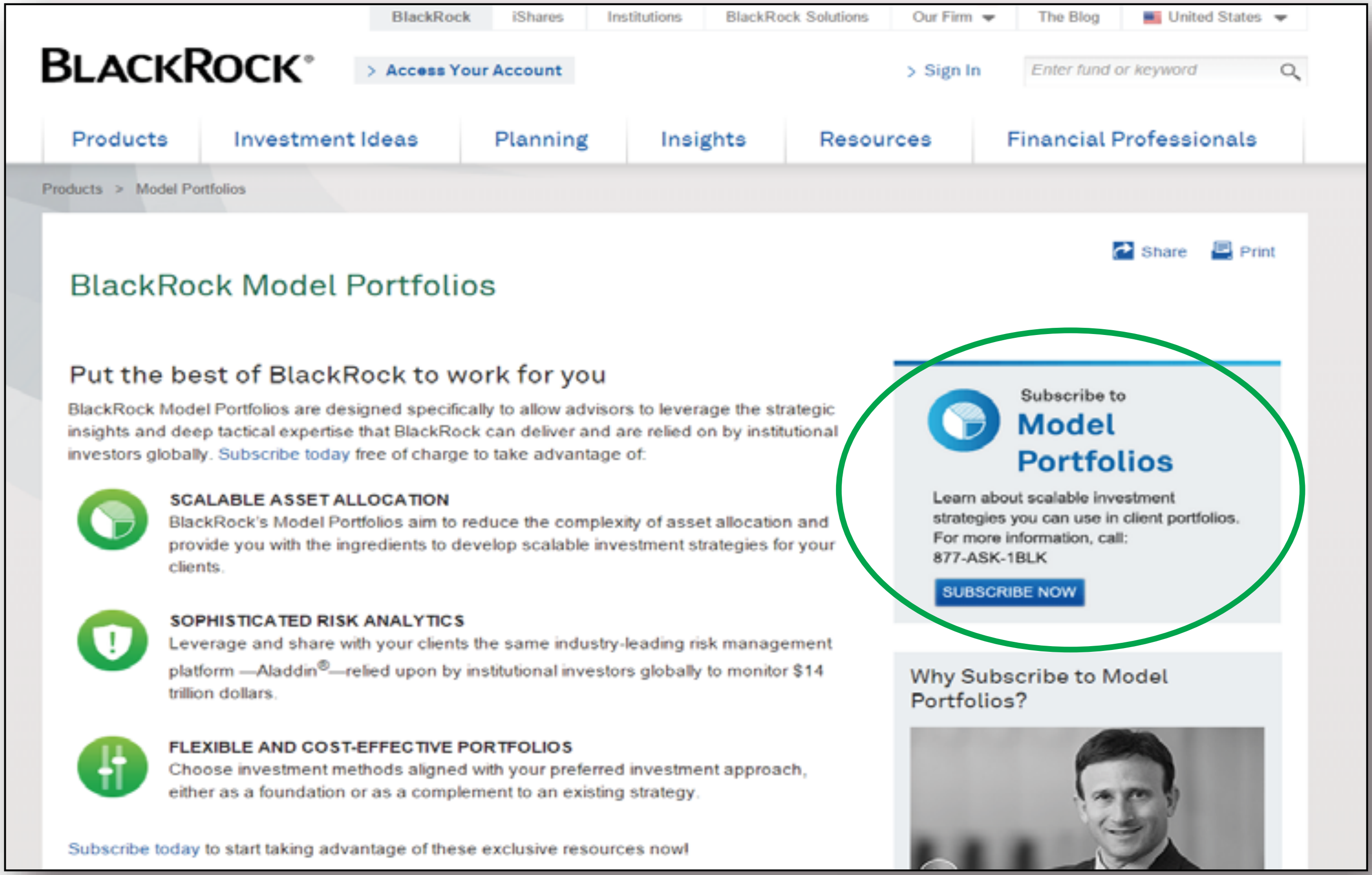

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Standard Deviation: Standard deviation for the model portfolio is a statistical estimate measuring how dispersed returns are around an average. Standard deviation is estimated using the risk factor exposures and volatilities of the underlying funds, based on BlackRock Solutions multi-asset class risk models, and takes into account the correlations of these factors across the portfolio. Standard deviation is not meant to be a prediction of fund or model volatility and actual volatility of any portfolio based in whole or in part on the models shown will vary and may be higher.

Risk Component Contribution: Contribution to risk is an additive measure of risk. The contribution to risk of a factor exposure of the fund is calculated as the change in the total portfolio risk that results from a small incremental increase to that factor exposure. This risk measure takes into account correlations across exposures and captures the risk of these as well as how diversifying they are in the total portfolio. Risk contributions are designed to sum to equal the total volatility of the portfolio. **Past performance does not guarantee future results.** Risk contribution factors here are:

- Total standard deviation of the portfolio is the sum of the risk contributions across rate, credit, FX and other risk.
- Rate risk contributions, which capture volatility associated with portfolio covariation with benchmark government interest rates.
- Credit risk contributions, which capture volatility associated with portfolio covariation with investment grade, high yield and distressed debt credit spreads over benchmark interest rates.
- FX risk contributions, which capture volatility associated with portfolio covariation with foreign exchange rate fluctuations.
- Other risk contributions capture the remaining portion of volatility that is idiosyncratic relative to Rate, Credit and FX risk.

Beta: The Beta of a portfolio is a number describing the historical volatility of that portfolio in relation to the volatility of a selected benchmark. Betas for the model portfolios are estimated based on underlying fund holdings and risk factor exposures. A positive beta indicates a tendency for there to be co-movement with the benchmark, while a negative beta indicates that the portfolio and the benchmark tend to move in opposite directions. For example then, a beta of +2 would indicate that for a given percentage change in the benchmark, the change in the value of the portfolio has historically tended to be twice that. **Past performance does not guarantee future results.**

The Beta to the S&P 500 Index measures the portfolio's sensitivity to changes in the value of the S&P 500 index.

The Beta to 10-year Treasury Interest Rate measures the portfolio's sensitivity to changes in the 10-year maturity US Treasury bond interest rate.

The Beta to 2-Year Inflation Expectations measures the portfolio's sensitivity to changes in the market interest rate spread between 2-year US Treasuries and the 2-year US Treasury Inflation Protected Security.

The Beta to Investment Grade Spreads measures the portfolio's sensitivity to changes in the credit spread of a diversified US investment grade bond index, as measured by the J.P. Morgan US Liquid Index.

The Beta to USDX (US Dollar Currency Index) measures the portfolio's sensitivity to changes in the value of the US Dollar Index, which measures the average change in value of the USD versus major world currencies.

Important Notes

Carefully consider the Funds within the model portfolios' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses, and if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

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