

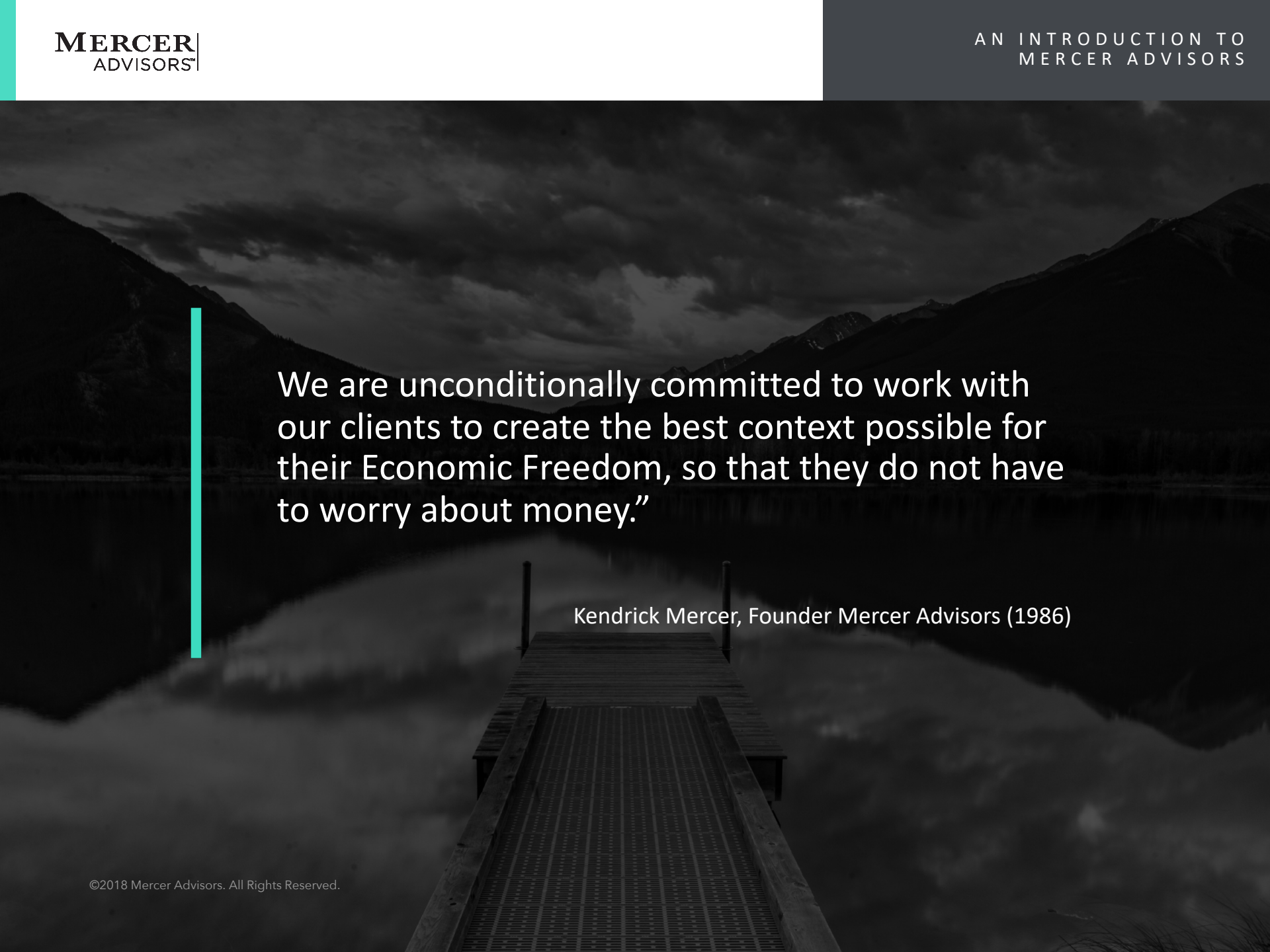
# The Science Behind Factor Investing

- Why it Works
- How to Implement with ETFs



**Doug Fabian**

Executive Vice President / Podcast Host



We are unconditionally committed to work with our clients to create the best context possible for their Economic Freedom, so that they do not have to worry about money.”

Kendrick Mercer, Founder Mercer Advisors (1986)



# About Us

**Founded in 1985**

Nationwide presence

Over 30 branch offices

Over \$13 billion in client assets managed



**Over 300 employees**

- CFP® practitioners
- Estate & Trust attorneys
- CFA charter holders
- Retirement Plan Specialists
- CPAs



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JOHNS, CFP®  
Client Advisor



JAVIER SOLIS,  
CFP®  
Client Advisor

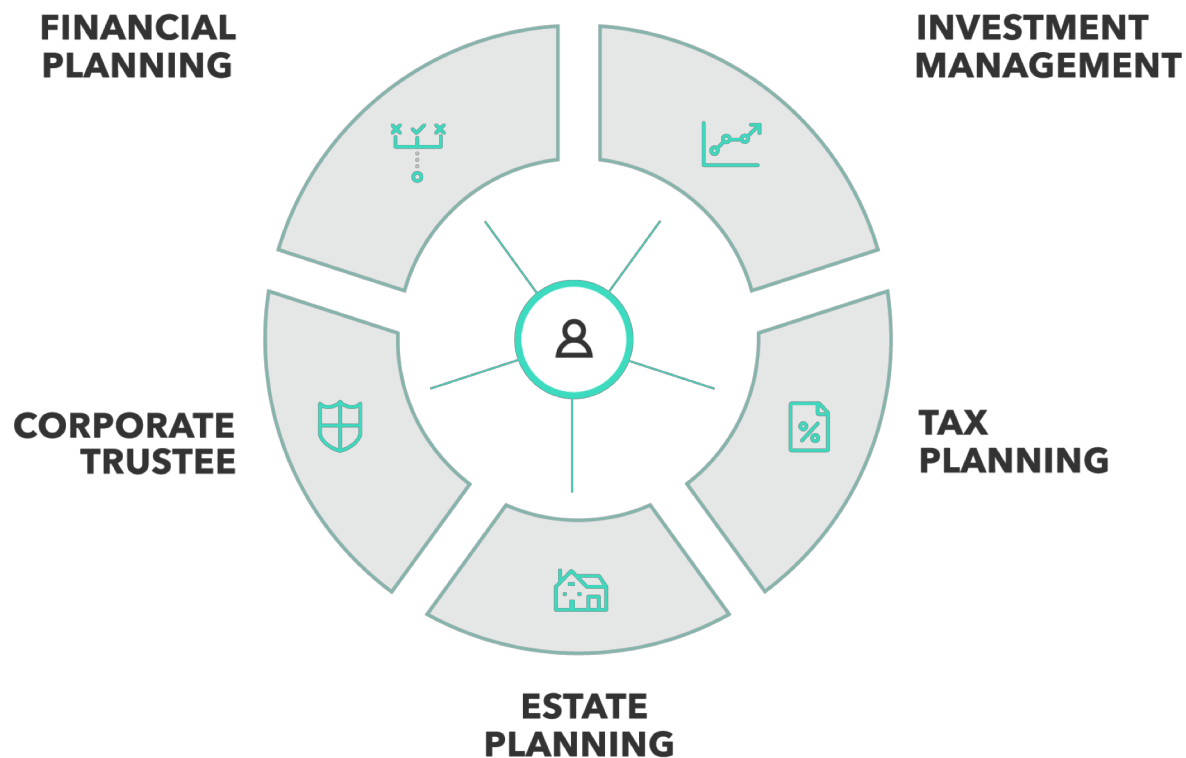


PRATIK KUMAR  
Client Associate



EMELYNE SEH  
Client Administrator

# Comprehensive Wealth Management





# The Science Behind Factor Investing

- Why it Works
- How to Implement with ETFs



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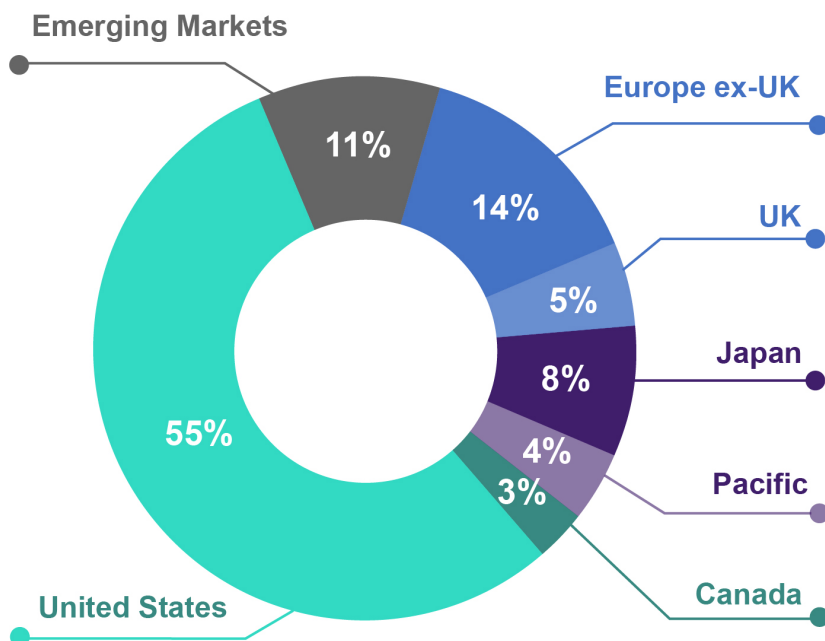
# Agenda

- Post Election Market Update
- Why Science matters
- Factor investing, not active, not passive
- Factor investing using ETFs

# Global Equity Market Returns, 2017 & 2018 YTD

## Weights in MSCI All Country World Index

% global market capitalization, float adjusted



Returns	2018 YTD		2017		15-years	
	Local	USD	Local	USD	Ann.	Beta
<b>Regions</b>						
U.S. (S&P 500)	-	10.6	-	21.8	9.9	0.85
AC World ex-U.S.	0.7	-2.7	18.8	27.8	9.2	1.12
EAFE	1.8	-1.0	15.8	25.6	8.6	1.08
Europe ex-UK	1.4	-1.6	14.5	27.8	9.4	1.24
Emerging markets	-2.6	-7.4	31.0	37.8	12.7	1.29

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

All return values are MSCI Gross Index (official) data. 15-year history based on U.S. dollar returns. 15-year return and beta figures are calculated for the time period 12/31/02-12/31/17.

Beta is for monthly returns relative to the MSCI AC World index. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Countries included in global correlations include Argentina, Australia, Austria, Brazil, Canada, China, Colombia, Denmark, Finland, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Peru, Philippines, Portugal, Spain, South Africa, Taiwan, Thailand, Turkey, UK and the U.S. Past performance is not a reliable indicator of current and future results.

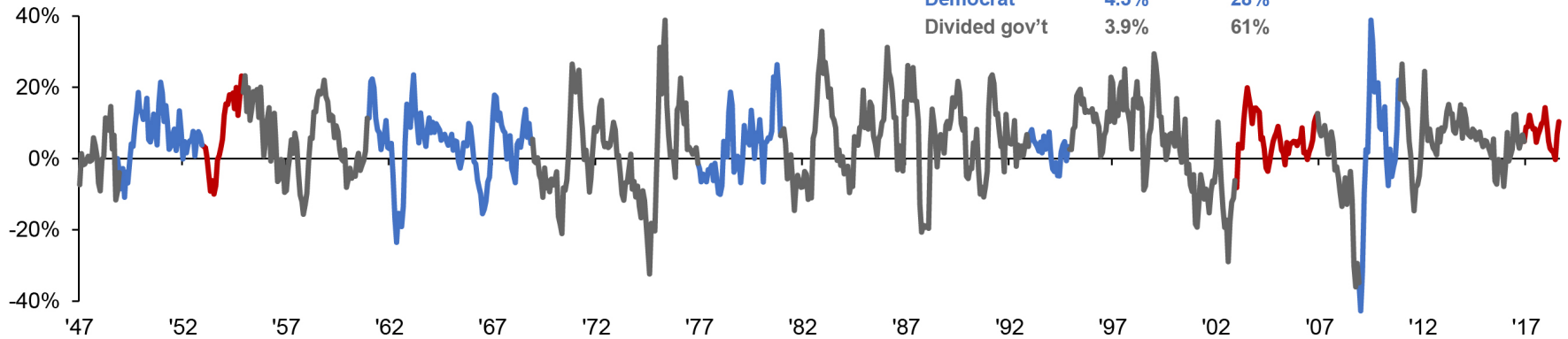
Guide to the Markets – U.S. Data are as of September 30, 2018.



# Elections

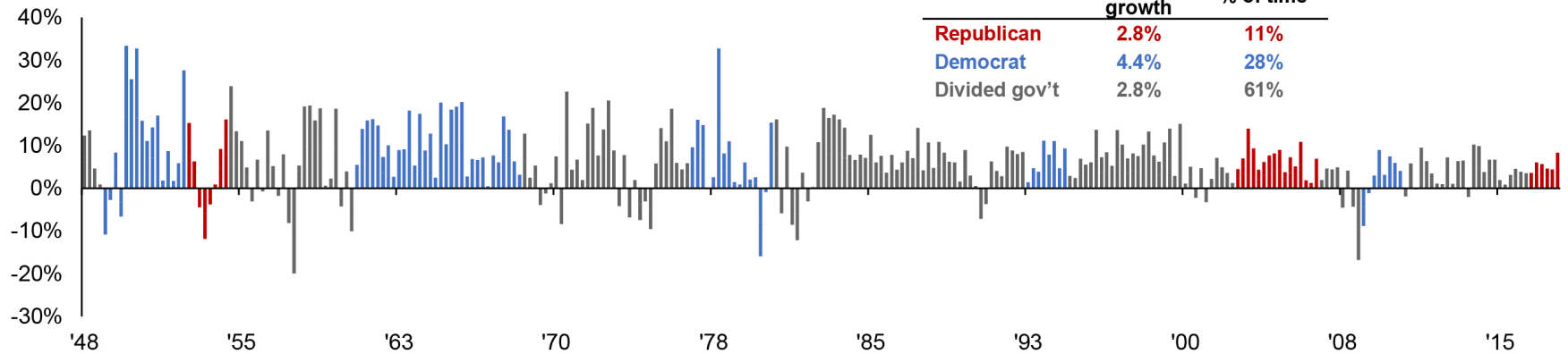
## S&P 500 Price Index

Rolling six-month returns



## Real GDP

Quarter-over-quarter % change, seasonally adjusted annualized rate



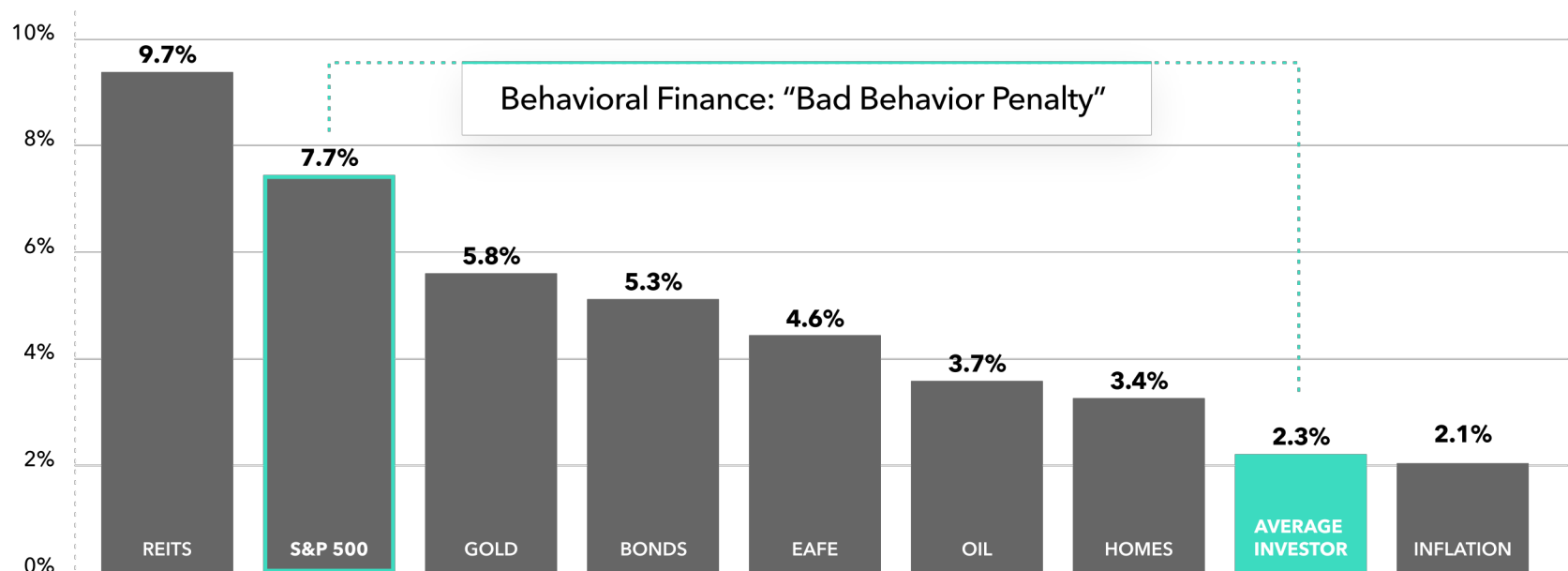
Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor's; (Bottom) Bureau of Economic Analysis.  
Guide to the Markets – U.S. Data are as of September 30, 2018.

# Why Science Matters



# Successful Investing is Difficult

21-Year Annualized Returns by Asset Class (1997-2017)



Sources > Indexes include: REITS: NAREIT Equity REIT Index; EAFE: MSCI EAFE; Oil: WTI Index; Bonds: Barclays Capital U.S. Aggregate Index; Homes: median sale price of existing single-family homes, Gold: USD/troy oz.; Inflation: CPI. Average asset allocation investor return is based on a Dalbar Inc. analysis, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return, where applicable) and represent the 20-year period ending December 31, 2016 to match Dalbar's most recent "Quantitative Analysis of Investor Behavior, 2017". Average stock investor performance results are based on a DALBAR study, "Quantitative Analysis of Investor Behavior (QAIB), 2017." DALBAR is an independent, Boston-based financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period. Results are compared to the performance of the S&P 500 Index for informational purposes only. Index performance is provided as a benchmark but is not illustrative of any specific investment. You cannot invest directly in indexes such as the S&P 500 Index. Index performance includes dividends and distributions, but does not reflect fees, brokerage commissions, withholding taxes, or other investing-related expenses.



# Why the Average Investor Underperforms



Source > Forbes - Understand The Cycle Of Market Emotions To Make Better Investing Decisions, October 18, 2012.

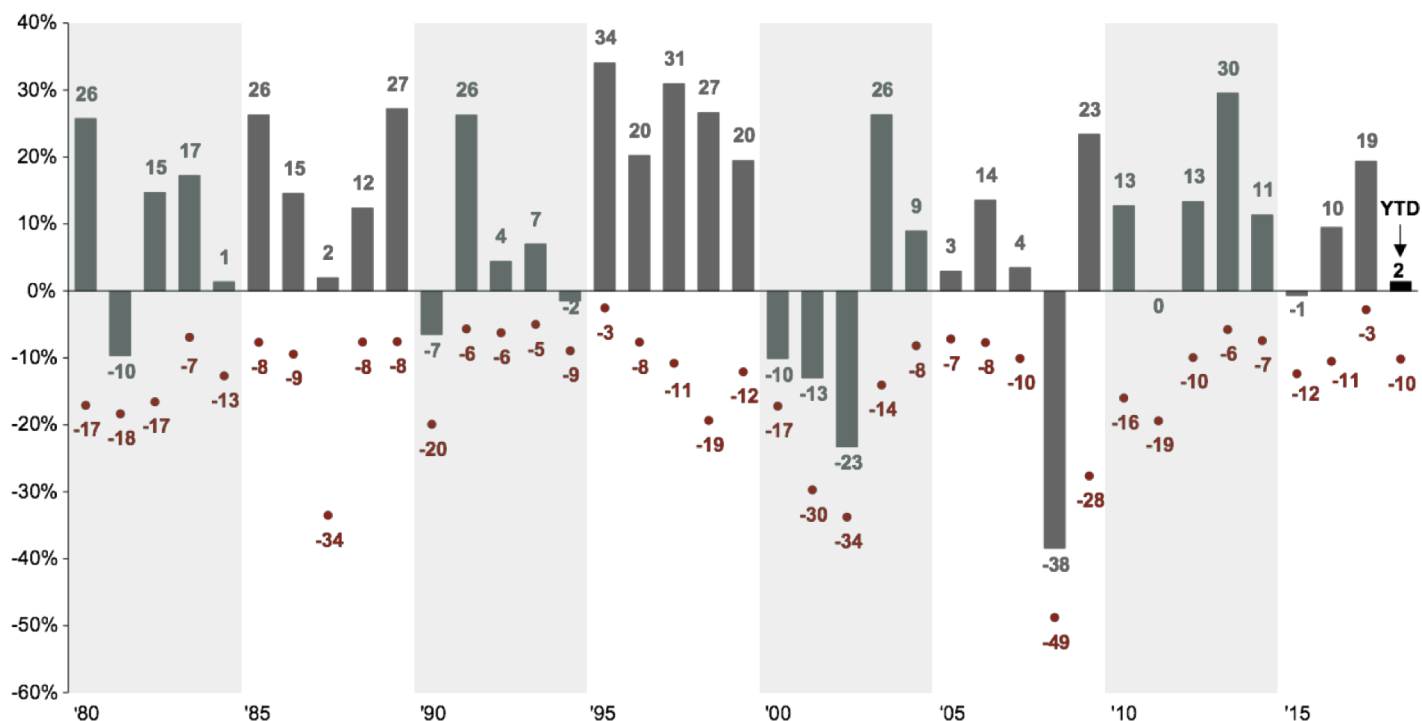
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## Reasons Investors Underperform

- They don't have a financial plan
- They don't understand risk
- They generate unnecessary tax consequences
- They're poorly diversified
- They follow trends touted by the popular press

# Intra-year Volatility

S&P 500 intra-year declines vs. calendar year returns  
despite average intra-year drops of 13.8%, annual returns positive in 29 of 38 years

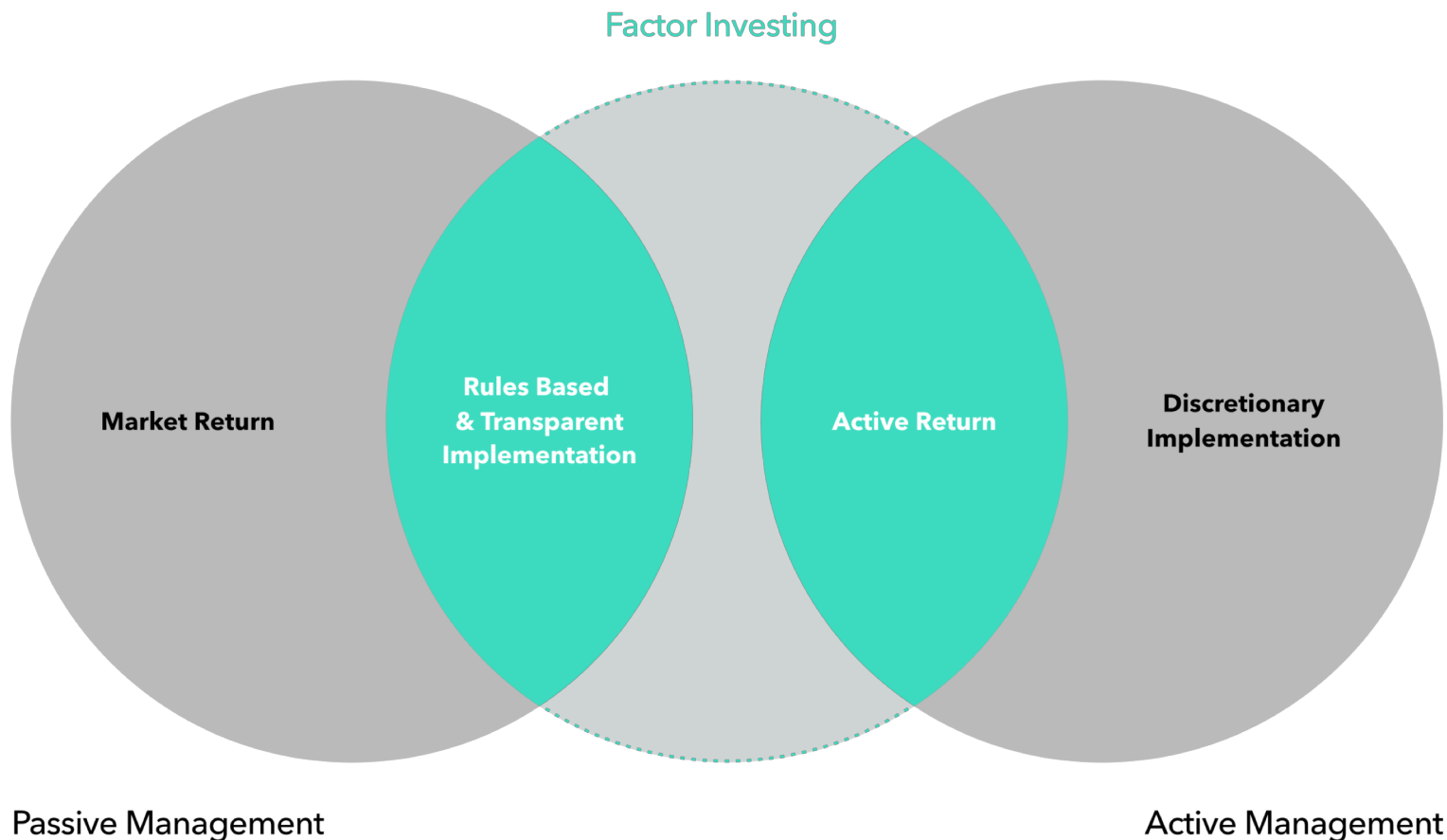


Sources: FactSet, Standard & Poor's, J.p. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%. Guide to the markets - U.S. Data are as of June 30, 2018.



- Why Science matters
- What is factor investing?

# Factor Investing: Right Mix of Active and Passive Investing



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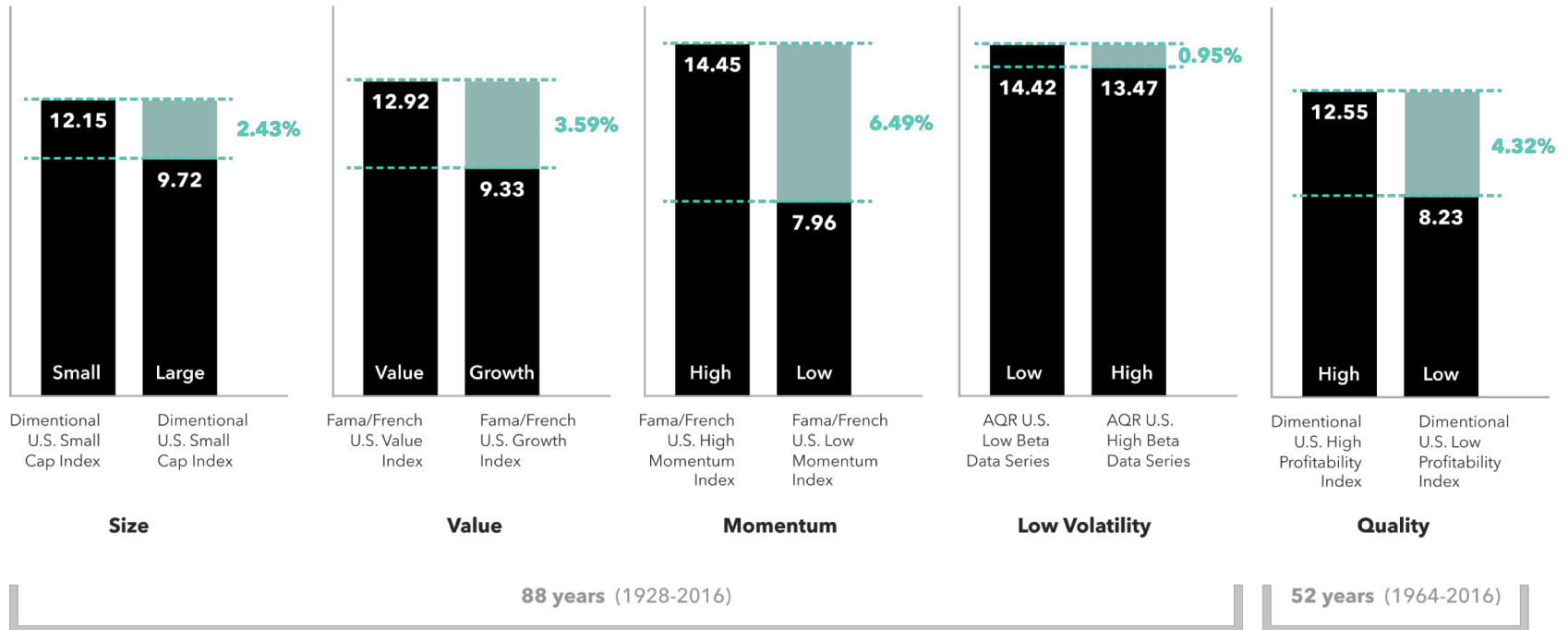
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## What are “Factors”?

- A “factor” is a quantifiable characteristic common to a group of stocks that helps explain the risk and return of that group.
- For a “factor” to be investable, it must meet several tests:
  - It must be significant
  - It must be persistent
  - It must be supported by rigorous, peer-reviewed academic research.

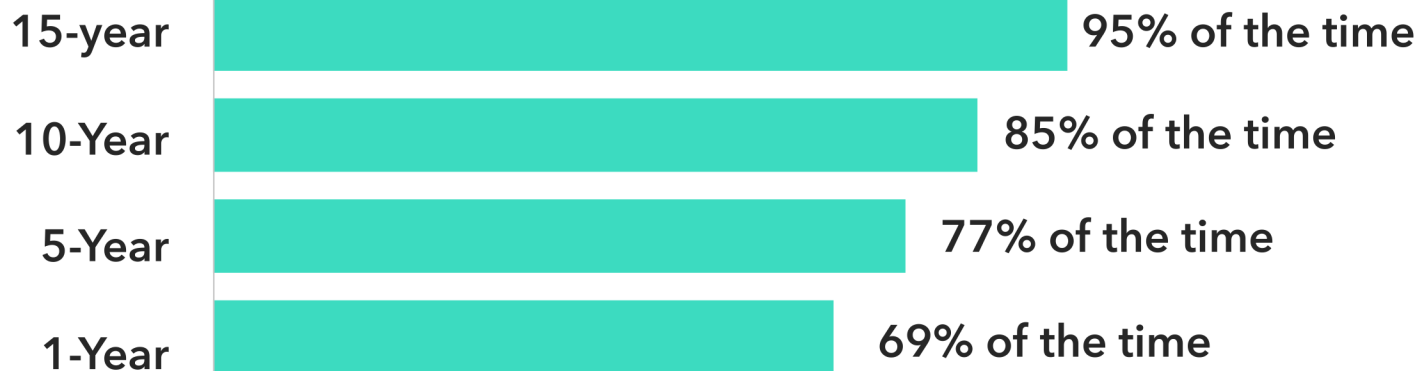
# Factor Investing Outperformance

Annualized Compound Returns (%) in U.S. Dollars



Sources > Dimensional Fund Advisors, AQR Capital Management, S&P 500 Index, MSCI World ex US Index, MSCI Emerging Markets Index, Fama/French libraries. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Indices are not available for direct investment; their performance does not reflect the expense associated with the management of an actual portfolio. Data as of December 31, 2016. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Performance quoted is past performance and is not indicative of future results. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Performance quoted is past performance and is not indicative of future results.

# U.S. Markets



**MARKET VS. T-BILL**

**VALUE VS. GROWTH**

**SMALL VS. LARGE**

**HIGH MOMENTUM VS. LOW MOMENTUM**

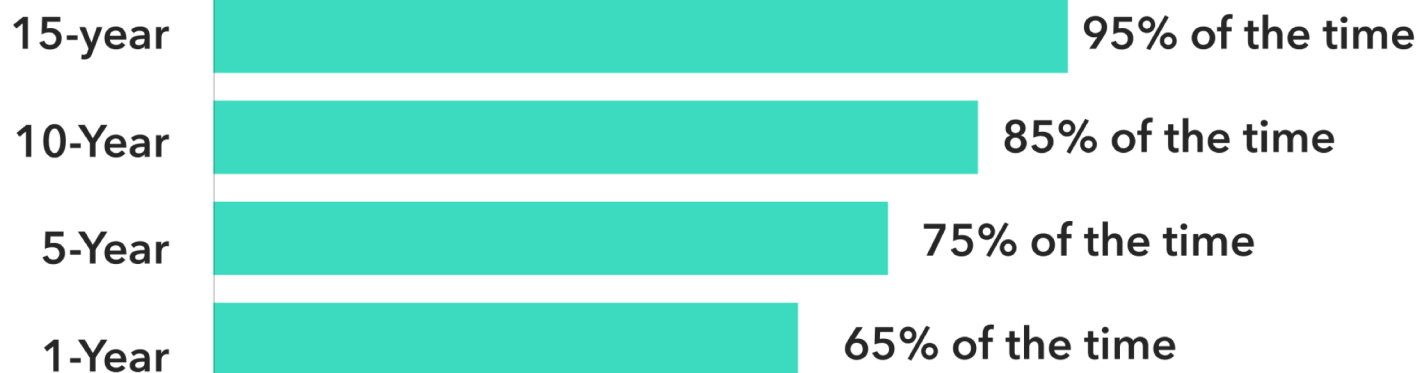
**HIGH QUALITY VS. LOW QUALITY**

**LOW VOLATILTY VS. HIGH VOLATILITY**

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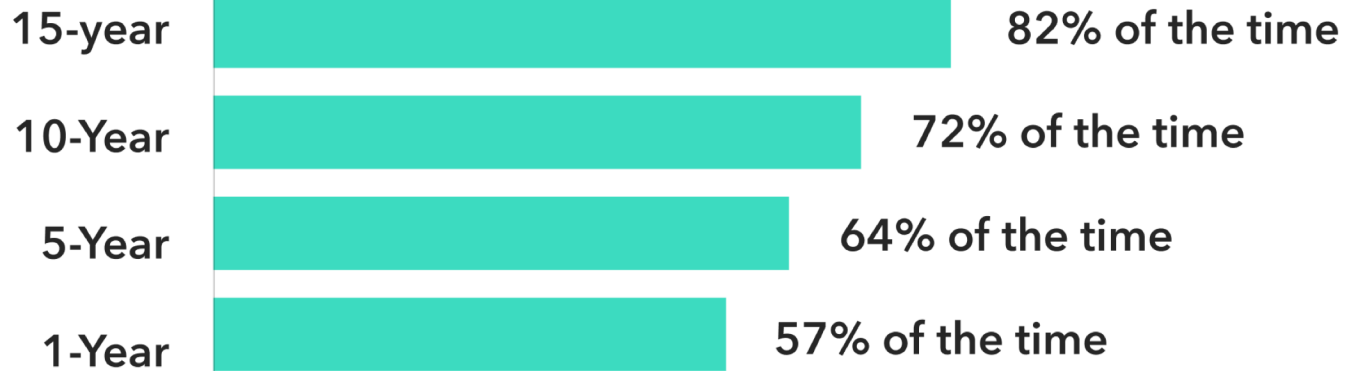
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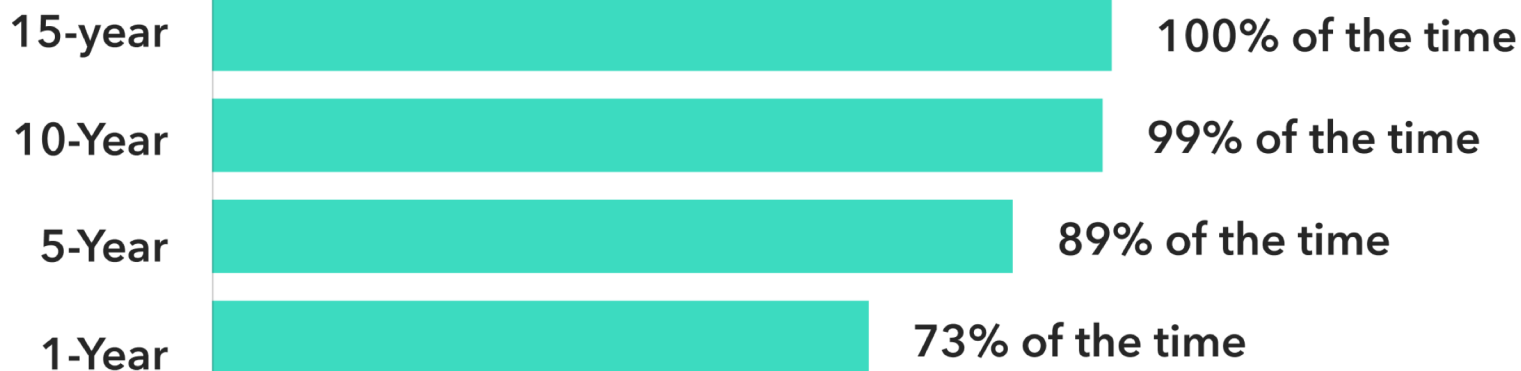
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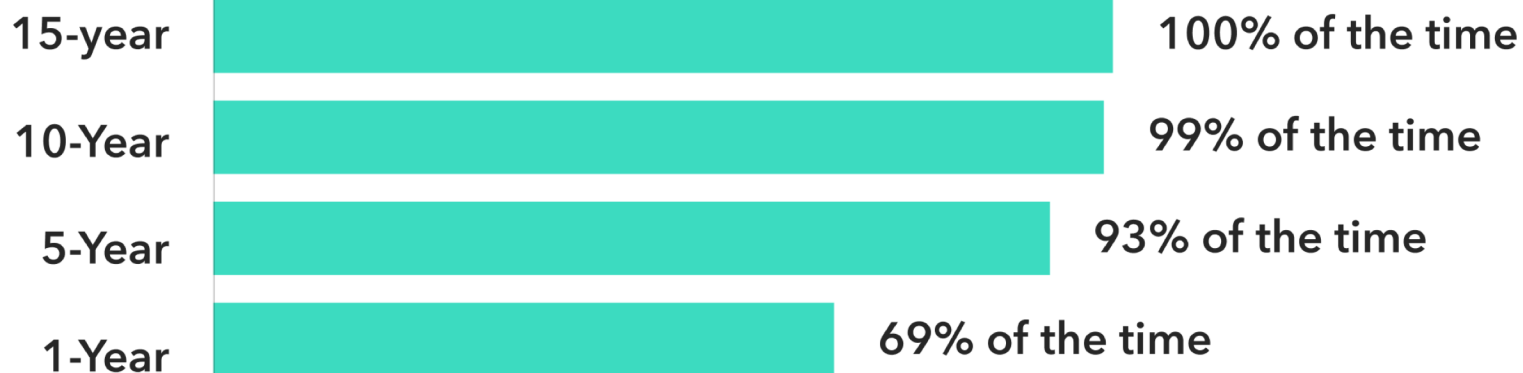
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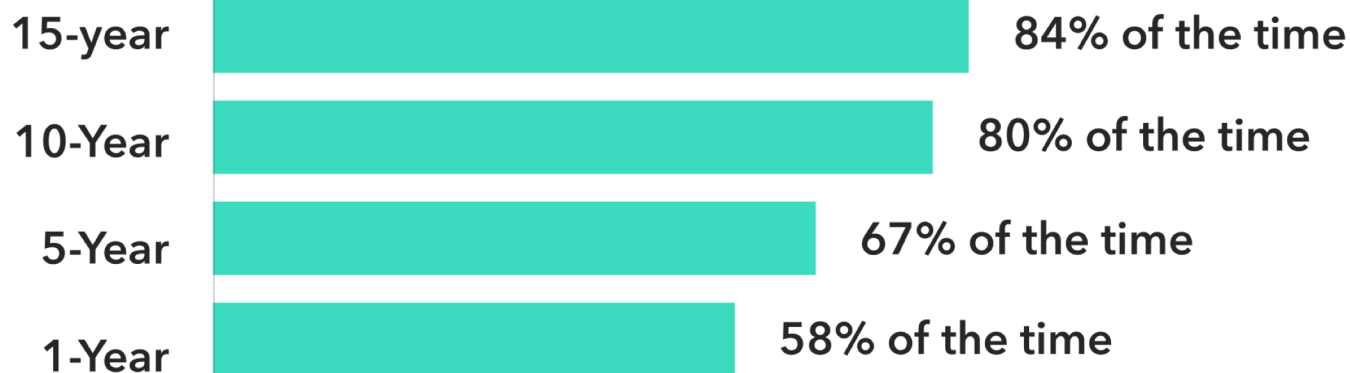
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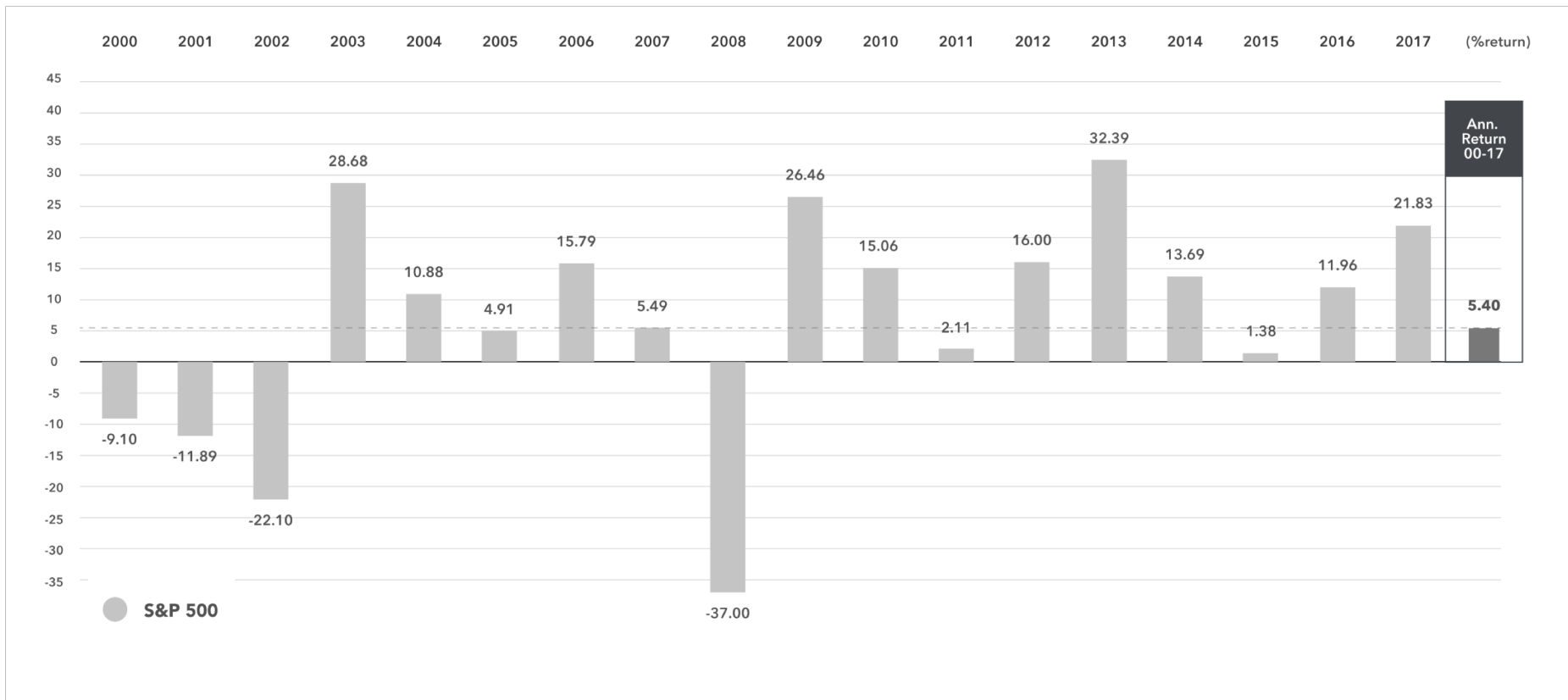
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# Factors outperform over time, not every time



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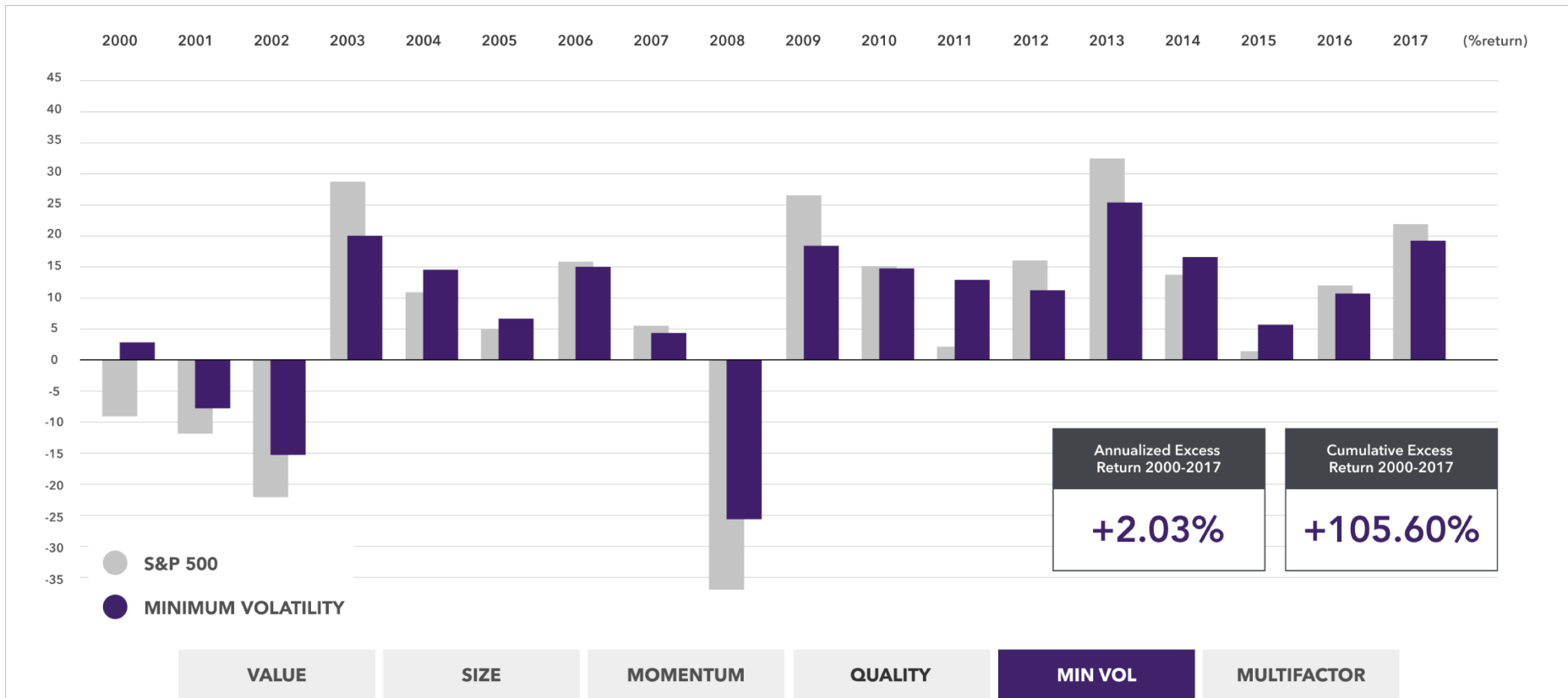
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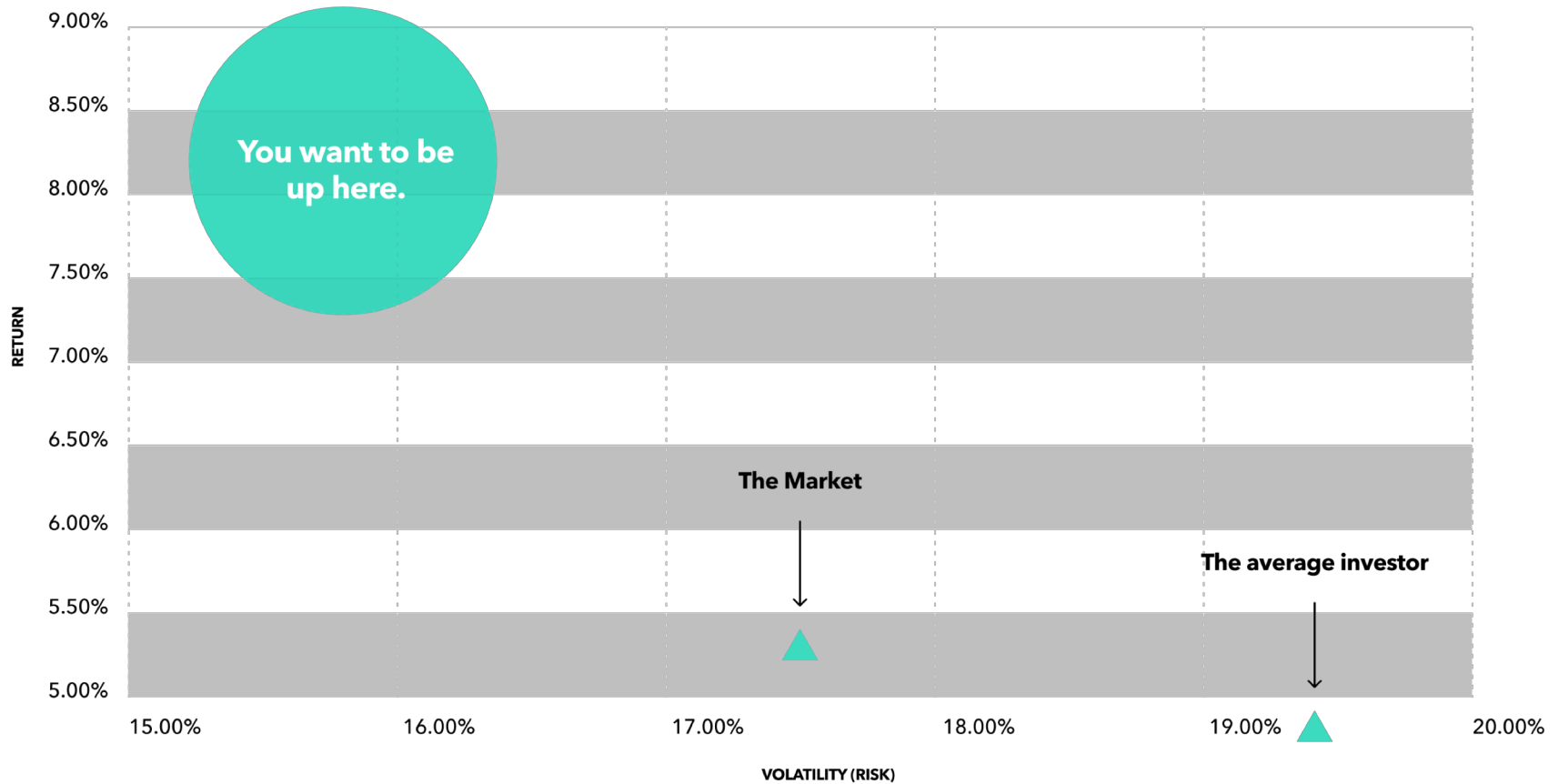
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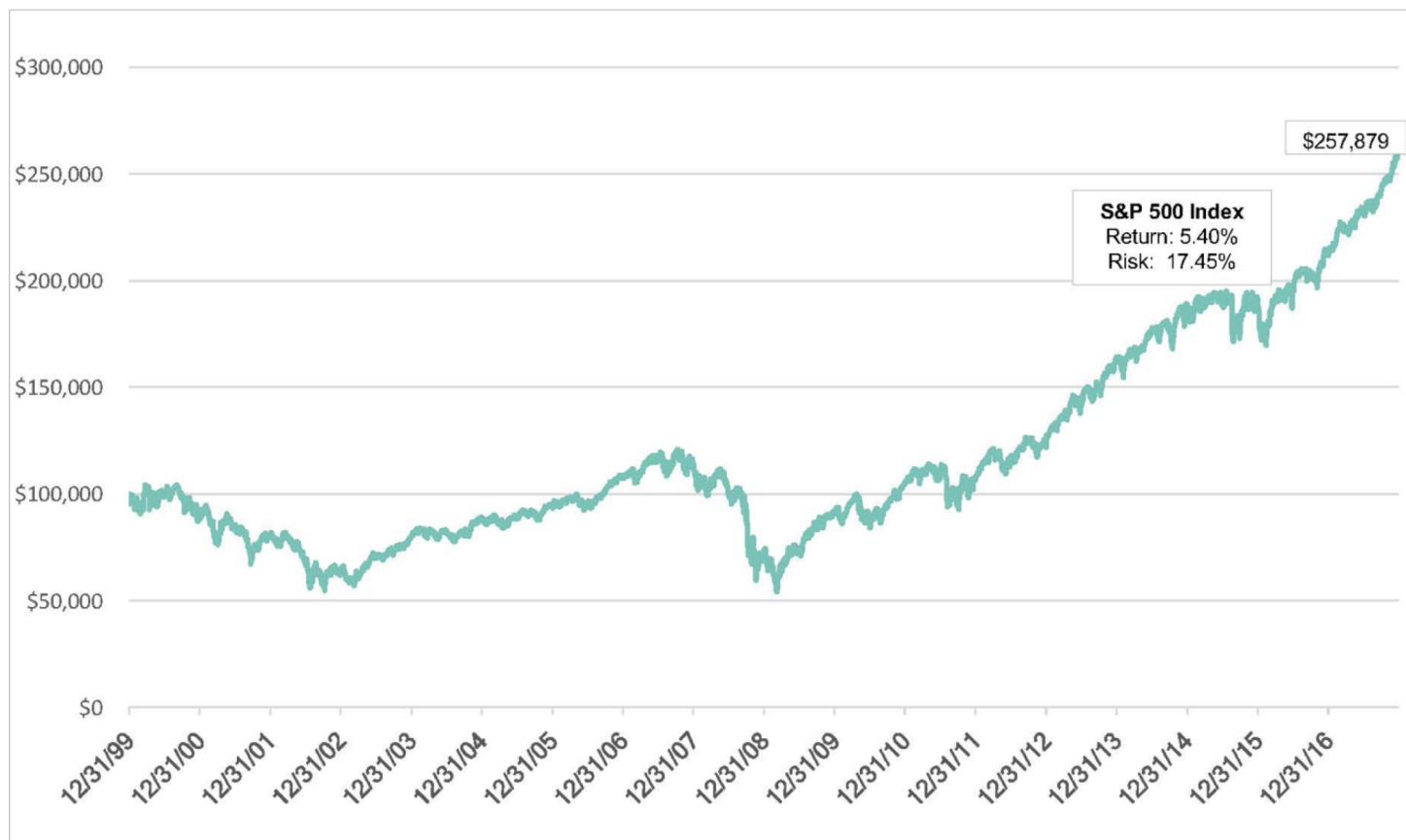
# Risk/Return Chart (EF): S&P 500 Index 2000 - 2017



Sources: S&P 500, Dalbar. Results are compared to the performance of the S&P 500 Index for informational purposes only. Index performance is provided as a benchmark but is not illustrative of any specific investment. You cannot invest directly in indexes such as the S&P 500 Index. Index performance includes dividends and distributions, but does not reflect fees, brokerage commissions, withholding taxes, or other investing-related expenses.

- Why Science matters
- What is factor investing?
- Evidence supporting factor investing

## S&P 500 Index Returns 2000 - 2017



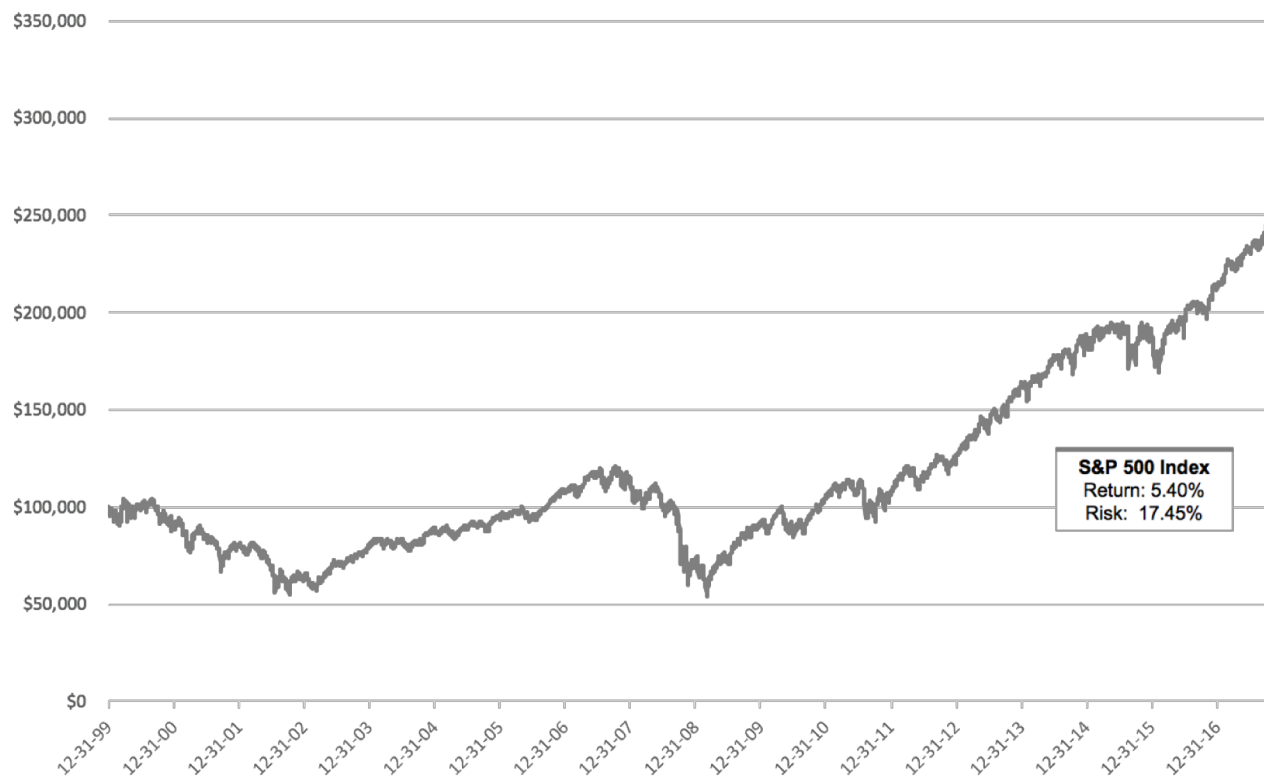
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## What are “value stocks”?

- Value stocks are priced at a discount relative to their industry peers based on earnings, cash flows, or “book” value
- Value stocks tend to be out-of-favor companies
- Examples include Exxon, JP Morgan, Pfizer, and AT&T

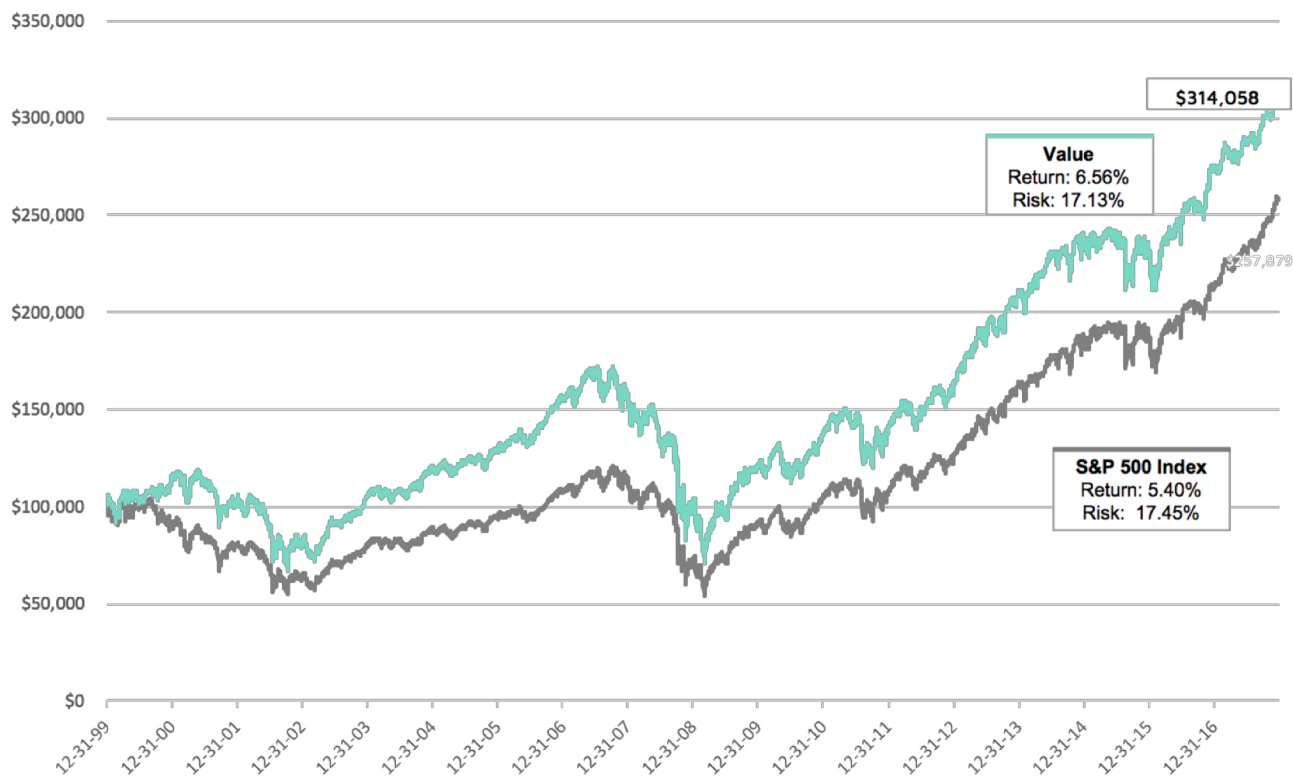
# Beating the Market: Value Factor vs S&P 500 Index



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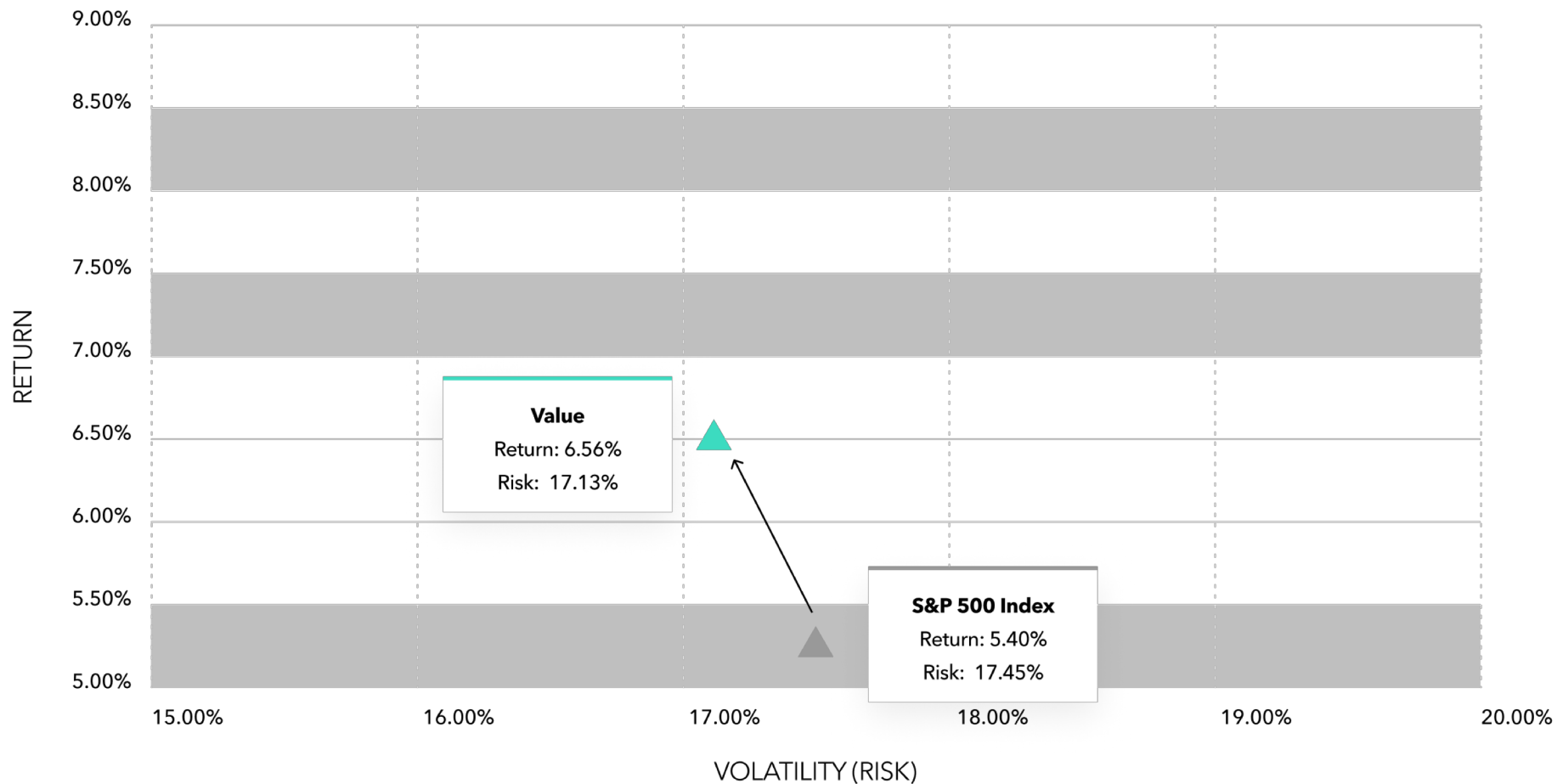
# Beating the Market: Value Factor vs S&P 500 Index



Source: FactSet

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## Value Factor vs S&P 500 Index 2000–2017



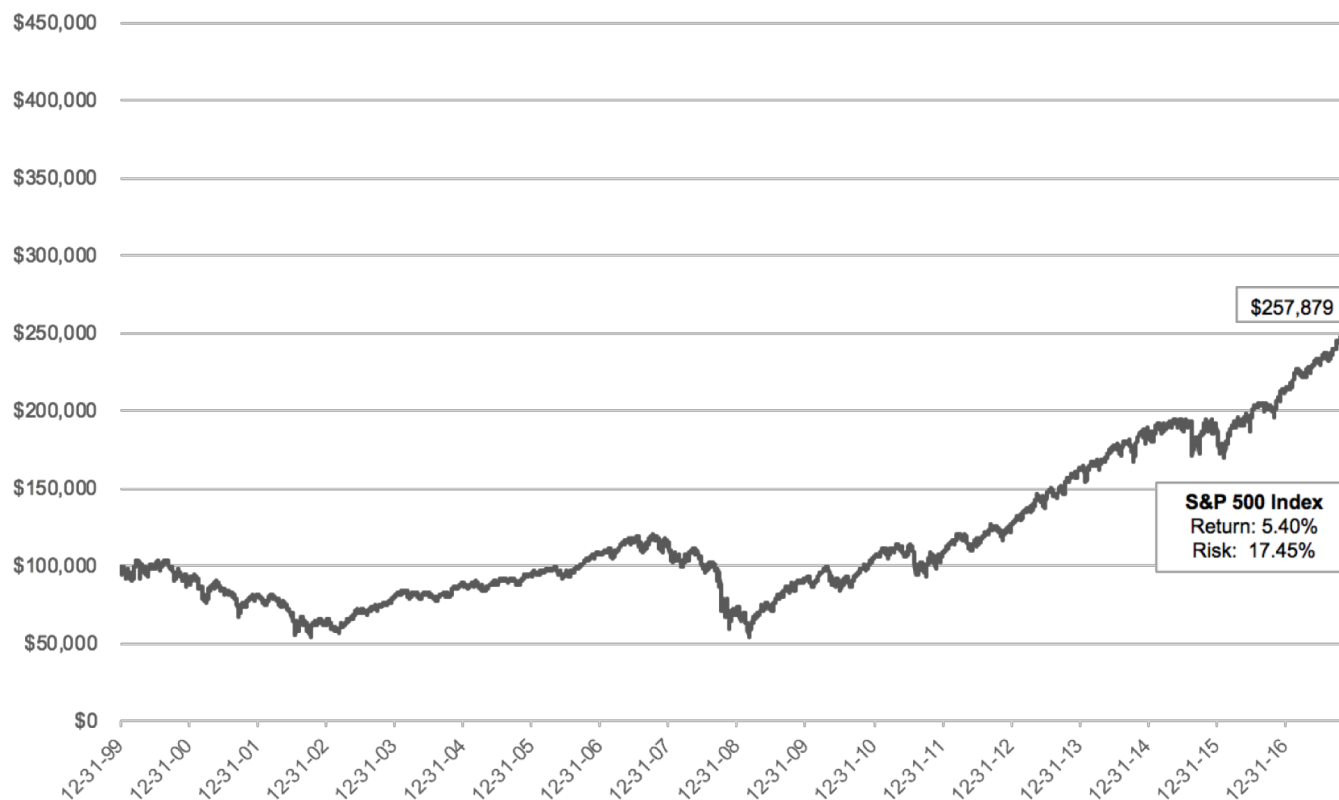
Source: FactSet

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## What are “size” stocks?

- “Size” refers to market capitalization and “size” stocks are typically referred to as “small cap” stocks
- Small cap stocks are generally defined as those with a market capitalization between \$300 million and \$2 billion
- Examples include the New York Times, Dick’s Sporting Goods, Wendy’s, Cheesecake Factory, and Jack in the Box (or Starbucks in 1971 and Microsoft in 1975)

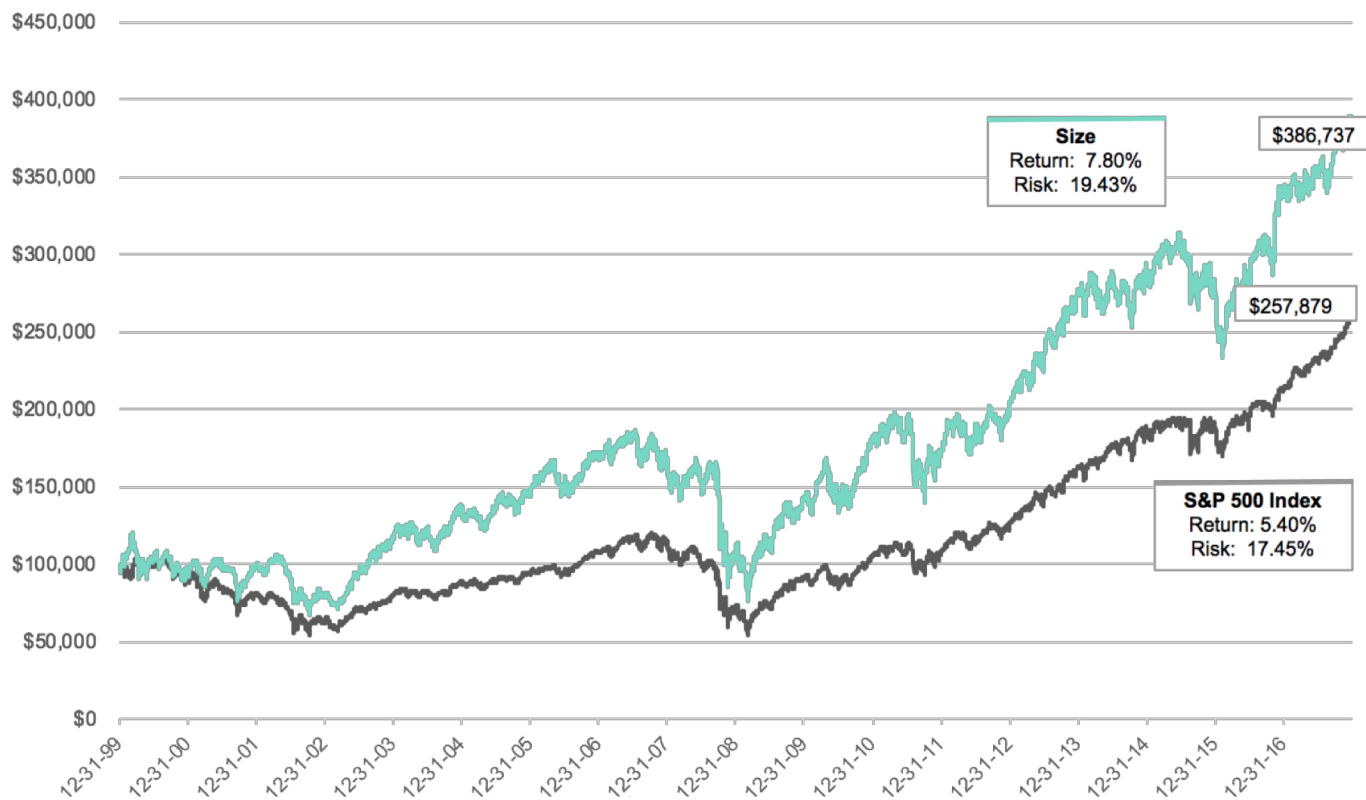
# Beating the Market: Size Factor vs. S&P 500 Index 2000–2017



Source: FactSet

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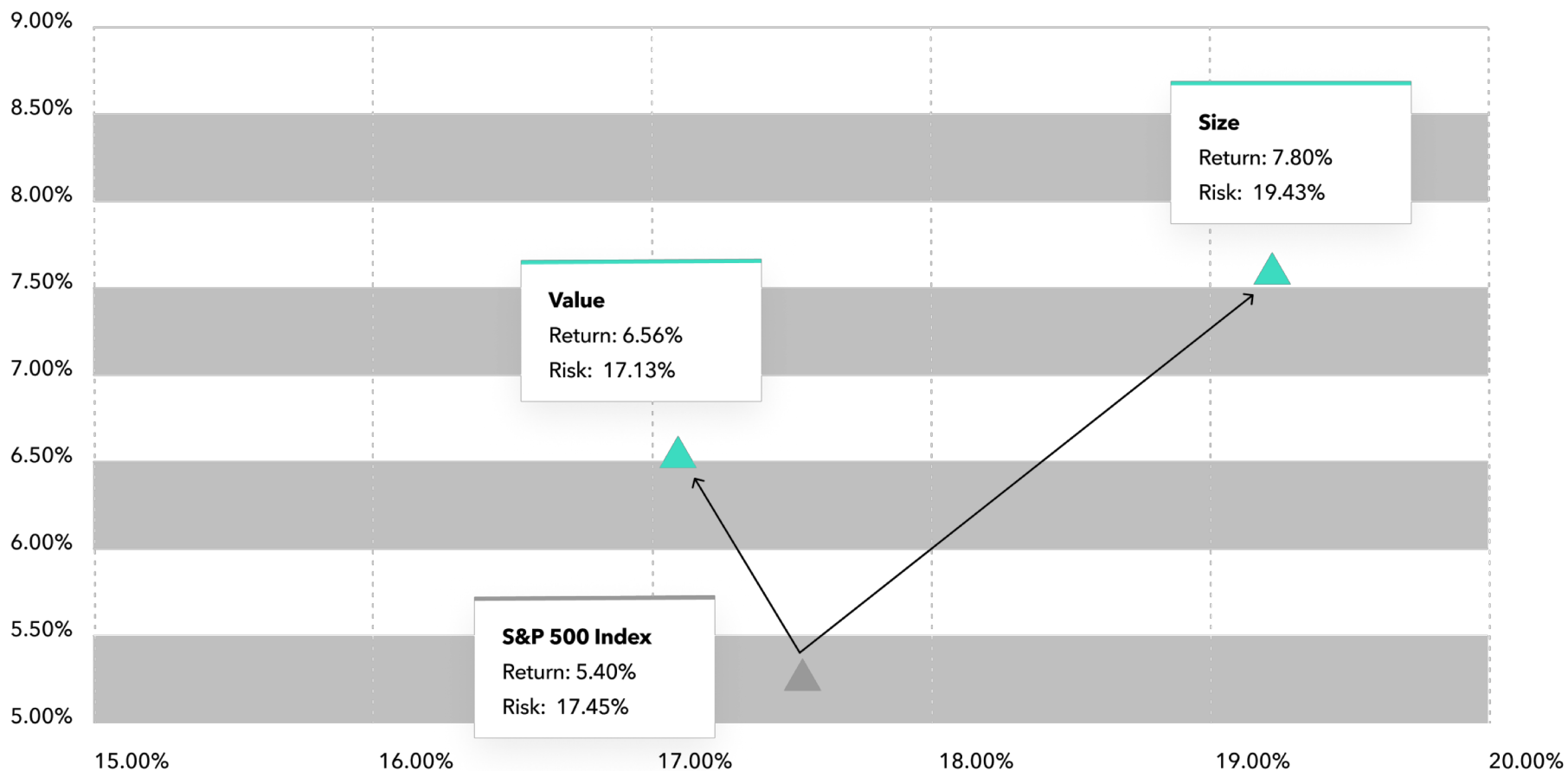
# Beating the Market: Size Factor vs. S&P 500 Index 2000–2017



Source: FactSet

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## Size and Value Factors vs S&P 500 Index 2000–2017



Source: FactSet

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## What are “quality” stocks?

- “Quality” refers to financially healthy companies
- “Quality” companies have lower debt, higher profit margins, and more consistent earnings growth than their peers
- Examples include Apple, Visa, Home Depot, and IBM

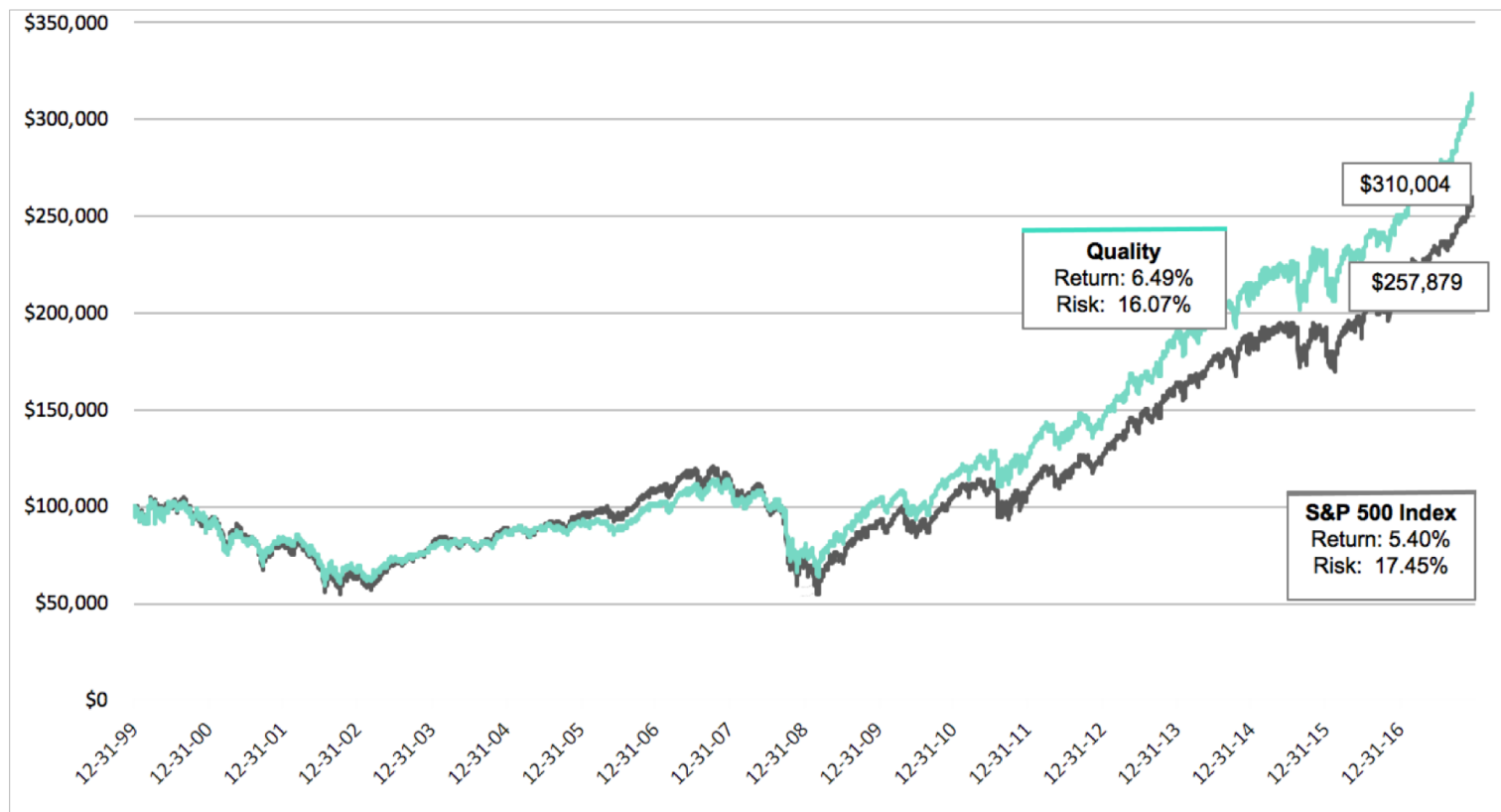
# Quality Factor vs S&P 500 Index 2000–2017



Source: FactSet

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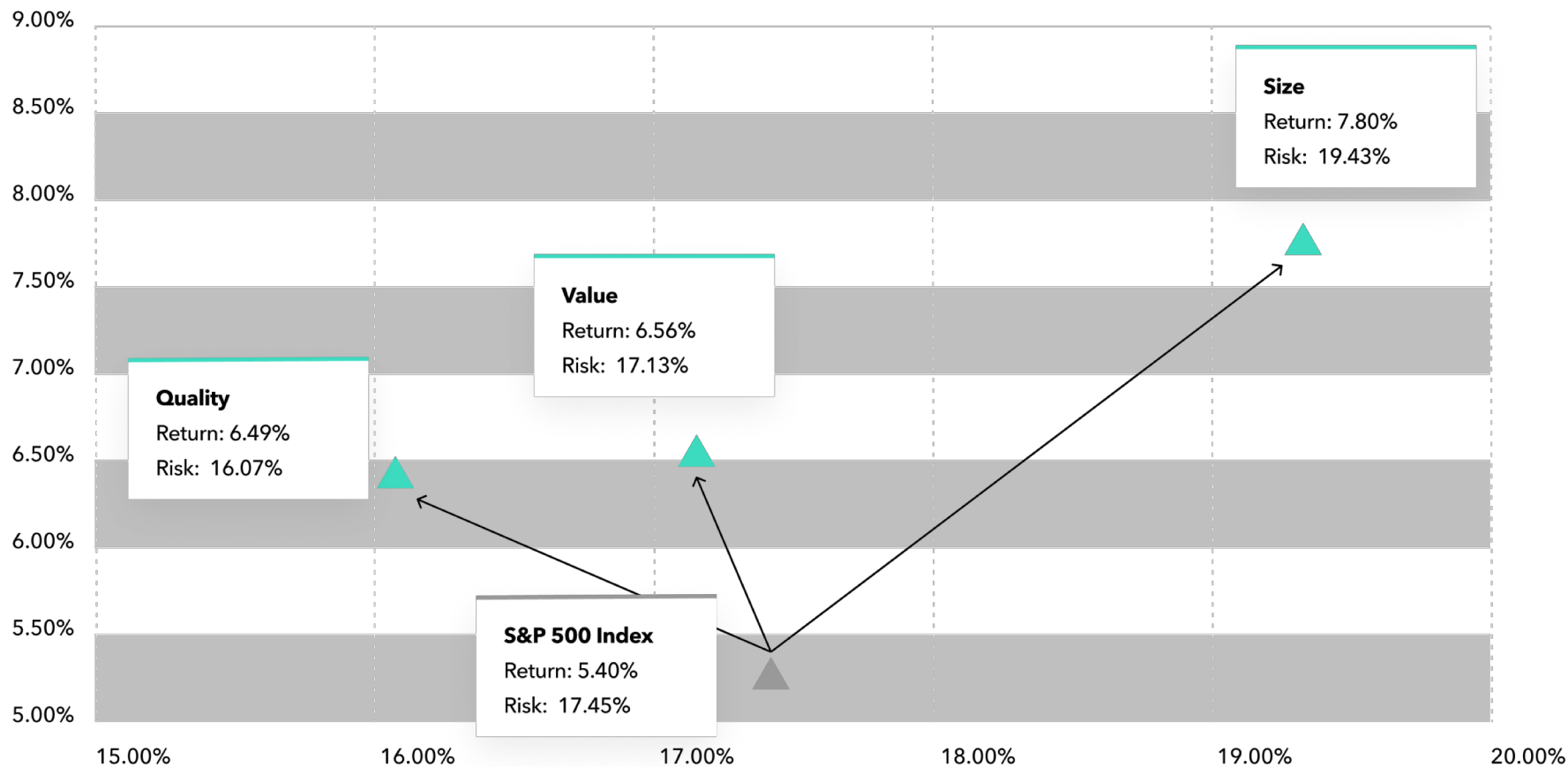
# Quality Factor vs S&P 500 Index 2000–2017



Source: FactSet

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# Size, Value, and Quality (U.S.) vs S&P 500 Index 2000 – 2017



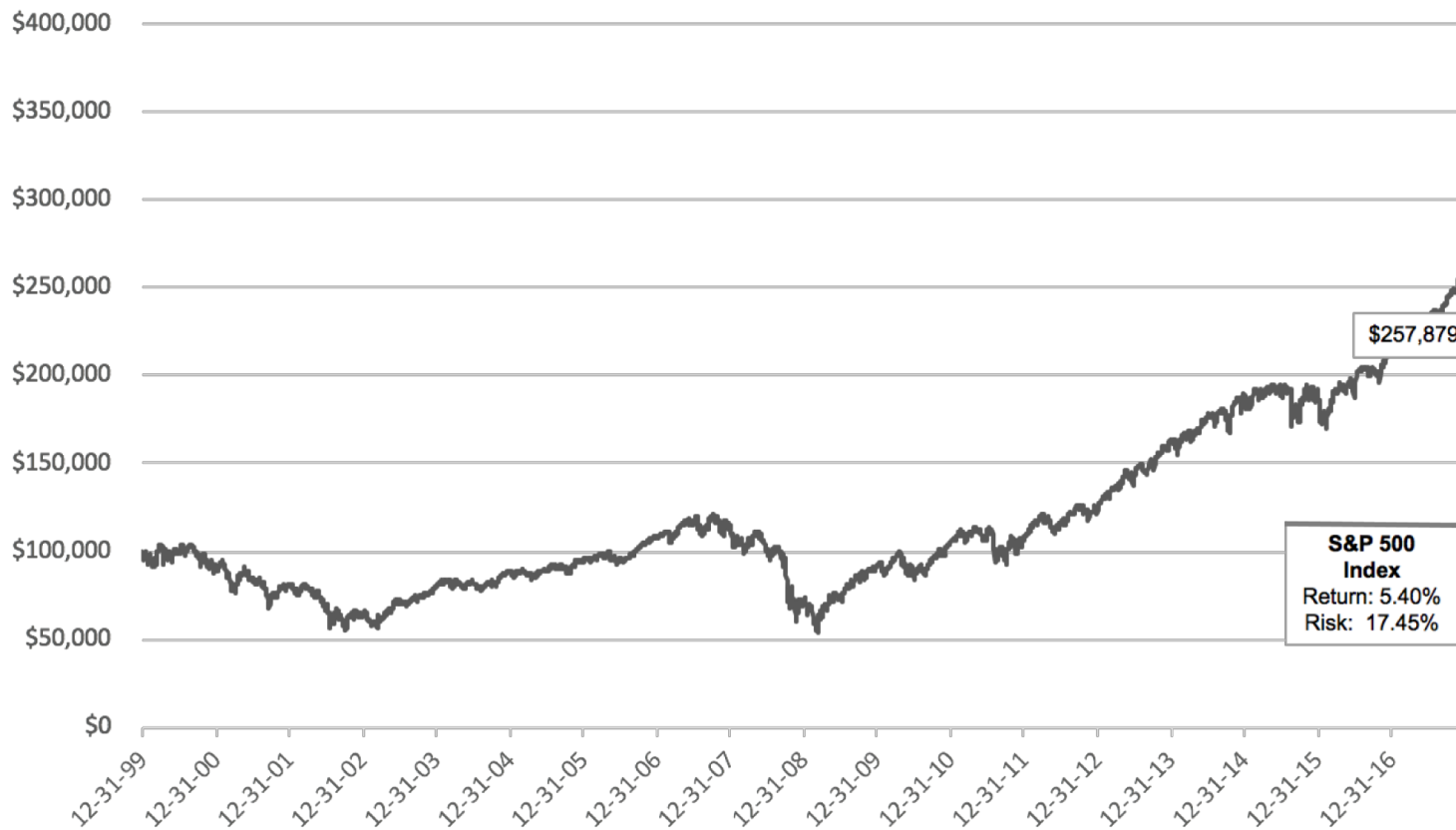
Source: FactSet

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# Momentum Factor

- Momentum is the practice of investing in an upward price trend in a systematic way that is quantitative and rules-based
- Momentum can be a high turnover strategy, so it's best to have a financial plan on how best to invest in it (i.e., through an IRA)
- Examples include the “FAANG” stocks—Facebook, Apple, Amazon, Netflix, and Google. Past examples included Netscape, eToys, !Yahoo, and even Berkshire Hathaway

# Momentum Factor vs S&P 500 Index 2000–2017



Source: FactSet

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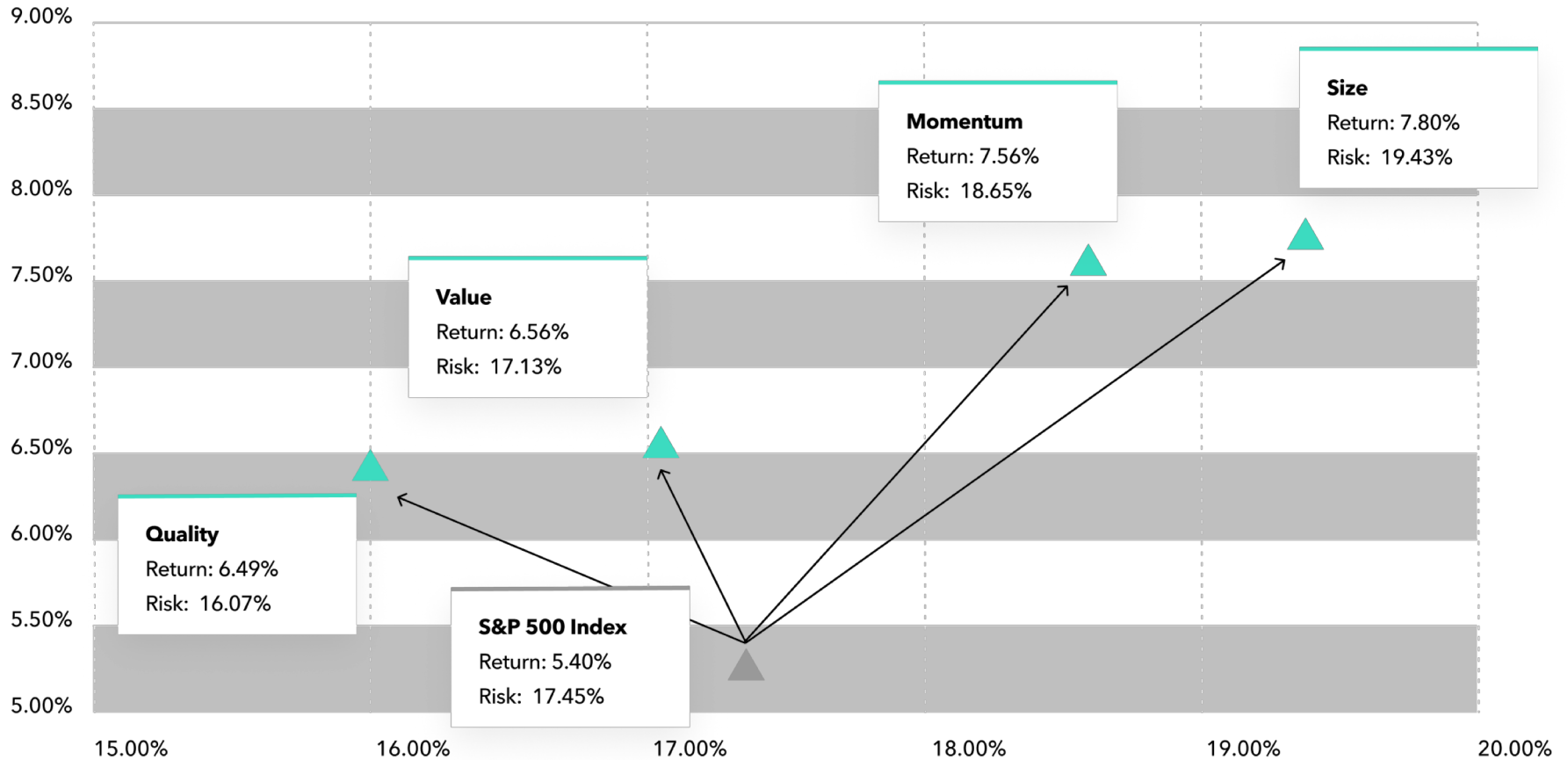
# Momentum Factor vs S&P 500 Index 2000–2017



Source: FactSet

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# Size, Value, Momentum, and Quality Factors (U.S.A.) vs S&P 500 Index, 2000–2017



Source: FactSet

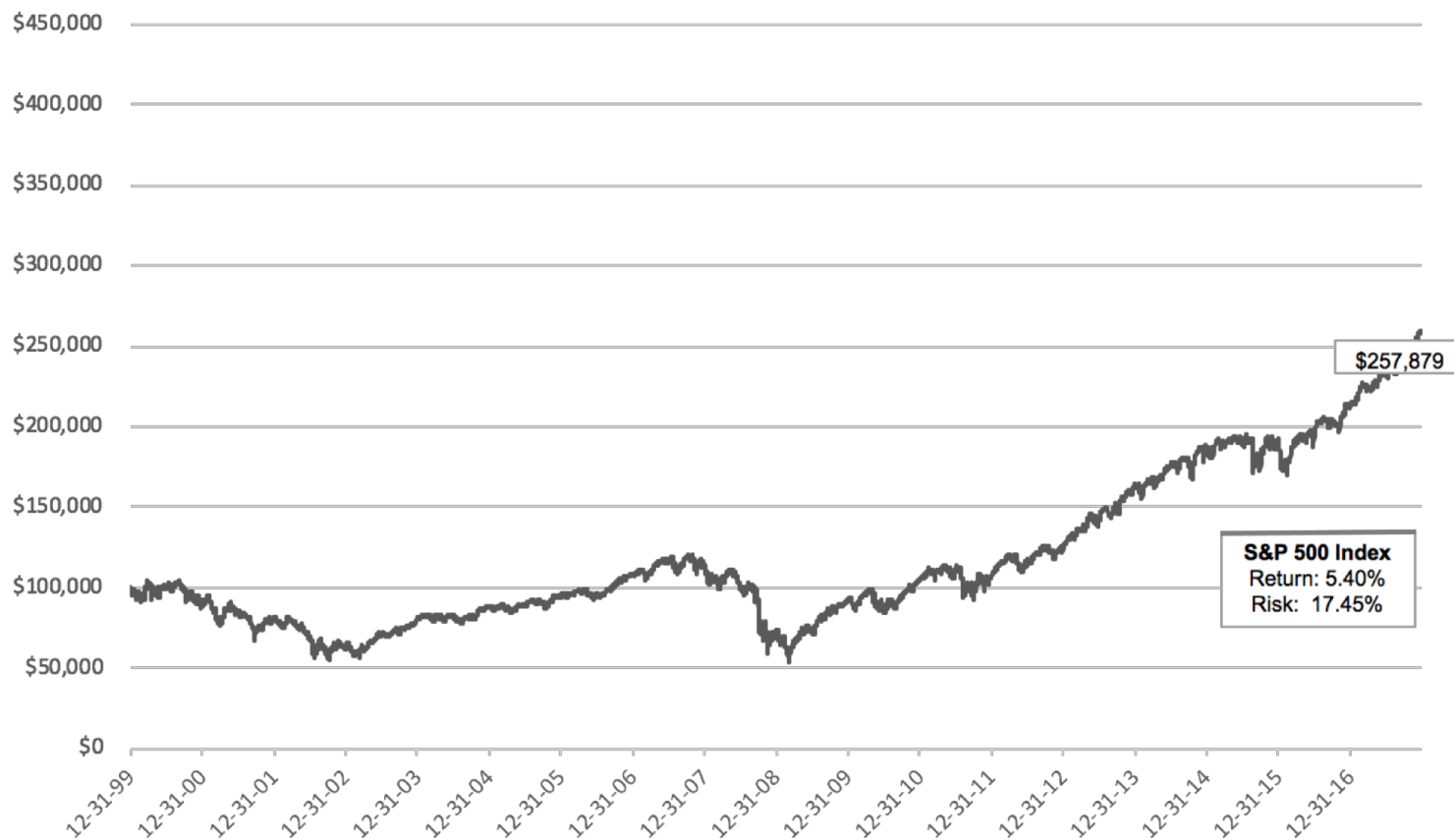
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## Multi-factor: Why diversify across factors?

- Factors perform differently overtime
- Multi-factor investing reduces risk overtime
- Multi-factors combined achieve higher rates of return

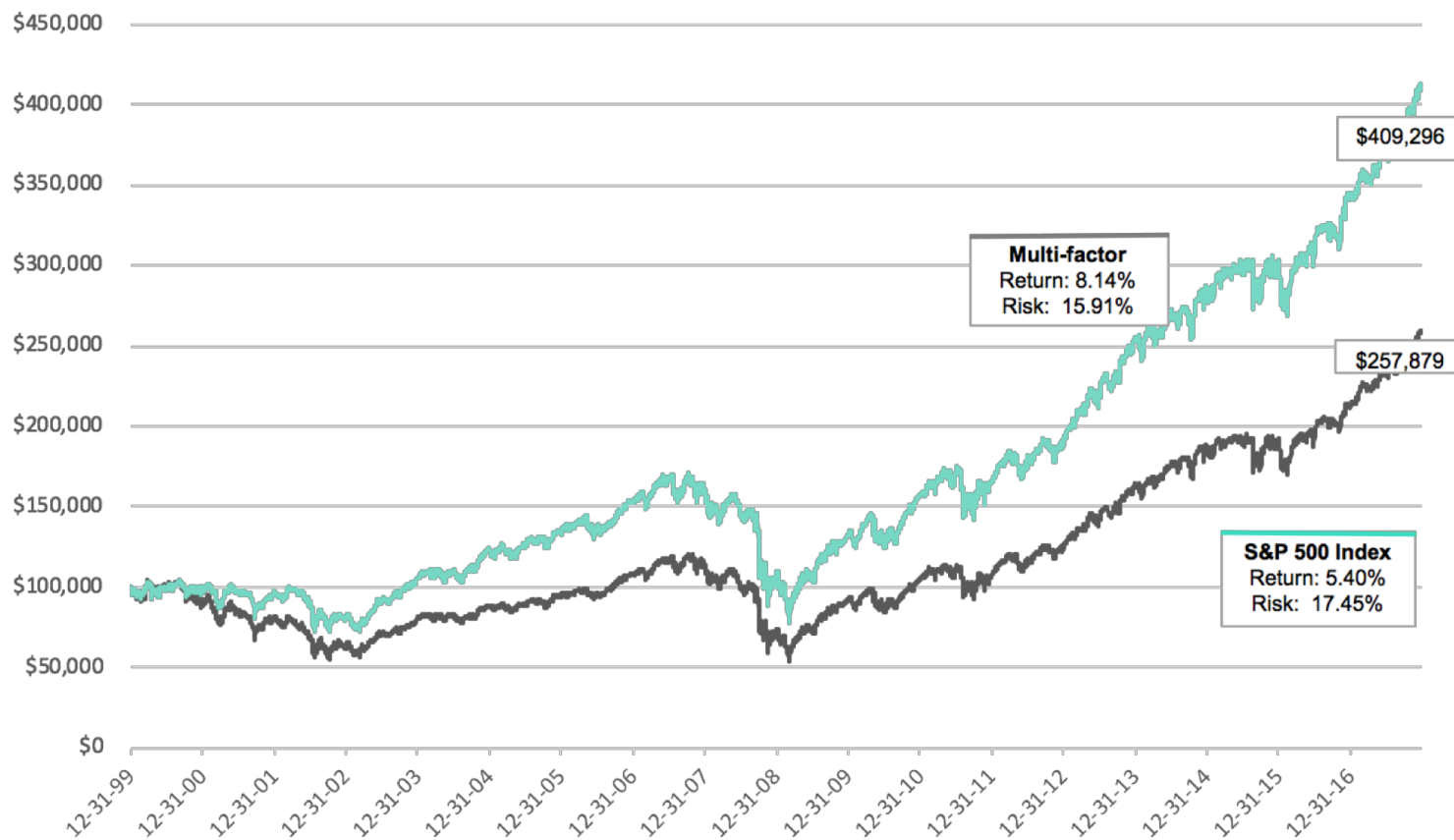
# Multi-Factor Portfolio vs S&P 500 Index 2000–2017



Source: FactSet

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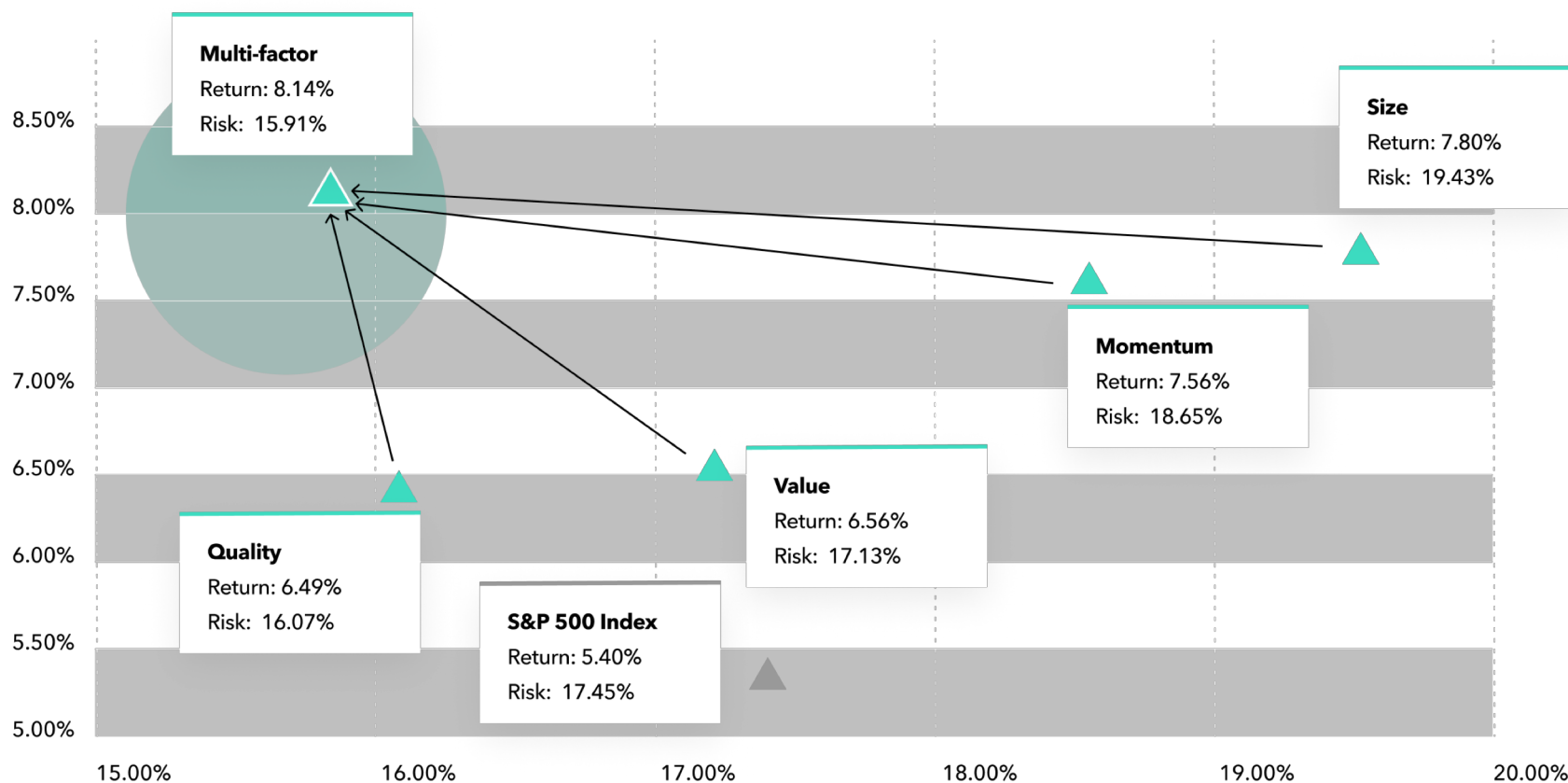
# Multi-Factor Portfolio vs S&P 500 Index 2000–2017



Source: FactSet

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# Better Returns and Lower Risk through Multi-Factor Diversification 2000–2017



Source: FactSet

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## Summary

- Factor Investing is based in science and is supported by 9 decades of academic research
- Factor investing can be implemented with MFs, ETFs or SMAs and at a very low cost
- Factor investing consistently works across domestic, international and emerging markets

# Exchange Traded Funds

A long-exposure photograph of a beach at night. The foreground shows the dark sand of the beach with light trails from waves washing onto the shore. In the distance, a lighthouse is visible on the horizon, illuminated against the dark sky. The overall mood is serene and quiet.

VLUE

iShares Edge MSCI USA Value Factor ETF

Fact Sheet as of 12/31/2017



The iShares Edge MSCI USA Value Factor ETF seeks to track the performance of an index that measures the performance of U.S. large- and mid-capitalization stocks with value characteristics and relatively lower valuations, before fees and expenses.

WHY VLUE?

- 1 Exposure to large- and mid-cap U.S. stocks with lower valuations based on fundamentals
- 2 Index-based access to a specific factor which has historically driven a significant part of companies' risk and return<sup>1</sup>
- 3 Use to help manage exposure and risk within a stock allocation

GROWTH OF 10,000 USD SINCE INCEPTION



The Hypothetical Growth of \$10,000 chart reflects a hypothetical \$10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted.

PERFORMANCE

	1 Year	3 Year	5 Year	10 Year	Since Inception
NAV	21.97%	10.82%	N/A	N/A	13.80%
Market Price	22.92%	11.09%	N/A	N/A	14.02%
Benchmark	22.18%	11.00%	N/A	N/A	14.01%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com).

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RISK PROFILE



Based on the 1 year standard deviation of the fund. Standard deviation measures how dispersed returns are around the average. A higher standard deviation indicates that returns are spread out over a larger range of values and thus, more volatile or risky. Each increment on the scale above represents a 5% range of standard deviation except for the last segment which is >20%.

KEY FACTS

Fund Launch Date	04/16/2013
Expense Ratio	0.15%
Benchmark	MSCI USA Enhanced Value Index
30 Day SEC Yield	2.14%
Number of Holdings	150
Net Assets of Share Class	\$3,192,602,169

Ticker	VLUE
CUSIP	46432F388
Exchange	Cboe BZX formerly known as BATS

TOP HOLDINGS (%)

APPLE INC	9.75
GENERAL MOTORS	3.39
INTEL CORPORATION CORP	3.37
PFIZER INC	3.34
WALMART STORES INC	3.14
CISCO SYSTEMS INC	3.03
BANK OF AMERICA CORP	2.87
CHEVRON CORP	2.84
CITIGROUP INC	2.51
JPMORGAN CHASE & CO	2.50
	36.74

Holdings are subject to change.

TOP SECTORS (%)

Information Technology	23.78%
Financials	14.53%
Health Care	13.66%
Consumer Discretionary	12.31%
Industrials	10.41%
Consumer Staples	7.86%
Energy	6.08%
Materials	3.26%
Real Estate	2.94%
Utilities	2.86%
Telecommunications	2.06%
Cash and/or Derivatives	0.25%

FUND CHARACTERISTICS

Beta vs. S&P 500	1.39
Standard Deviation (3yrs)	11.76%
Price to Earnings	15.78
Price to Book Ratio	2.16

FEES AND EXPENSES BREAKDOWN

<b>Expense Ratio</b>		<b>0.15%</b>
Management Fee	0.15%	
Acquired Fund Fees and Expenses	0.00%	
Foreign Taxes and Other Expenses	0.00%	

GLOSSARY

**Beta** is a measure of the tendency of securities to move with the market as a whole. A beta of 1 indicates that the security's price will move with the market. A beta less than 1 indicates the security tends to be less volatile than the market, while a beta greater than 1 indicates the security is more volatile than the market.

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Want to learn more? [www.iShares.com](http://www.iShares.com) [www.blackrockblog.com](http://www.blackrockblog.com) @iShares

1. Source: J. Lakonishok, A. Shleifer, R. Vishny, "Contrarian Investment, Extrapolation, and Risk." Journal of Finance, 1994.

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Value securities are those issued by companies that may be perceived as undervalued. Value securities may fail to appreciate for long periods of time and may never realize their full potential value.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market. There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

Diversification may not protect against market risk or loss of principal. Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

**Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

"Acquired Fund Fees and Expenses" reflect the Fund's pro rata share of the indirect fees and expenses incurred by investing in one or more acquired funds, such as mutual funds, business development companies, or other pooled investment vehicles. AFFE are reflected in the prices of the acquired funds and thus included in the total returns of the Fund.

The iShares Funds are distributed by BlackRock Investments, LLC (together with its affiliates, "BlackRock").

The iShares Funds are not sponsored, endorsed, issued, sold or promoted by S&P Dow Jones Indices LLC, nor does this company make any representation regarding the advisability of investing in the Funds. BlackRock is not affiliated with S&P Dow Jones Indices LLC.

The iShares Funds are not sponsored, endorsed, issued, sold or promoted by MSCI, and MSCI does not make any representation regarding the advisability of investing in the Funds. BlackRock licenses the use of MSCI indices and is not affiliated with MSCI.

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IS-VLUE-F1217

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**BLACKROCK**



**SIZE**

iShares Edge MSCI USA Size Factor ETF

Fact Sheet as of 12/31/2017

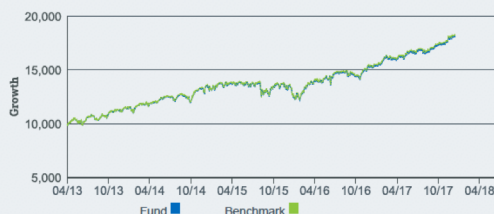


The iShares Edge MSCI USA Size Factor ETF seeks to track the investment results of an index composed of U.S. large- and mid-capitalization stocks with relatively smaller average market capitalization.

**WHY SIZE?**

- 1 Exposure to large- and mid-cap U.S. stocks with a tilt towards the smaller, lower risk stocks within that universe
- 2 Index-based access to a specific factor which has historically driven a significant part of companies' risk and return<sup>1</sup>
- 3 Use to help manage exposure and risk within a stock allocation

**GROWTH OF 10,000 USD SINCE INCEPTION**



The Hypothetical Growth of \$10,000 chart reflects a hypothetical \$10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted.

**PERFORMANCE**

	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>NAV</b>	18.88%	10.58%	N/A	N/A	13.38%
<b>Market Price</b>	18.90%	10.54%	N/A	N/A	13.40%
<b>Benchmark</b>	19.06%	10.72%	N/A	N/A	13.56%

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**RISK PROFILE**



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**KEY FACTS**

Fund Launch Date	04/16/2013
Expense Ratio	0.15%
Benchmark	MSCI USA Risk Weighted Index
30 Day SEC Yield	1.66%
Number of Holdings	632
Net Assets of Share	\$293,134,788
Class	

Ticker	SIZE
CUSIP	46432F370
Exchange	NYSE Arca

**TOP HOLDINGS (%)**

PEPSICO INC	0.49
REPUBLIC SERVICES INC	0.47
COCA-COLA	0.44
JOHNSON & JOHNSON	0.42
PROCTER & GAMBLE	0.41
BERKSHIRE HATHAWAY INC	
CLASS B	0.40
CLOROX	0.40
WASTE MANAGEMENT INC	0.39
CHUBB LTD	0.37
WR BERKLEY CORP	0.37
	4.16

Holdings are subject to change.

**TOP SECTORS (%)**

Financials	17.49%
Industrials	14.46%
Consumer Discretionary	13.21%
Information Technology	12.73%
Health Care	10.12%
Consumer Staples	8.55%
Utilities	7.78%
Real Estate	7.07%
Materials	4.41%
Energy	2.97%
Telecommunications	0.89%
Cash and/or Derivatives	0.33%

**FUND CHARACTERISTICS**

Beta vs. S&P 500	1.13
Standard Deviation (3yrs)	9.17%
Price to Earnings	20.98
Price to Book Ratio	3.00

**FEES AND EXPENSES BREAKDOWN**

<b>Expense Ratio</b>		<b>0.15%</b>
Management Fee	0.15%	
Acquired Fund Fees and Expenses	0.00%	
Foreign Taxes and Other Expenses	0.00%	

**GLOSSARY**

**Beta** is a measure of the tendency of securities to move with the market as a whole. A beta of 1 indicates that the security's price will move with the market. A beta less than 1 indicates the security tends to be less volatile than the market, while a beta greater than 1 indicates the security is more volatile than the market.

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1. Source: J. Lakonishok, A. Shleifer, R. Vishny, "Contrarian Investment, Extrapolation, and Risk." Journal of Finance, 1994.

Carefully consider the Fund's investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, summary prospectus, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting [www.iShares.com](http://www.iShares.com). Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

The value of the securities in the iShares MSCI USA Size ETF's portfolio may fluctuate, sometimes rapidly and unpredictably. The value of a security may fluctuate due to factors affecting markets generally or particular industries. Securities in the iShares MSCI USA Size ETF's portfolio may be subject to price volatility and the prices may not be any less volatile than the market as a whole and could be more volatile.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market. There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

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IS-SIZE-F1217

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**BLACKROCK**



**MTUM**

iShares Edge MSCI USA Momentum Factor  
ETF

Fact Sheet as of 12/31/2017

**iShares**  
by BLACKROCK®

The iShares Edge MSCI USA Momentum Factor ETF seeks to track the performance of an index that measures the performance of U.S. large- and mid-capitalization stocks exhibiting relatively higher momentum characteristics, before fees and expenses.

**WHY MTUM?**

- 1 Exposure to large- and mid-cap U.S. stocks exhibiting relatively higher price momentum
- 2 Index-based access to a specific factor which has historically driven a significant part of companies' risk and return<sup>1</sup>
- 3 Use to help manage exposure and risk within a stock allocation

**GROWTH OF 10,000 USD SINCE INCEPTION**



The Hypothetical Growth of \$10,000 chart reflects a hypothetical \$10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted.

**PERFORMANCE**

	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>NAV</b>	37.60%	16.35%	N/A	N/A	17.27%
<b>Market Price</b>	38.77%	16.68%	N/A	N/A	17.50%
<b>Benchmark</b>	37.82%	16.56%	N/A	N/A	17.50%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com).

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**RISK PROFILE**



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**KEY FACTS**

Fund Launch Date	04/16/2013
Expense Ratio	0.15%
Benchmark	MSCI USA Momentum Index
30 Day SEC Yield	1.09%
Number of Holdings	125
Net Assets of Share Class	\$5,416,359,058

Ticker	MTUM
CUSIP	46432F396
Exchange	Cboe BZX formerly known as BATS

**TOP HOLDINGS (%)**

JPMORGAN CHASE & CO	5.20
MICROSOFT CORP	5.08
APPLE INC	4.88
BANK OF AMERICA CORP	4.11
BOEING	3.90
UNITEDHEALTH GROUP INC	3.75
NVIDIA CORP	3.60
VISA INC CLASS A	3.55
CITIGROUP INC	3.00
MASTERCARD INC CLASS A	2.84
	39.91

Holdings are subject to change.

**TOP SECTORS (%)**

Information Technology	37.39%
Financials	20.64%
Health Care	15.77%
Industrials	14.79%
Consumer Discretionary	7.99%
Materials	1.69%
Consumer Staples	1.06%
Cash and/or Derivatives	0.37%
Real Estate	0.29%

**FUND CHARACTERISTICS**

Beta vs. S&P 500	0.74
Standard Deviation (3yrs)	9.71%
Price to Earnings	27.85
Price to Book Ratio	4.27

**FEES AND EXPENSES BREAKDOWN**

<b>Expense Ratio</b>	<b>0.15%</b>
Management Fee	0.15%
Acquired Fund Fees and Expenses	0.00%
Foreign Taxes and Other Expenses	0.00%

**GLOSSARY**

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1. Source: J. Lakonishok, A. Shleifer, R. Vishny, "Contrarian Investment, Extrapolation, and Risk." *Journal of Finance*, 1994.

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Investing involves risk, including possible loss of principal.

Stocks that previously exhibited high momentum may not experience continued positive momentum or may experience more volatility than the market as a whole.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market. There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

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**BLACKROCK**

**QUAL**

**iShares Edge MSCI USA Quality Factor ETF**  
Fact Sheet as of 12/31/2017

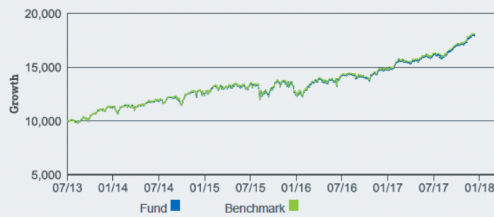


The iShares Edge MSCI USA Quality Factor ETF seeks to track the investment results of an index that measures the performance of U.S. large- and mid-capitalization stocks as identified through three fundamental variables: return on equity, earnings variability and debt-to-equity.

**WHY QUAL?**

- 1 Exposure to large- and mid-cap U.S. stocks exhibiting positive fundamentals (high return on equity, stable year-over-year earnings growth and low financial leverage)
- 2 Index-based access to a specific factor which has historically driven a significant part of companies' risk and return<sup>1</sup>
- 3 Use to help manage exposure and risk within a stock allocation

**GROWTH OF 10,000 USD SINCE INCEPTION**



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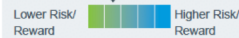
**PERFORMANCE**

	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>NAV</b>	22.26%	12.11%	N/A	N/A	13.90%
<b>Market Price</b>	23.15%	12.39%	N/A	N/A	14.10%
<b>Benchmark</b>	22.49%	12.27%	N/A	N/A	14.10%

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**RISK PROFILE**



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**KEY FACTS**

Fund Launch Date	07/16/2013
Expense Ratio	0.15%
Benchmark	MSCI USA Sector Neutral Quality Index
30 Day SEC Yield	1.81%
Number of Holdings	125
Net Assets of Share Class	\$4,366,874,889

Ticker	QUAL
CUSIP	46432F339
Exchange	Cboe BZX formerly known as BATS

**TOP HOLDINGS (%)**

APPLE INC	4.96
ALTRIA GROUP INC	4.83
JOHNSON & JOHNSON	4.64
MASTERCARD INC CLASS A	3.80
3M	3.34
CHARLES SCHWAB CORP	2.75
INTERNATIONAL BUSINESS MACHINES CO	2.74
BLACKROCK INC	2.62
ACCENTURE PLC CLASS A	2.41
NVIDIA CORP	2.34
	34.43

Holdings are subject to change.

**TOP SECTORS (%)**

Information Technology	24.14%
Financials	14.67%
Health Care	13.25%
Consumer Discretionary	12.67%
Industrials	9.75%
Consumer Staples	8.19%
Energy	6.01%
Materials	3.06%
Real Estate	2.99%
Utilities	2.95%
Telecommunications	2.08%
Cash and/or Derivatives	0.25%

**FUND CHARACTERISTICS**

Beta vs. S&P 500	1.19
Standard Deviation (3yrs)	9.68%
Price to Earnings	21.65
Price to Book Ratio	5.18

**FEES AND EXPENSES BREAKDOWN**

<b>Expense Ratio</b>		<b>0.15%</b>
Management Fee	0.15%	
Acquired Fund Fees and Expenses	0.00%	
Foreign Taxes and Other Expenses	0.00%	

**GLOSSARY**

**Beta** is a measure of the tendency of securities to move with the market as a whole. A beta of 1 indicates that the security's price will move with the market. A beta less than 1 indicates the security tends to be less volatile than the market, while a beta greater than 1 indicates the security is more volatile than the market.

**The price to earnings ratio (P/E)** is a fundamental measure used to determine if an investment is valued appropriately. Each holding's P/E is the latest closing price divided by the latest fiscal year's earnings per share. Negative P/E ratios are excluded from this calculation.

**The price to book (P/B)** value ratio is a fundamental measure used to determine if an investment is valued appropriately. The book value of a company is a measure of how much a company's assets are worth assuming the company's debts are paid off. Each holding's P/B is the latest closing price divided by the latest fiscal year's book value per share. Negative book values are excluded from this calculation.

Want to learn more? [www.iShares.com](http://www.iShares.com) [www.blackrockblog.com](http://www.blackrockblog.com) @iShares

1. Source: J. Lakonishok, A. Shleifer, R. Vishny, "Contrarian Investment, Extrapolation, and Risk," *Journal of Finance*, 1994.

Carefully consider the Fund's investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, summary prospectus, which may be obtained by calling 1-800-iShares (1-800-474-2737) or by visiting [www.iShares.com](http://www.iShares.com). Read the prospectus carefully before investing. Investing involves risk, including possible loss of principal.

The index underlying iShares MSCI USA Quality Factor ETF seeks to identify common stocks with high return on equity, stable year-over-year earnings growth and low debt-to-equity, but there is no guarantee that the past performance of these stocks will continue. Companies that issue these stocks may experience lower than expected returns or may experience negative growth, as well as increased leverage, resulting in lower than expected or negative returns.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market. There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

Diversification may not protect against market risk or loss of principal. Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

**Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

"Acquired Fund Fees and Expenses" reflect the Fund's pro rata share of the indirect fees and expenses incurred by investing in one or more acquired funds, such as mutual funds, business development companies, or other pooled investment vehicles. AFFE are reflected in the prices of the acquired funds and thus included in the total returns of the Fund.

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## Closing Comments and Action Steps

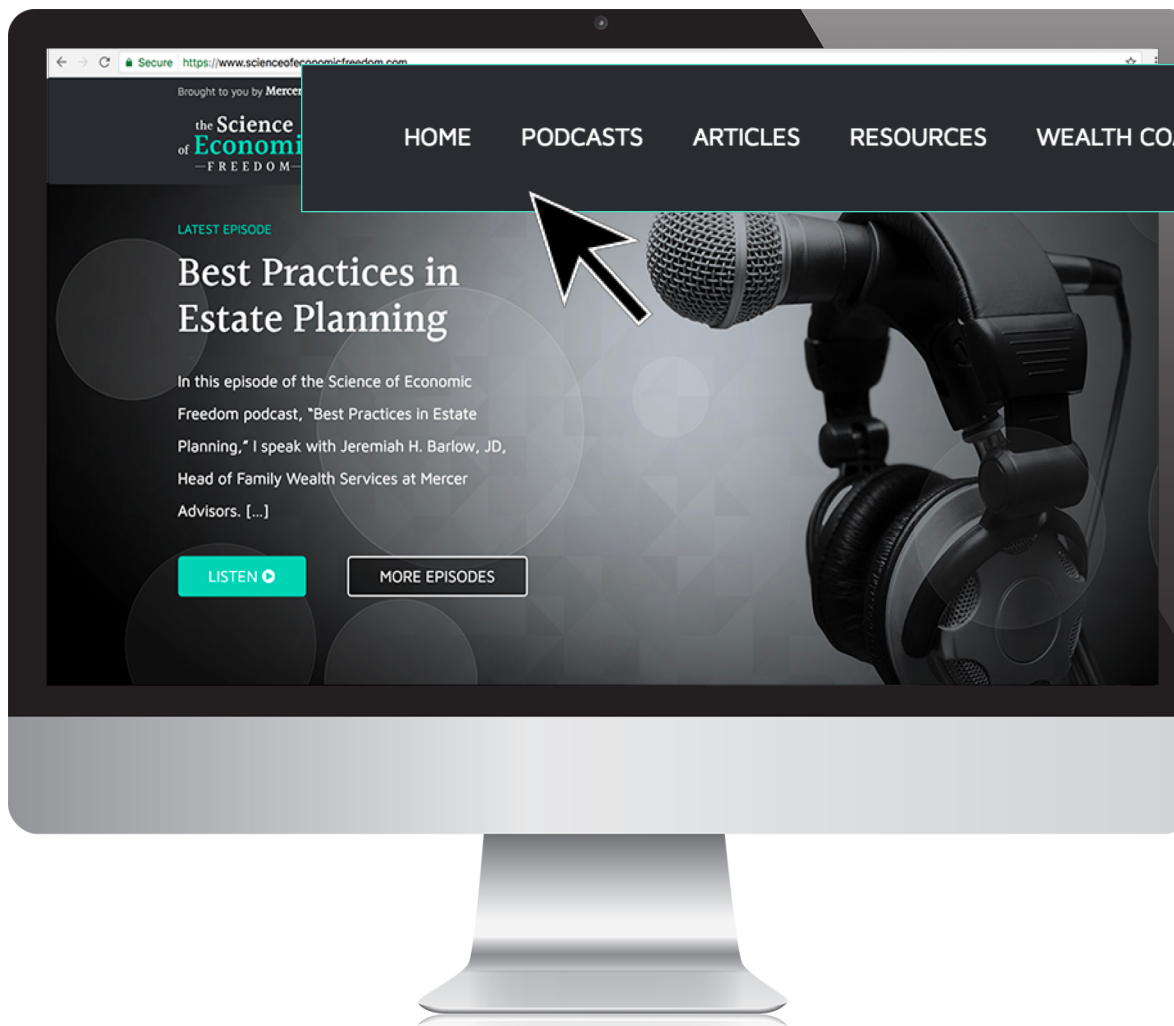
How to start to implement factor investing in your portfolio

- Assess your overall asset allocation, total return objective
- Assess what factors you are over-weight today
- Look to add value and quality first

Additional Resources (postcard and email)

- Factor Evidence Special Report
- Factor Podcast (3)
- Today's presentation (PDF)

# The Science of Economic Freedom



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## Important Information Regarding the MSCI U.S. Factor Indexes

- This material contains back-tested index data.
- Index returns are for illustrative purposes only and do not represent any actual fund performance.
- Index performance returns do not reflect any management fees, transaction costs or expenses.
- Indexes are unmanaged and one cannot invest directly in an index.
- Past performance does not guarantee future results.
- Data for time periods prior to the index inception date is hypothetical and is provided for informational purposes only to indicate historical performance had the index been available over the relevant time period.
- Hypothetical data results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for risk factors that may affect the actual fund performance.
- The actual performance of the fund may vary significantly from the hypothetical index performance due to transaction costs, liquidity or other market factors.

Index Name	Index Inception Date	iShares ETF Benchmarked to Index?	Dates of Back-Tested Returns	1-Year Returns	5-Year Returns	10-Year Return	Since Inception
MSCI USA Sector Neutral Quality Index	12/12/2014	Y	11/30/1998 – 12/12/2014	8.20%	13.92%	8.33%	8.22%
MSCI USA Enhanced Value Index	12/12/2014	Y	11/30/1998 – 12/12/2014	14.92%	16.39%	7.56%	6.22%
MSCI USA Risk Weighted Index	6/28/2011	Y	11/30/1998 – 6/28/2011	12.56%	14.88%	8.28%	13.17%
MSCI USA Momentum Index	2/15/2013	Y	11/30/1998 – 2/15/2013	3.93%	15.38%	7.70%	14.31%

Ticker	Fund	Inception Date	Gross Expense Ratio	30 Day SEC Yield (With/Without Waiver)	Contractual Fee Waiver Expiration (If Applicable)	1 Year Returns		5 Year Returns		10 Year Returns		Since Inception	
						NAV	Market Price	NAV	Market Price	NAV	Market Price	NAV	Market Price
<b>QUAL</b>	iShares Edge MSCI USA Quality Factor ETF	7/16/2013	0.15%	2.00%	--	9.18%	9.24%	--	--	--	--	11.59%	11.61%
<b>VLUE</b>	iShares Edge MSCI USA Value Factor ETF	4/16/2013	0.15%	2.29%	--	15.68%	15.76%	--	--	--	--	11.70%	11.73%
<b>SIZE</b>	iShares Edge MSCI USA Size Factor ETF	4/16/2013	0.15%	1.82%	--	13.32%	13.44%	--	--	--	--	11.95%	11.96%
<b>MTUM</b>	iShares Edge MSCI USA Momentum Factor ETF	4/16/2013	0.15%	1.51%	--	4.89%	5.00%	--	--	--	--	12.32%	12.35%

The performance quoted represents past performance of specific funds and does not guarantee future results for such funds. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com). Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. eastern time (when NAV is normally determined for most iShares Funds), and do not represent the returns you would receive if you traded shares at other times.



## Important Information Regarding the MSCI Multiple Factor Indexes

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- Index returns are for illustrative purposes only and do not represent any actual fund performance.
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- Past performance does not guarantee future results.
- Data for time periods prior to the index inception date is hypothetical and is provided for informational purposes only to indicate historical performance had the index been available over the relevant time period.
- Hypothetical data results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for risk factors that may affect the actual fund performance.
- The actual performance of the fund may vary significantly from the hypothetical index performance due to transaction costs, liquidity or other market factors.

Index Name	Index Inception Date	iShares ETF Benchmarked to Index?	Dates of Back-Tested Returns	1-Year Returns	5-Year Returns	10-Year Return	Since Inception
MSCI USA Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	12.54%	15.82%	8.19%	5.74%
MSCI USA Small Cap Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	21.27%	18.02%	9.55%	12.87%
MSCI ACWI Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	4.95%	11.15%	5.75%	1.72%
MSCI World ex USA Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	-0.53%	9.10%	3.46%	0.75%
MSCI World ex USA Small Cap Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	0.13%	10.75%	4.24%	5.22%
MSCI Emerging Market Diversified Multiple-Factor Index	2/17/2015	Y	11/30/1998 – 2/17/2015	10.00%	3.48%	4.70%	-3.28%

Ticker	Fund	Inception Date	Gross Expense Ratio	30 Day SEC Yield (With/Without Waiver)	Contractual Fee Waiver Expiration (If Applicable)	1 Year Returns		5 Year Returns		10 Year Returns		Since Inception	
						NAV	Market Price	NAV	Market Price	NAV	Market Price	NAV	Market Price
LRGF	iShares Edge MSCI Multifactor USA ETF	4/28/2015	0.20%	2.00%	--	13.40%	13.11%	--	--	--	--	5.27%	5.27%
SMLF	iShares Edge MSCI Multifactor USA Small-Cap ETF	4/28/2015	0.30%	0.76%	--	22.50%	22.23%	--	--	--	--	11.26%	11.29%
ACWF	iShares Edge MSCI Multifactor Global ETF	4/28/2015	0.36%	1.55% / 1.52%	11/30/2025	5.13%	4.84%	--	--	--	--	-1.62%	-1.52%
INTF	iShares Edge MSCI Multifactor Intl ETF	4/28/2015	0.30%	2.20%	--	-0.21%	-0.26%	--	--	--	--	-2.49%	-2.72%
ISCF	iShares Edge MSCI Multifactor Intl Small-Cap ETF	4/28/2015	0.40%	1.80%	--	0.01%	-0.90%	--	--	--	--	0.60%	0.12%
EMGF	iShares Edge MSCI Multifactor Emerging Markets ETF	12/8/2015	0.48%	1.60% / 1.56%	12/31/2021	9.22%	9.04%	--	--	--	--	7.48%	7.28%

The performance quoted represents past performance of specific funds and does not guarantee future results for such funds. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [www.iShares.com](http://www.iShares.com) or [www.blackrock.com](http://www.blackrock.com). Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. eastern time (when NAV is normally determined for most iShares Funds), and do not represent the returns you would receive if you traded shares at other times.

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### **Investing involves risk, including possible loss of principal.**

There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/developing markets, in concentrations of single countries or smaller capital markets. Narrowly focused investments, including REIT, mining, preferred stock, factor and floating rate note funds may be subject to higher volatility and risks specific to those sectors. The iShares Minimum Volatility ETFs may experience more than minimum volatility as there is no guarantee that the underlying index's strategy of seeking to lower volatility will be successful.

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## Important Information Regarding Indexes

- All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.
- The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.
- The MSCI USA Value Index captures large and mid cap US securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.
- The MSCI USA Quality Index is based on the MSCI USA Index, its parent index, which includes large and mid cap stocks in the US equity market. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.
- The MSCI USA Momentum Index is based on MSCI USA Index, its parent index, which captures large and mid cap stocks of the US market. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.
- The MSCI USA Minimum Volatility (USD) Index aims to reflect the performance characteristics of a minimum variance strategy applied to the large and mid cap USA equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, in USD for the lowest absolute risk (within a given set of constraints).
- The MSCI USA Diversified Multiple-Factor Index is based on a traditional market cap weighted parent index, the MSCI USA Index, which includes US large and mid-cap stocks. The index aims to maximize exposure to four factors – Value, Momentum, Quality and Low Size – while maintaining a risk profile similar to that of the underlying parent index.



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<u>Index Name</u>	<u>Inception Date</u>	<u>Dates of Back-Tested Returns</u>	<u>Annualized Return</u>	<u>Annualized Standard Deviation (Risk)</u>
MSCI USA Value Index	6/2/2008	1/1/2000 - 12/31/2017	6.56%	17.13%
MSCI USA Momentum Index	2/15/2013	1/1/2000 - 12/31/2017	7.56%	18.64%
MSCI USA Quality Index	12/18/2012	1/1/2000 - 12/31/2017	6.49%	16.07%
MSCI USA Minimum Volatility Index	6/2/2008	1/1/2000 - 12/31/2017	7.43%	12.69%
MSCI USA Small Cap Diversified Multi-Factor Index	2/17/2015	1/1/2000 - 12/31/2017	8.14%	15.91%

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