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Harnessing the Power of Diversification



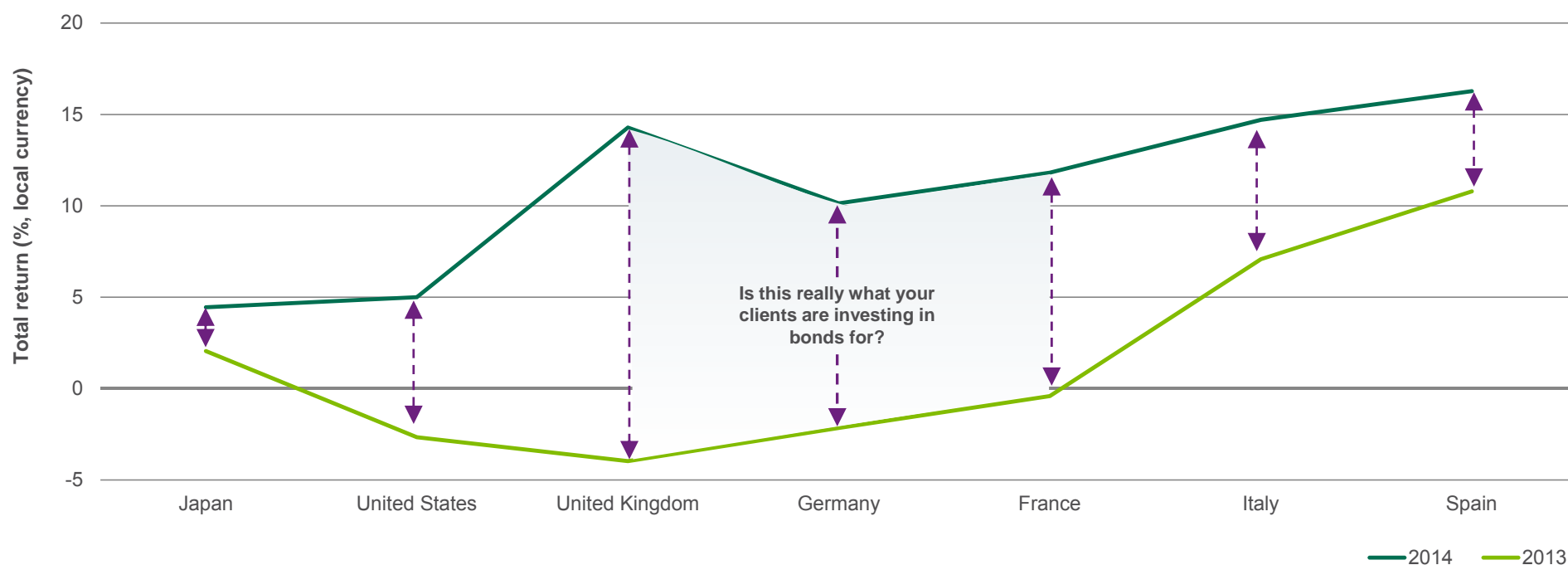
Expanding the traditional fixed income opportunity set

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Management Group

Fixed income is no longer the safe haven that investors perceive

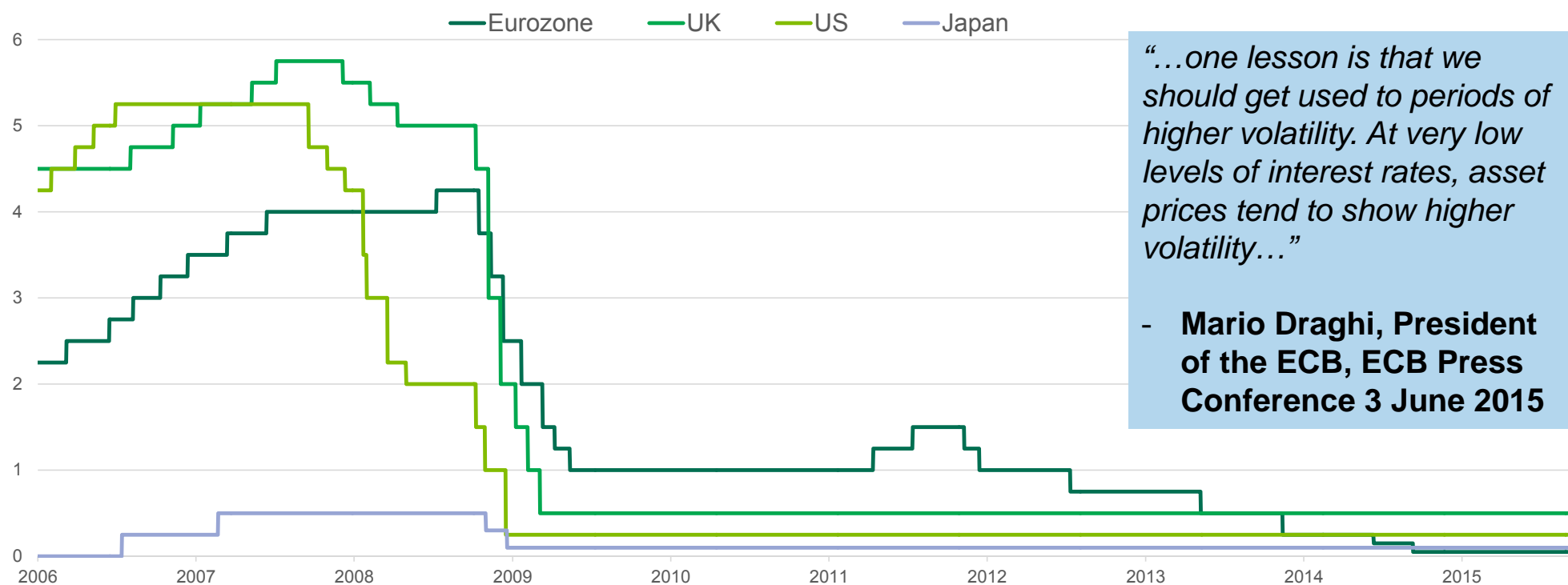
Global government bond returns 2013 and 2014



* Return horizon: 31 December 2012 to 31 December 2013 and 31 December 2013 to 31 December 2014 respectively.
Source: BlackRock estimates, Barclays POINT, Bloomberg, as of 12/01/2015. Past performance is not indicative of future returns

Central bank policy rates – divergence to come?

Developed market policy rates 2006 – 2015



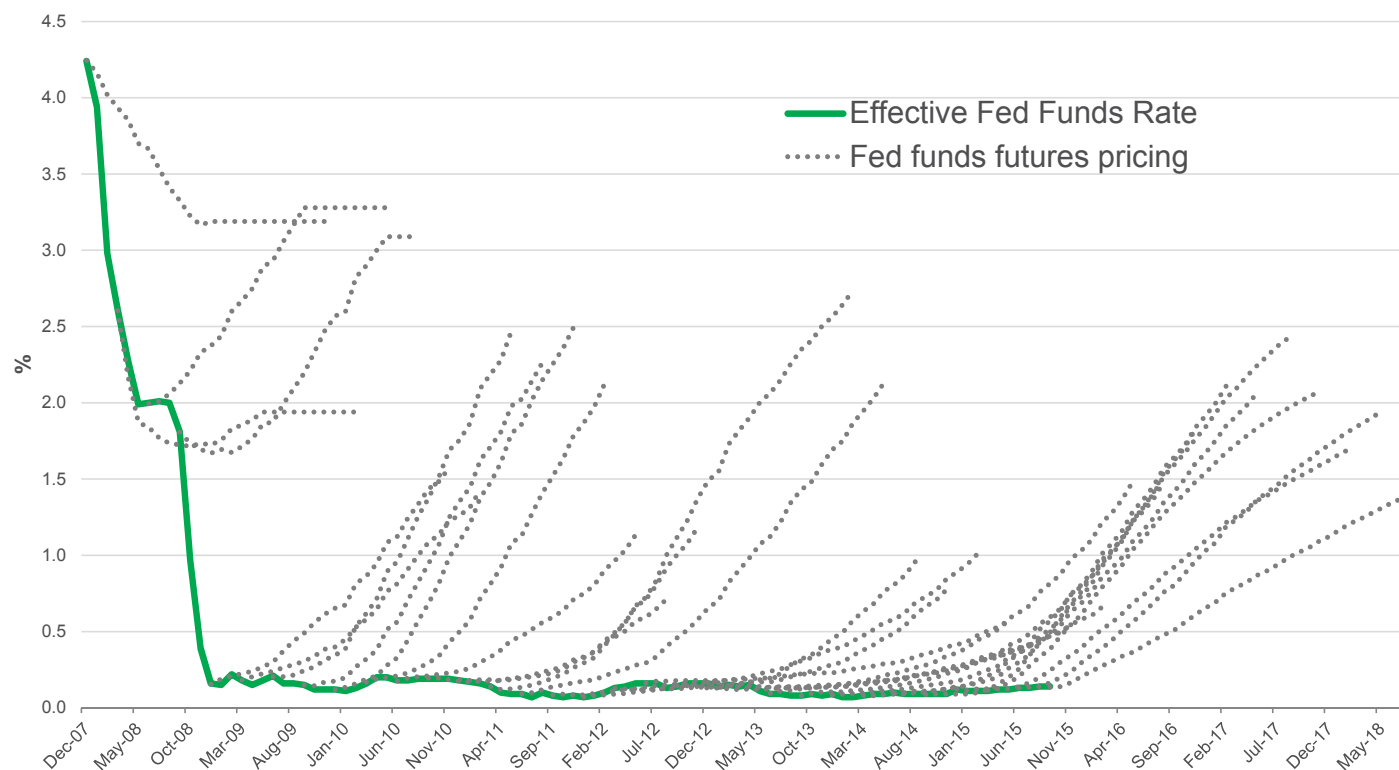
“...one lesson is that we should get used to periods of higher volatility. At very low levels of interest rates, asset prices tend to show higher volatility...”

- Mario Draghi, President of the ECB, ECB Press Conference 3 June 2015

Source: Bloomberg as of 31 August 2015

Prolonged again - when will the Fed hike rates?

Rates markets have been pricing in Fed liftoff since 2009

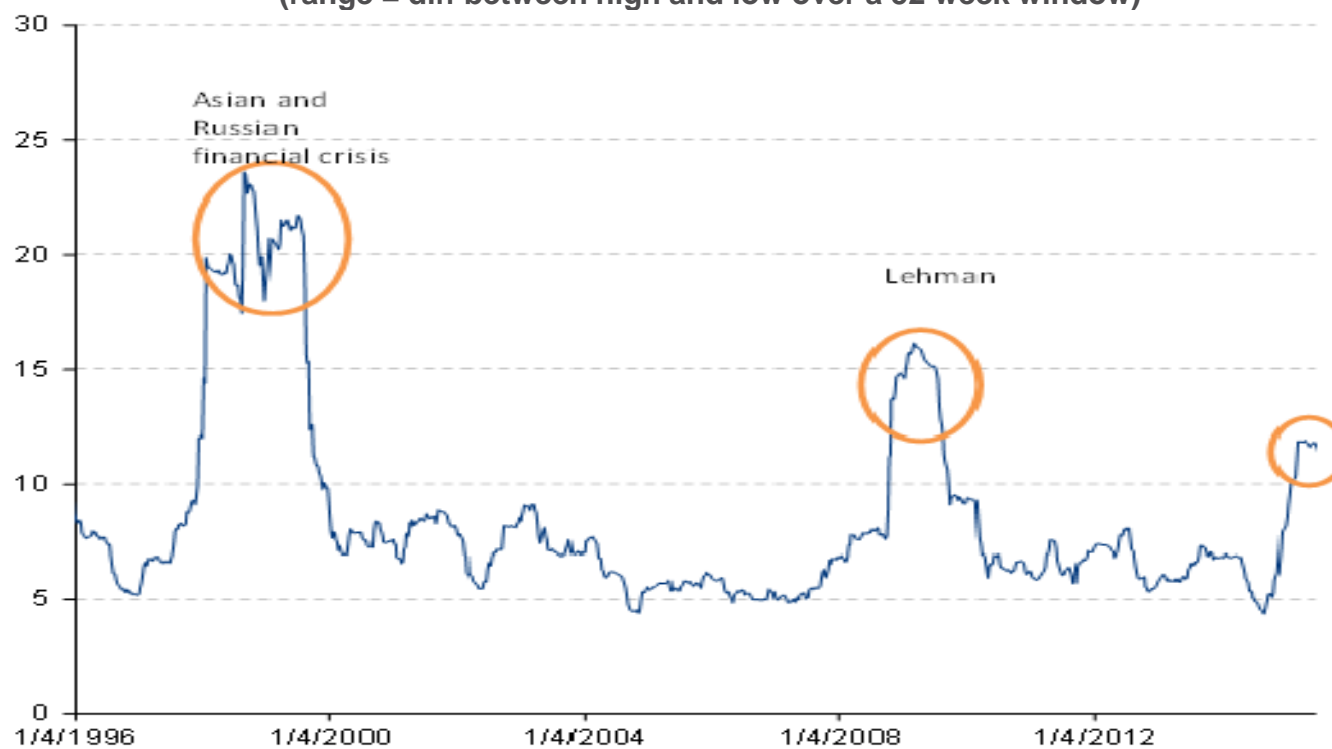


Source: Deutsche Bank Research, Bloomberg, as of 30 September 2015.

Volatility and dispersion have returned with a bang

Global FX volatility is at the highest for non-crisis periods in 20 years

GDP-weighted range-based FX Volatility for the largest 20 countries in the world
(range = diff between high and low over a 52 week window)



Source: Bank of America Merrill Lynch Global Research as of 08 September 2015.

Finding a decent yield means taking a lot more risk

Fixed income assets yielding over 4%, 1999-2015



Sources: BlackRock Investment Institute, Barclays and Thomson Reuters, 31 March 2015. The bars show market capitalisation weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Barclays Multiverse Bond Index. Euro core is based on French and German government debt indexes. Euro peripheral is an average of government debt indexes for Italy, Spain and Ireland. Emerging markets combine external and local currency debt.

Unconstrained investing

For fixed income, this leads us to some principles for a new approach

Deliver consistent, high risk-adjusted returns in all environments

Be Flexible

Remove benchmark
constraints

Retain the general risk profile of conservative fixed income investments

Be Diversified

Seek out best opportunities globally
Seek a low correlation to traditional fixed income indices

Retain “Tail-risk” hedge characteristics

Mitigate Losses

Aim to hedge tail-risk and control volatility to deliver
attractive risk-adjusted returns

“Total Return” versus “Absolute Return”

Unconstrained fixed income approaches

Total Return

- ▶ Positive returns driven by beta **and** alpha
- ▶ Targeting low market correlation
- ▶ Flexible beta allocations enhanced by alpha strategies
- ▶ Wide duration bands
- ▶ Working to minimise capital losses
- ▶ Moderate volatility

Absolute Return

- ▶ Positive returns with an emphasis on alpha
- ▶ Targeting low / zero correlation with beta
- ▶ Long /short strategies through derivatives
- ▶ Flexible duration bands
- ▶ Working to avoid capital losses
- ▶ Lower volatility

Risk Management framework

Global fixed income can offer a much more diverse opportunity set than traditional benchmarked products can typically access

Global Opportunity set

Traditional US fixed income

Largest single bond market globally with breadth and depth of sectors

Core

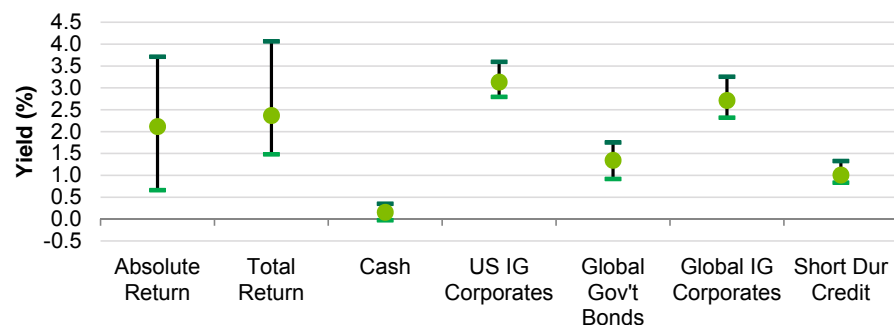
- ▶ Government bonds
- ▶ Investment grade credit
- ▶ Agency MBS
- ▶ Municipal bonds

Plus sectors

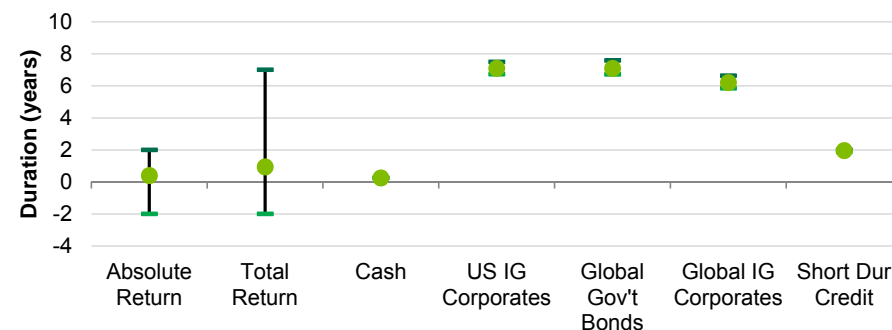
- ▶ High yield
- ▶ Securitised products

Typical characteristics

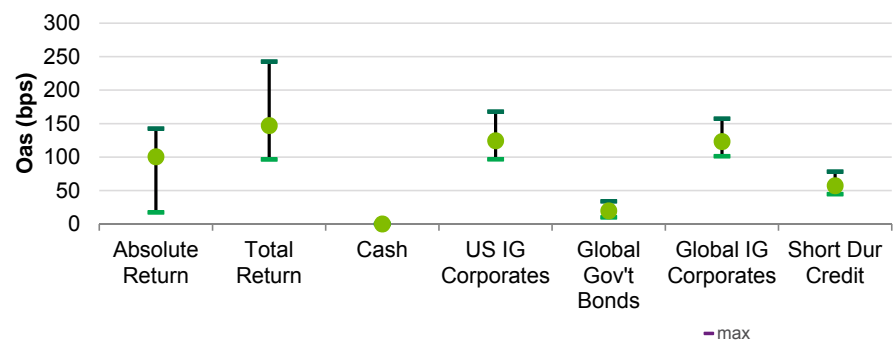
Yields



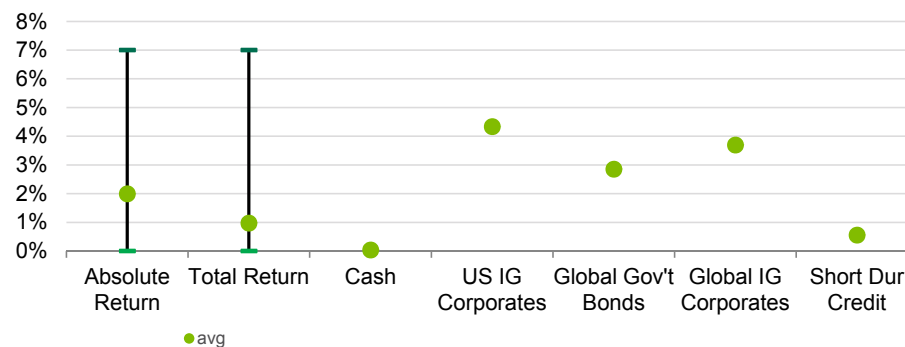
Duration



Credit Spread



Typical risk (1 ann standard deviation)**

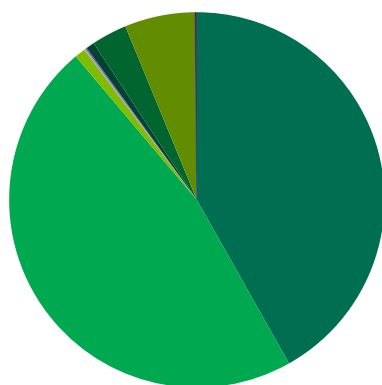


Source: Bloomberg as at 31 May 2015. Indices/ Funds used: GARBF: BSF Global Absolute Return Bond Fund X2 EUR class net of fees, FIGO: BGF Fixed Income Global Opportunities Fund, D2 EUR hedged class net of fees, Cash: 3m Euribor, US IG Corporates: Barclays U.S. Agg. Index EUR hedged, Global Gov't Bonds: Barclays Global Agg Treasuries Index EUR hedged, Global IG Corporates: Barclays Global Agg Corporates Index EUR hedged, Short Dur Credit: Barclays Global Agg 1-3 year xMBS x Tsy Index EUR hedged. Period utilised: 31 May 2013 – 31 August 2015.

A flexible solution avoids the rates-dominated risk profile of traditional indices

Risk allocation for Barclays Global Aggregate index (EUR Hedged)

- US Rates
- Non-US Rates
- Volatility
- FX
- CMBS
- ABS
- Mortgages
- EM
- IG
- HY
- Swap Spreads



Barclays Global Agg. Index

| | |
|----------|------------|
| Duration | 6.23 years |
| Yield* | 1.74% |
| Risk# | 336 bps |

- ▶ 89% of the portfolio is concentrated in interest rates (i.e. duration risk)

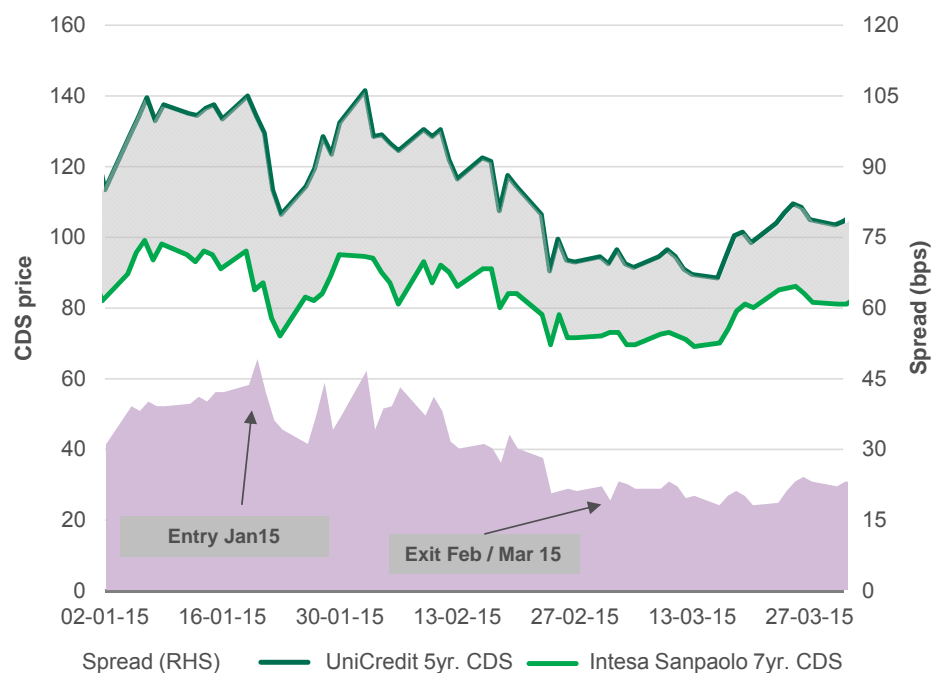
* Yield to Worst as of 30 June 2015. Yields for fixed income indexes are yield-to-worst, calculated based on all possible call dates, reflecting lowest potential yield that can be received without the issuer actually defaulting.

The above pie charts show the distribution of Stand Alone Risk within the Barclays Global Aggregate and BGF FIGO. Source: BlackRock Solutions (BRS); Ex-ante value-at-risk (1 standard deviation) based on the BRS Portfolio Risk model average contribution to risk
All data as of 30 June 2015. Source BlackRock

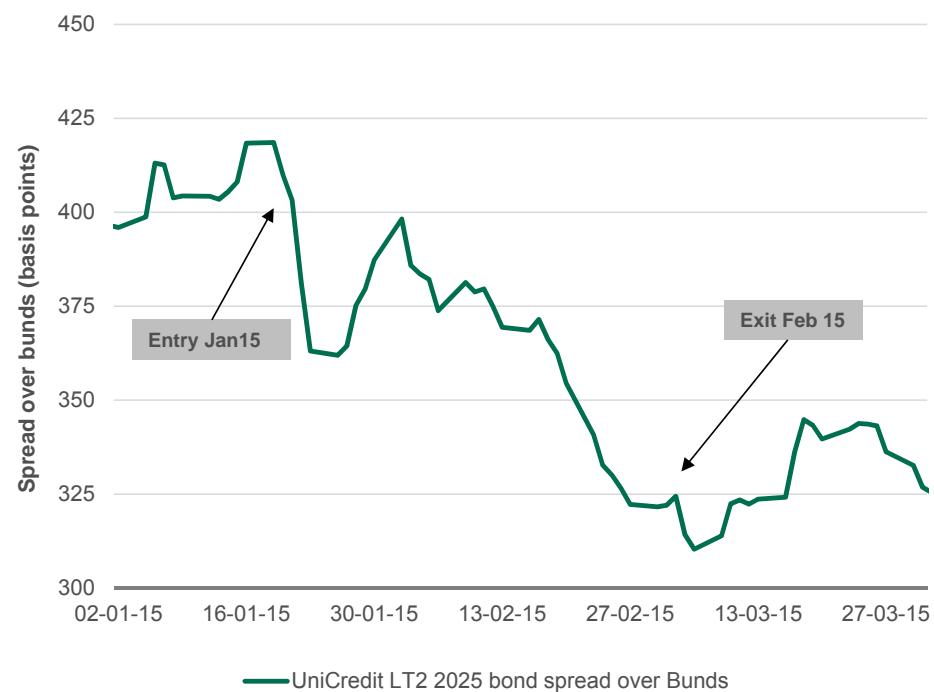
Strategy Examples

Opportunities in peripheral European corporate bonds

Alpha / Relative Value via Credit Default Swaps

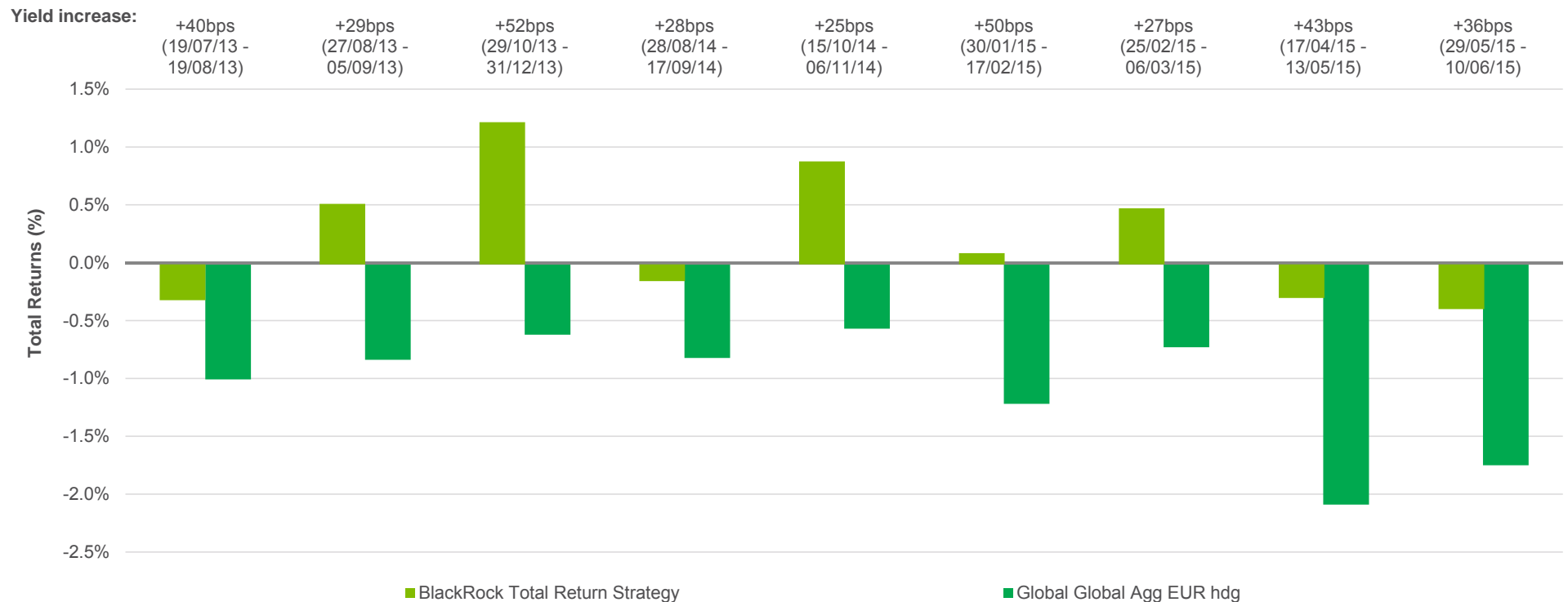


Outright long position



The outcome we seek: consistent positive returns; downside protection

Performance during periods of rising interest rates (10 year US treasury yield increase > 25 bps)



BlackRock, Bloomberg, as at 31 August 2015. Rising rate defined as any increase of 25 basis points or more in 10-year US Treasury Yields. Performance shown for the A2 USD share of BGF FIGO, net of fees and expenses.

BlackRock Unconstrained Fixed Income Platform

Global Absolute Return

Global multi-sector, multi-strategy, long / short alpha strategies. Fundamental and quantitative in style

Target Return and Risk:

LIBOR + 3-5%; Typical volatility 1-3%

Duration Management:

+/- 2 year, typically around 0

Max +/- 5 years

Market Exposure:

Low Beta

Global Total Return

Global multi-sector, multi-strategy approach. Traditional investment style combined with alpha opportunities

Target Return and Risk:

LIBOR +4-6%; Typical volatility 2-4%

Duration Management:

Max -2 to +7 years

Typically 0 to 3 years

Market Exposure:

Moderate Beta

Euro Total Return

Diversified sources of relative value within Euro fixed income market. Based on fundamental analysis

Target Return and Risk:

EONIA + 3-4%; Typical volatility 1-3%

Duration Management:

Duration neutral starting point

Typically -0.5 and +1.5 years

Market Exposure:

Beta: Low (non-Euro)/Moderate (Euro)

EM Total Return

Global EM multi sector, multi strategy. Thematic style providing total return and income

Target Return and Risk:

LIBOR + 5-7%; Typical volatility 6-10%

Duration Management:

0-10 years

Market Exposure:

Moderate EM Beta

Euro Credit Absolute Return

Captures a diversified long/short opportunity set across liquid European credit markets

Target Return and Risk:

8-10% absolute; Typical volatility 2-5%

Duration Management:

Interest rate hedged

Market Exposure:

Market neutral across the credit cycle

Total Return Hedge Fund

Fundamental global fixed income hedge fund. Employs a combination of relative value and directional strategies.

Target Return and Risk:

10-12% absolute; typical volatility 8-10%

Duration Management:

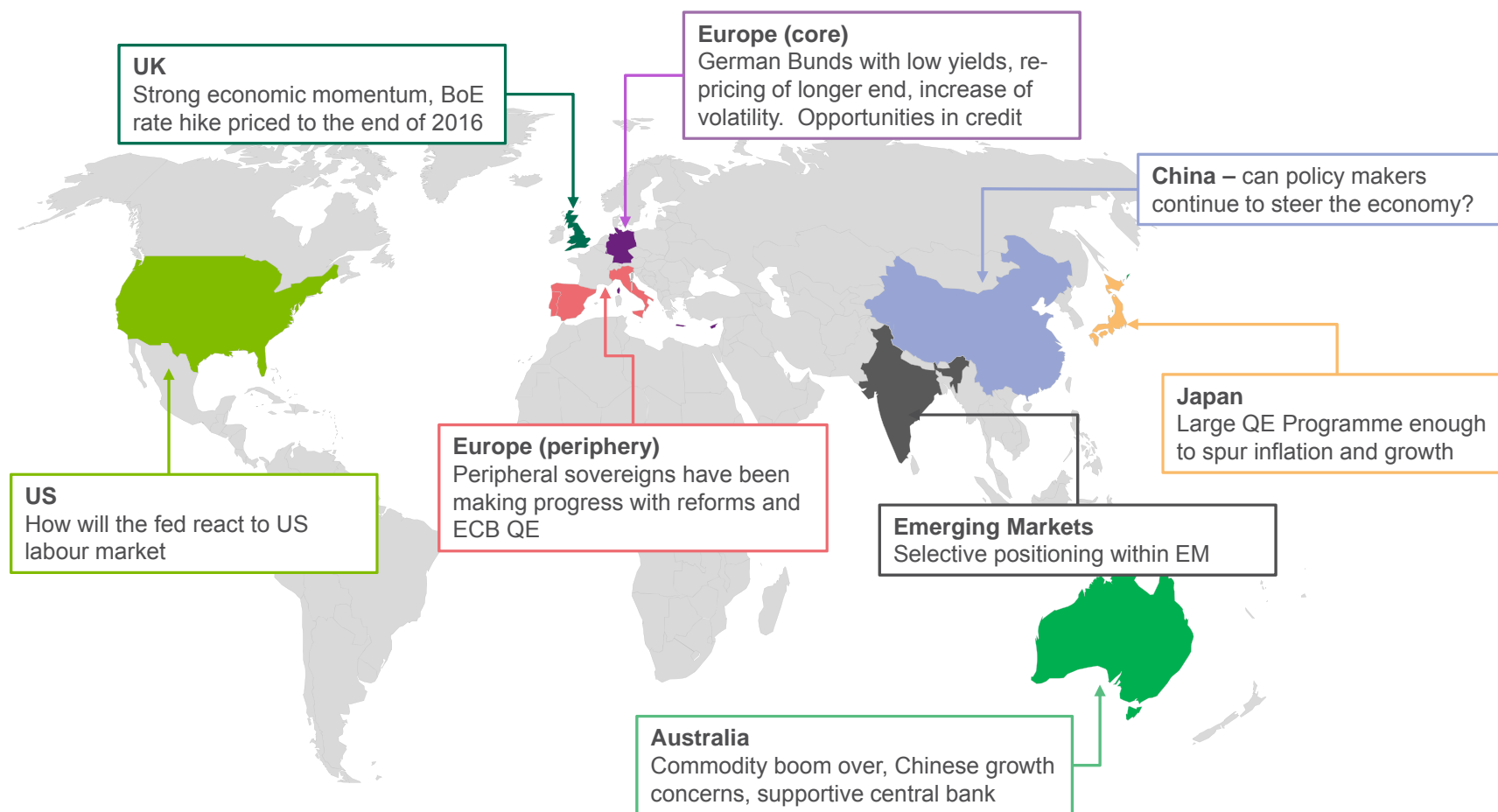
Max +/- the duration of a 5 year Treasury

Market Exposure:

Low Beta, *opportunistic across sectors*

BlackRock product names: Global Absolute Return Bond (GARBF), Fixed Income Global Opportunities (FIGO), Fixed Income Strategies Fund (FISF), EM Flexi Dynamic, European Credit Strategies (ECS), Obsidian.

Looking forward



Source: BlackRock as at September 2015

Appendix

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The fund invests in fixed interest securities issued by companies which, compared to bonds issued or guaranteed by governments, are exposed to greater risk of default in the repayment of the capital provided to the company or interest payments due to the fund.

The fund invests in high yielding bonds. Companies who issue higher yield bonds typically have an increased risk of defaulting on repayments. In the event of default, the value of your investment may reduce. Economic conditions and interest rate levels may also impact significantly the values of high yield bonds.

The fund invests in fixed interest securities such as corporate or government bonds which pay a fixed or variable rate of interest (also known as the 'coupon') and behave similarly to a loan. These securities are therefore exposed to changes in interest rates which will affect the value of any securities held.

The fund may invest in structured credit products such as asset backed securities ('ABS') which pool together mortgages and other debts into single or multiple series credit products which are then passed on to investors, normally in return for interest payments based on the cash flows from the underlying assets. These securities have similar characteristics to corporate bonds but carry greater risk as the details of the underlying loans is unknown, although loans with similar terms are typically packaged together. The stability of returns from ABS are not only dependent on changes in interest-rates but also changes in the repayments of the underlying loans as a result of changes in economic conditions or the circumstances of the holder of the loan. These securities can therefore be more sensitive to economic events, may be subject to severe price movements and can be more difficult and/or more expensive to sell in difficult markets.

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