

ETF Methodology

M1 creates several Pies based off of quantitative models. In the construction of these models, the prior performance of various indexes is used to inform the inputs of the model. The output of the model is a portfolio allocation of how much to invest in each index. To make the output of the model investible, M1 substitutes the index with an ETF that seeks to replicate the performance of the index. M1 makes a determination of which ETF is the best substitute by looking at overall size and liquidity, expense ratio, AUM, and tracking error. The methodology employed to select the ETF is as follows:

- ETFs must have two years of performance history
- ETF scoring system includes three data points:
 - Expense Ratio = the annual fee that an ETF charge their shareholders, it is expressed as a percentage of assets
 - AUM = the total market value of investments managed by the ETF
 - Tracking Error (annualized) = the standard deviation of the difference in the portfolio and benchmark returns
- Each of the ETFs is compared against the two best performing in each of the three categories (lowest expense ratio, highest AUM, lowest tracking error)

$$\textbf{Expense Ratio Grade} = \frac{\textit{Expense Ratio}}{\textit{Average of Two Lowest Expense Ratios}}$$

$$\textbf{AUM Grade} = \frac{\textit{Average of Two Highest AUMs}}{\textit{AUM}}$$

$$\textbf{Tracking Error Grade} = \frac{\textit{Average Tracking Error Last 4 Years}}{\textit{Average of Lowest Tracking Errors Over Last 4 Years}}$$

- The Final ETF Grade is calculated:

$$\textbf{Final Grade} = (5 * \textit{Expense Ratio Grade}) + (2 * \textit{AUM Grade}) + \textit{Tracking Error Guide}$$

- The ETF in each asset class that has the lowest Final Grade is used in our allocation

M1 Total Portfolios

| Asset Class | Benchmark | ETF | Ticker |
|-----------------------|--|--|--------|
| US Large Cap | S&P 500 TR USD | Vanguard S&P 500 ETF | VOO |
| US Mid Cap | M1 Mid Cap Index* | Vanguard Mid-Cap ETF | VO |
| US Small Cap | M1 Small Cap Index** | Vanguard Small-Cap ETF | VB |
| Developed Markets | MSCI EAFE GR USD | Vanguard FTSE Developed Markets ETF | VEA |
| Emerging Markets | MSCI EM GR USD | Vanguard FTSE Emerging Markets ETF | VWO |
| Total Bonds | Barclays US Agg Bond TR USD | Vanguard Total Bond Market ETF | BND |
| Developed Bonds | Barclays Gbl Agg Ex USD TR USD | Vanguard Total International Bond ETF | BNDX |
| Corporate Bonds | Barclays US Corp IG TR USD | iShares iBoxx \$ Invst Grade Crp Bond | LQD |
| Municipal Bonds | Barclays Municipal TR USD | iShares National AMT-Free Muni Bond | MUB |
| Short Term Treasuries | Barclays Treasury 1-3 Yr TR USD | iShares 1-3 Year Treasury Bond | SHY |
| TIPs | Barclays US Govt Infl Lkd 1-10y TR USD | Vanguard Short-Term Infl-Prot Secs ETF | VTIP |
| Real Estate | FTSE NAREIT ALL REITs TR | Vanguard REIT ETF | VNQ |

*M1 Mid Cap Index: Russell Midcap TR USD (1/1/1980-8/31/1991) S&P MidCap 400 TR USD (9/1/1991-Present Day)

** M1 Small Cap Index: Russell 2000 TR USD (1/1/1980-6/30/2001) CRSP US Small Cap TR USD (7/1/2001-Present Day)

M1 Target Date Portfolios

| Asset Class | Benchmark | ETF | Ticker |
|-----------------------|--|---|--------|
| Long Term Corporate | Barclays US Corporate 10+ YR TR USD | Vanguard Long-Term Corporate Bond ETF | VCLT |
| Long Term Municipals | Barclays AMT-Free Long Cont Mun TR USD | VanEck Vectors AMT-Free Long Muni ETF | MLN |
| Long Term Treasury | Barclays Treasury 7-20 YR TR USD | iShares 20+ Year Treasury Bond | TLT |
| Mid Term Corporate | Barclays US Corp IG TR USD | Vanguard Intermediate-Term Corp Bd ETF | VCIT |
| Mid Term Municipals | Barclays AMT-Free Interm Cont Mun TR USD | VanEck Vectors AMT-Free Interm Muni ETF | ITM |
| Mid Term Treasury | Barclays Treasury 5-7 Yr TR USD | Vanguard Intermediate-Term Govt Bd ETF | VGIT |
| Short Term Corporate | Barclays US Corporate 0-3 Year TR USD | SPDR® Barclays Short Term Corp Bd ETF | SCPB |
| Short Term Municipals | Barclays AMT-Free Short Cont Mun TR USD | SPDR® Nuveen Barclays ST Muni Bd ETF | SHM |
| Short Term Treasury | Barclays Treasury 1-3 Yr Tr USD | iShares 1-3 Year Treasury Bond | SHY |

M1 Target Date Portfolios

| Asset Class | Benchmark | ETF | Ticker |
|----------------------------|---------------------------|---|--------|
| Mortgage-backed Securities | Barclays MBS 1000 TR USD | Vanguard Mortgage-Backed Securities ETF | VMBS |
| U.S. Treasury Securities | MSCI EAFE GR USD | iShares 7-10 Year Treasury Bond | IEF |
| Municipal Securities | Barclays Municipal TR USD | iShares National AMT-Free Muni Bond | MUB |

Stock / Bond Split

| Asset Class | Benchmark | ETF | Ticker |
|----------------|-----------------------------|---------------------------------|--------|
| World Equities | DJ Gbl Total Market TR USD | Vanguard Total Stock Market ETF | VT |
| Total Bonds | Barclays US Agg Bond TR USD | Vanguard Total Bond Market ETF | BND |

Investors should consider the investment objective and policies, risk considerations, charges and ongoing expenses of an investment in an exchange traded fund (ETF) carefully before investing. The prospectus contains this and other information relevant to an investment in an ETF. Please read the prospectus carefully before you invest or send money. To obtain a prospectus, please email prospectus@m1finance.com