

ENHANCED STRATEGIC MODEL PORTFOLIOS ETF ONLY



ALLOCATIONS AS OF 2 DECEMBER 2016

Market Overview

The United States stole the spotlight in November, with global markets roiled by the surprise Trump win, and a clean sweep by the Republican Party. Potential market ramifications include tax cuts, regulatory changes and modifications to global trade barriers, infrastructure spending, and higher inflation. Initially, markets reacted in a risk-off fashion during overnight trading (e.g. the Mexican Peso weakened over 12% at one point). Following President Elect Trump's more moderate victory speech, the risk-off sentiment softened and a rapid risk-on reversal took hold of global markets, with most developed equity markets finishing the month significantly higher.

US equities rose nearly 4%, which was just shy of the all-time highs reached in late November. The Japanese Topix rose over 5% in November, reflecting a sharp depreciation of the Japanese Yen. European equities recorded mixed results. The UK FTSE100 index declined by about 2%, after the UK high court announced its ruling against the UK government's efforts to trigger Article 50 on Brexit – stating that parliamentary approval is necessary. Germany's DAX was flat, while the major equity index in France (CAC 40) finished the month higher. In Australia, the ASX200 index gained over 2%. Most emerging market equities on the

other hand, finished the month lower amidst concerns about the impact on that sector of Trump's protectionist rhetoric on international trade. In addition, the surging US dollar sent Asian currencies to their lowest value in seven years, with the US dollar index up 40% since 2011.

Whilst most major developed equity markets finished the month significantly higher, developed country sovereign bonds sold off sharply in November, led largely by the US. There is a growing belief that US financial markets may be at an inflection point. Signs of US-led deflation – stronger nominal growth and inflation – have seen markets contemplate the notion that the 35 year bull market in bonds is over. This comes at a time when central banks are likely to remain supportive but are taking more of a backseat to fiscal expansion, especially in the US. Trump's plan for large tax cuts, increased infrastructure spending and reduced regulation has amplified inflationary expectations. While some might argue that this could lead to a better environment for riskier assets (including equities), there are several market events still looming including general elections in France and Germany in 2017, the 'hard' or 'soft' nature of Brexit and remaining uncertainties surrounding the Trump agenda.

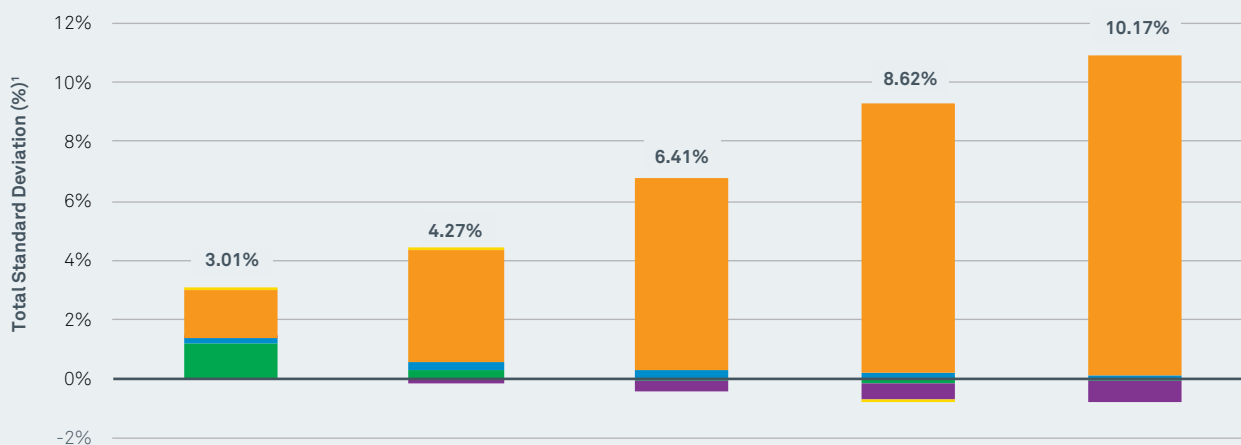
Portfolio Constituents & Weights – 2 December 2016 ¹		Conservative	Moderate	Balanced	Growth	Aggressive
Standard Deviation ²		3.01%	4.27%	6.41%	8.62%	10.17%
Composite Management Fee ³		0.21%	0.21%	0.22%	0.22%	0.22%
Australian Fixed Income		44.2%	35.3%	23.5%	13.0%	5.5%
IAF	iShares Core Composite Bond ETF	39.5%	32.0%	22.0%	12.0%	4.5%
IGB	iShares Treasury ETF	4.7%	3.3%	1.5%	1.0%	1.0%
International Fixed Income		18.8%	15.7%	11.5%	6.4%	3.7%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	15.8%	12.7%	8.5%	3.4%	1.6%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.0%	3.0%	3.0%	3.0%	2.1%
Australian Equity		8.2%	16.5%	27.5%	39.1%	46.7%
IOZ	iShares Core S&P/ASX 200 ETF	5.2%	13.5%	24.5%	36.2%	43.7%
ISO	iShares S&P/ASX Small Ordinaries ETF	3.0%	3.0%	3.0%	2.9%	3.0%
International Equity		8.8%	15.0%	21.0%	27.0%	31.9%
IEU	iShares Europe ETF	1.0%	1.0%	2.2%	1.0%	1.4%
IHK	iShares MSCI Hong Kong ETF	1.0%	1.0%	1.0%	1.0%	1.0%
IJP	iShares MSCI Japan ETF	1.0%	1.0%	1.0%	2.1%	2.1%
IVE	iShares MSCI EAFE ETF	1.0%	1.6%	1.0%	2.0%	2.9%
IVV	iShares S&P 500 ETF	4.8%	10.4%	15.8%	20.9%	24.5%
Emerging Equity		3.0%	3.5%	6.5%	8.5%	9.2%
IEM	iShares MSCI Emerging Markets ETF	1.0%	1.5%	4.5%	6.5%	7.2%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	2.0%	2.0%	2.0%	2.0%
Cash		17.0%	14.0%	10.0%	6.0%	3.0%
BAUBIL	AusBond Bank Bill Index	17.0%	14.0%	10.0%	6.0%	3.0%

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 interest rates, credit spreads, foreign exchange, equities and

non-traditional exposures. This chart leverages BlackRock's proprietary risk management system – Aladdin® – to show the contribution of individual risk factors.



	Conservative	Moderate	Balanced	Growth	Aggressive
Rate Risk	1.18%	0.33%	-0.07%	-0.11%	-0.07%
Credit Risk	0.22%	0.28%	0.26%	0.18%	0.11%
FX Risk	0.02%	-0.12%	-0.34%	-0.59%	-0.72%
Equity Risk	1.58%	3.77%	6.56%	9.15%	10.85%
Other Risk	0.01%	0.01%	-	-0.01%	-
Total Standard Deviation²	3.01%	4.27%	6.41%	8.62%	10.17%

Performance Overview as of 30 November 2016

	Nov 2016	3 Months	YTD	One Year	Since Inception ⁴
Conservative	-0.44%	-1.91%	2.37%	2.42%	2.01%
Moderate	0.11%	-1.50%	3.10%	2.98%	2.29%
Balanced	0.92%	-0.96%	3.66%	3.17%	2.64%
Growth	1.77%	-0.14%	4.33%	3.96%	3.25%
Aggressive	2.41%	0.34%	4.68%	4.10%	3.74%

Risk Analysis

Portfolio Descriptor

The Australian Enhanced Strategic Model Portfolios were inceptioned on 30 January 2015. The model portfolios were designed as long-term strategic asset allocations benefitting from diversification across asset classes including: Australian and international equities, emerging markets equities and fixed income. Designed for Australian dollar based investors, the model portfolios were constructed to balance exposures to assets denominated in Australian dollars with the benefits of diversification across domestic and international non-AUD assets. The model portfolios are constructed to provide a long-term core ETF asset allocation matching a peer-based target benchmark asset allocation, with a quarterly tactical asset allocation that seeks to deliver alpha over the target benchmark by deviating from the target benchmark asset allocation. The model portfolios seek to optimally balance long-term returns, risks and costs as per the objective of five risk profiles: Conservative, Moderate, Balanced, Growth and Aggressive.

Performance Commentary

Since the last rebalance, the total return of the models ranged from -1.91% for the Conservative model to 0.34% for the Aggressive model. Total return performance of the models suffered as global fixed income markets posted losses over the period. Our overweight to equities relative to fixed income contributed to positive performance.

In equities, total returns were mixed with strong performance in the US and Japan, and negative performance in emerging markets and Australian small cap equity. Our underweight to Europe and our overweight to US equity both contributed to positive performance. Our underweight to EAFE also contributed positively, but less so given the moves in Japan. The overweight to South Korean equities and underweight to broad based emerging market equities detracted slightly from performance.

In fixed income, yield curves shifted higher and steepened globally, with the Australia Bond Composite 0+ Year Index returning -2.92%⁵. Broad-based Australian bonds outperformed Australian government bonds, owing to shorter duration, despite some widening of credit spreads.

Allocation Changes

Equities vs Fixed Income

We are underweight Australian bonds and overweight developed and emerging equities based on the continuing fundamental backdrop that bolsters a moderate attractiveness of equities relative to fixed income. We expect that the resolution of political uncertainty in the US, coupled with steady, albeit slow global economic growth, will drive global equity markets higher over the medium and long term, despite the headwinds of moderating Chinese growth and US interest-rate hikes.

Equities

The portfolios are neutral to Australian equity overall. Within Australian equities, we continue to be overweight small cap equities and underweight large cap equities. Furthermore, we've transitioned from overweight to neutral on high dividend Australian equities.

In the US, earnings growth has turned positive in recent months. The Trump administration's policies could boost US earnings growth further through tax cuts, greater fiscal spending, and less regulation. Continued labor market tightening and modest wage growth, along with positive sentiment, lead us to an overweight US equity position.

While the expectation is for a Fed rate hike in December, the trajectory of expected interest rate hikes remains shallow, creating an environment for emerging market (EM) assets to recover. Both fundamentals and momentum remain strong in Emerging Markets, particularly Emerging Asia, though we remain vigilant on risk. As a result, we are slightly overweight Taiwan, Hong Kong, and broad based Emerging Market equities.

Fixed Income

Strong fundamental valuations and increased positive sentiment drive us to overweight global high yield bonds, relative to global investment grade credit. In addition, high yield bonds will be more shielded from the impact of higher rates and steeper yield curves globally.

Conservative Model – Allocation Changes

Ticker	Allocations	Current	Prior Weights	Change
IAF	iShares Core Composite Bond ETF	39.5%	44.2%	-4.7%
IGB	iShares Treasury ETF	4.7%	3.7%	+1.0%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	15.8%	18.1%	-2.3%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.0%	-	+3.0%
IOZ	iShares Core S&P/ASX 200 ETF	5.2%	8.2%	-3.0%
ISO	iShares S&P/ASX Small Ordinaries ETF	3.0%	1.6%	+1.4%
IVV	iShares S&P 500 ETF	4.8%	6.9%	-2.1%
IVE	iShares MSCI EAFE ETF	1.0%	-	+1.0%
IHK	iShares MSCI Hong Kong ETF	1.0%	-	+1.0%
IJP	iShares MSCI Japan ETF	1.0%	-	+1.0%
IEU	iShares Europe ETF	1.0%	-	+1.0%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	-	+2.0%
IEM	iShares MSCI Emerging Markets ETF	1.0%	-	+1.0%
BAUBIL	AusBond Bank Bill Index	17.0%	17.3%	-0.3%

Moderate Model – Allocation Changes

Ticker	Allocations	Current	Prior Weights	Change
IAF	iShares Core Composite Bond ETF	32.0%	36.9%	-4.9%
IGB	iShares Treasury ETF	3.3%	2.3%	+1.0%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	12.7%	14.9%	-2.2%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.0%	-	+3.0%
IOZ	iShares Core S&P/ASX 200 ETF	13.5%	19.4%	-5.9%
ISO	iShares S&P/ASX Small Ordinaries ETF	3.0%	2.2%	+0.8%
IVV	iShares S&P 500 ETF	10.4%	8.0%	+2.4%
IVE	iShares MSCI EAFE ETF	1.6%	1.0%	+0.6%
IHK	iShares MSCI Hong Kong ETF	1.0%	-	+1.0%
IJP	iShares MSCI Japan ETF	1.0%	-	+1.0%
IEU	iShares Europe ETF	1.0%	-	+1.0%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	-	+2.0%
IEM	iShares MSCI Emerging Markets ETF	1.5%	-	+1.5%
IKO	iShares MSCI South Korea Capped ETF	-	1.5%	-1.5%
BAUBIL	AusBond Bank Bill Index	14.0%	13.8%	+0.2%

Balanced Model – Allocation Changes

Ticker	Allocations	Current	Prior Weights	Change
IAF	iShares Core Composite Bond ETF	22.0%	25.3%	-3.3%
IGB	iShares Treasury ETF	1.5%	1.0%	+0.5%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	8.5%	10.8%	-2.3%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.0%	-	+3.0%
IOZ	iShares Core S&P/ASX 200 ETF	24.5%	30.4%	-5.9%
ISO	iShares S&P/ASX Small Ordinaries ETF	3.0%	2.2%	+0.8%
IVV	iShares S&P 500 ETF	15.8%	13.2%	+2.6%
IEU	iShares Europe ETF	2.2%	5.1%	-2.9%
IHK	iShares MSCI Hong Kong ETF	1.0%	-	+1.0%
IJP	iShares MSCI Japan ETF	1.0%	-	+1.0%
IVE	iShares MSCI EAFE ETF	1.0%	-	+1.0%
IEM	iShares MSCI Emerging Markets ETF	4.5%	-	+4.5%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	-	+2.0%
IKO	iShares MSCI South Korea Capped ETF	-	2.1%	-2.1%
BAUBIL	AusBond Bank Bill Index	10.0%	9.9%	+0.1%

Growth Model – Allocation Changes

Ticker	Allocations	Current	Prior Weights	Change
IAF	iShares Core Composite Bond ETF	12.0%	10.9%	+1.1%
IGB	iShares Treasury ETF	1.0%	2.0%	-1.0%
ILB	iShares Government Inflation ETF	-	2.0%	-2.0%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	3.4%	6.4%	-3.0%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.0%	-	+3.0%
IOZ	iShares Core S&P/ASX 200 ETF	36.2%	38.2%	-2.0%
ISO	iShares S&P/ASX Small Ordinaries ETF	2.9%	3.0%	-0.1%
IHD	iShares S&P/ASX Dividend	-	2.1%	-2.1%
IVV	iShares S&P 500 ETF	20.9%	19.3%	+1.6%
IJP	iShares MSCI Japan ETF	2.1%	2.0%	+0.1%
IVE	iShares MSCI EAFE ETF	2.0%	2.0%	-
IHK	iShares MSCI Hong Kong ETF	1.0%	-	+1.0%
IEU	iShares Europe ETF	1.0%	2.0%	-1.0%
IEM	iShares MSCI Emerging Markets ETF	6.5%	2.1%	+4.4%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	-	+2.0%
IKO	iShares MSCI South Korea Capped ETF	-	2.1%	-2.1%
BAUBIL	AusBond Bank Bill Index	6.0%	5.9%	+0.1%

Aggressive Model – Allocation Changes

Ticker	Allocations	Current	Prior Weights	Change
IAF	iShares Core Composite Bond ETF	4.5%	3.4%	+1.1%
IGB	iShares Treasury ETF	1.0%	2.0%	-1.0%
ILB	iShares Government Inflation ETF	-	2.0%	-2.0%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	2.1%	-	+2.1%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	1.6%	3.1%	-1.5%
IOZ	iShares Core S&P/ASX 200 ETF	43.7%	45.5%	-1.8%
ISO	iShares S&P/ASX Small Ordinaries ETF	3.0%	3.7%	-0.7%
IHD	iShares S&P/ASX Dividend	-	2.0%	-2.0%
IVV	iShares S&P 500 ETF	24.5%	24.0%	+0.5%
IVE	iShares MSCI EAFE ETF	2.9%	3.0%	-0.1%
IJP	iShares MSCI Japan ETF	2.1%	2.0%	+0.1%
IEU	iShares Europe ETF	1.4%	2.0%	-0.6%
IHK	iShares MSCI Hong Kong ETF	1.0%	-	+1.0%
IEM	iShares MSCI Emerging Markets ETF	7.2%	2.1%	+5.1%
ITW	iShares MSCI Taiwan Capped ETF	2.0%	-	+2.0%
IKO	iShares MSCI South Korea Capped ETF	-	2.2%	-2.2%
BAUBIL	AusBond Bank Bill Index	3.0%	3.0%	-

Footnotes

¹ The model portfolios, allocations and data are subject to change. Data shown is for informational purposes only, does not represent an actual account, and is not the result of any actual trading. Actual investment outcomes may vary.

² 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.

³ Composite Management Fee is as of 2 December 2016 and subject to change. Composite Management Fee is the weighted average Management Expense Ratio (MER) of the underlying individual iShares ETFs' management fees included in the model portfolios.

⁴ Inception date for all models is 30 January 2015.

⁵ Bloomberg – 1 December 2016.

Performance data

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