

Managing Multi-Asset portfolios in an ever changing world

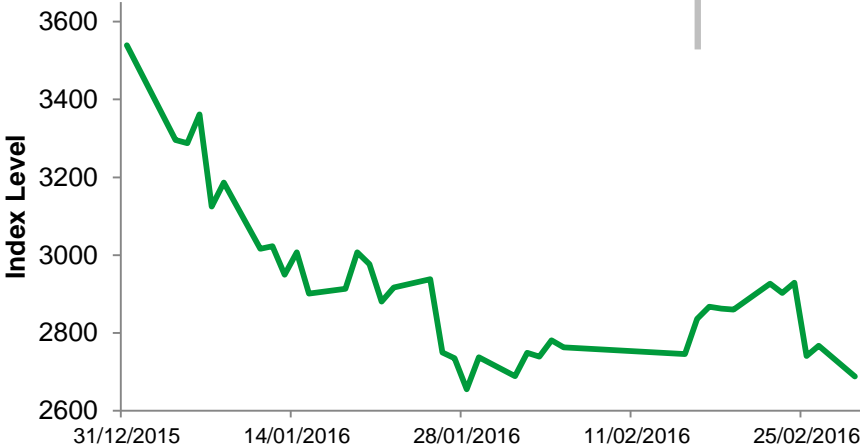
Sara Morgan, BlackRock Multi-Asset Strategies

10 March 2016

What a start to the year!



Chinese Equities



Oil



Source: BlackRock/Bloomberg Chinese equities represented Shanghai Composite and Oil represented by WTI 29 February 2016.

The Perfect Storm?

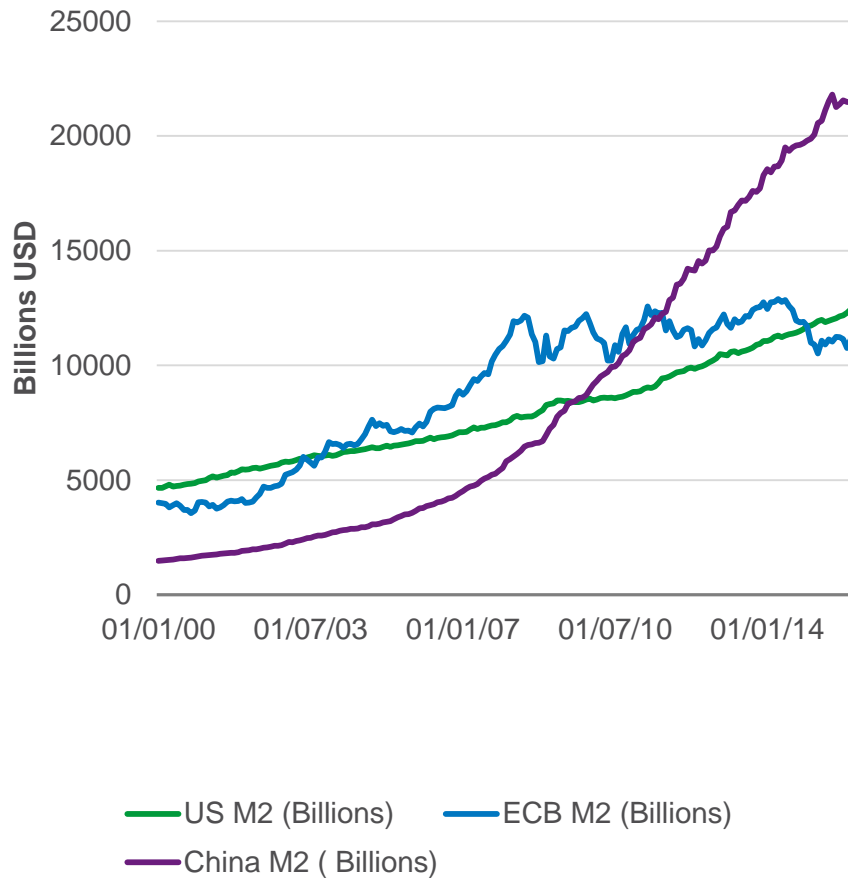


- ▶ **China** growth concerns and uncertainty over likely policy action
- ▶ In **Europe** concerns come from two very different angles:
 - concerns that a further cut into negative rates would be bad news for the banking sector
 - increased political risk relating to the migrant crisis
- ▶ In the **US** worries about the trajectory of growth and the likely direction and timing of interest rate moves
- ▶ Continued **declines in the oil price** to levels not seen since 2003

Source: BlackRock February 2016.

No more bull in the China shop?

M2 Money Supply

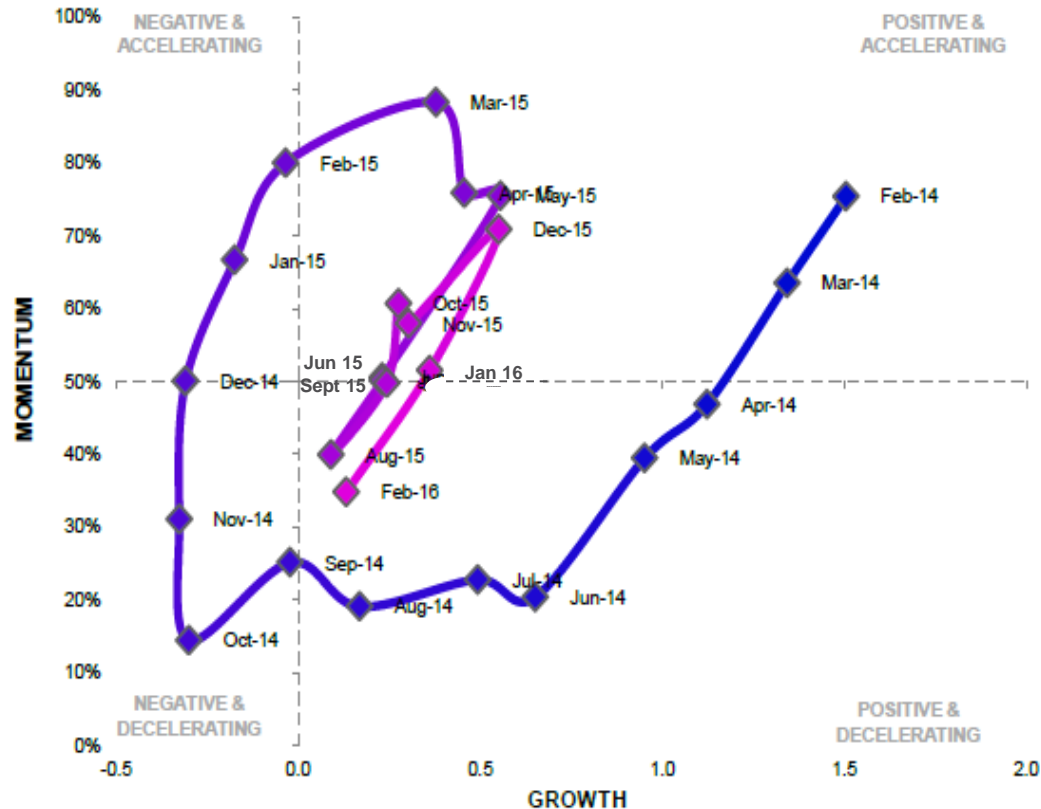


- ▶ Leverage has increased at a phenomenal rate over the last 5 years.
- ▶ The level of non-performing loans is unknowable, but likely to be a significant % of GDP.
- ▶ PBOC balance sheet cannot contract given the need for companies to roll over such massive amounts of debt.
- ▶ The Yuan may need to be devalued further.
- ▶ This will push China's trading partners to devalue, leading to significant volatility in global currency markets.

Source: BlackRock / Bloomberg: M2 data for US, Europe and China shown from 1 January 2000 to 31 December 2015.

Europe – threat or opportunity?

Eurozone LEI

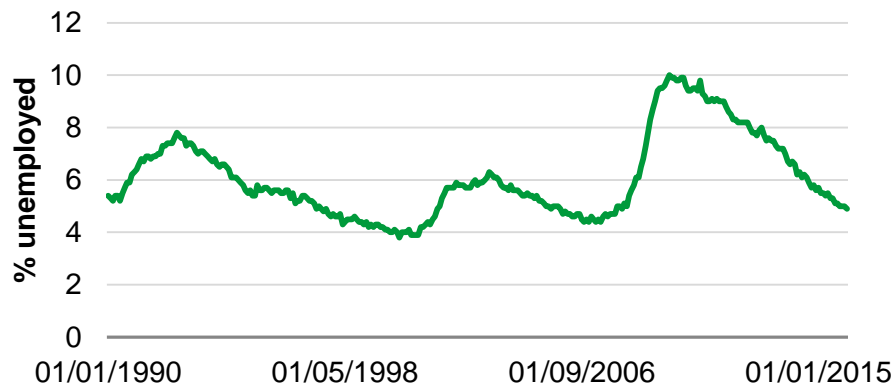


- ▶ Move to negative bank deposit rates had a negative impact on European risk assets in Dec / Jan
 - bad for bank profitability and incentivise banks to shrink;
 - works against the ECB's goal of easing credit conditions.
- ▶ A further rate cut is likely to be poorly received
- ▶ A more positive reaction is likely in the event the ECB expands its bond buying program (perhaps in form of corporate bonds)
- ▶ Geopolitical risks increasing (Brexit and Migrant crisis) present downside risks

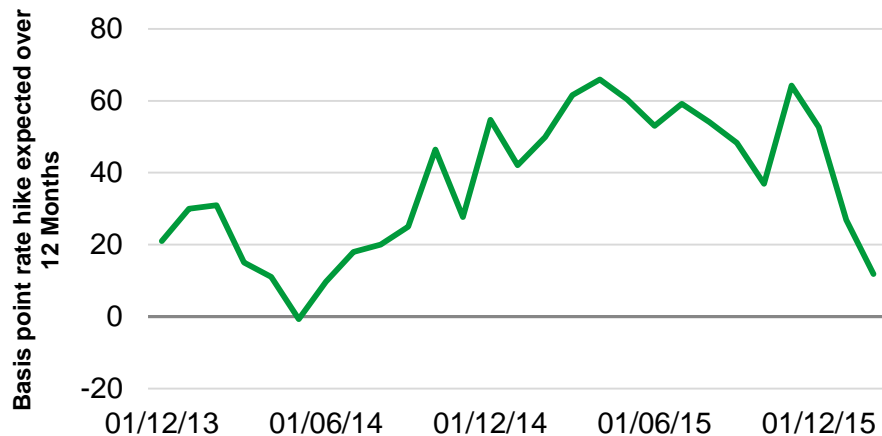
Source: Eurozone Leading Economic Indicator 'LEI' (a BlackRock proprietary index) / Bloomberg as at 29 February 2016 – subject to change

US – mixed but we remain constructive

US Unemployment



Fed Rate Hike Expectations

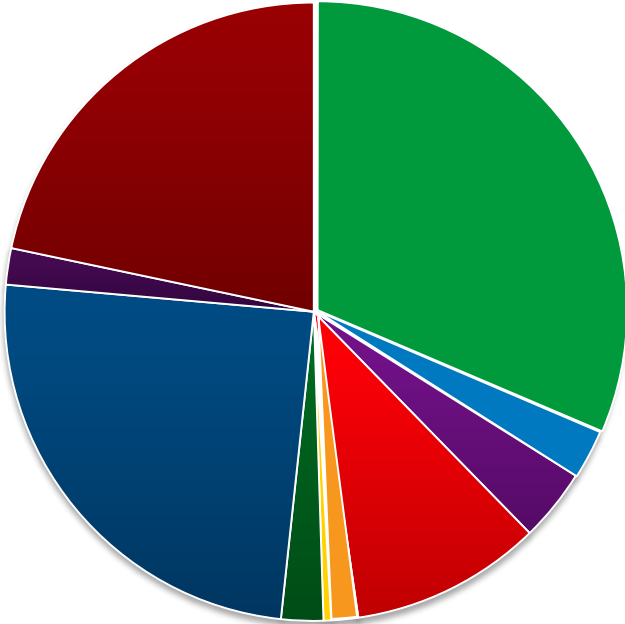


- ▶ Employment data remains positive;
 - some concerns around recent manufacturing and services data
 - Possible indication of slowing momentum
- ▶ Rate hike expectations extended out further given concerns around weak global and slower domestic growth
- ▶ While there are risks to the US outlook, it remains our favoured developed market
- ▶ Strong labour market data, improved domestic consumption, and strong corporate revenues remain supportive.

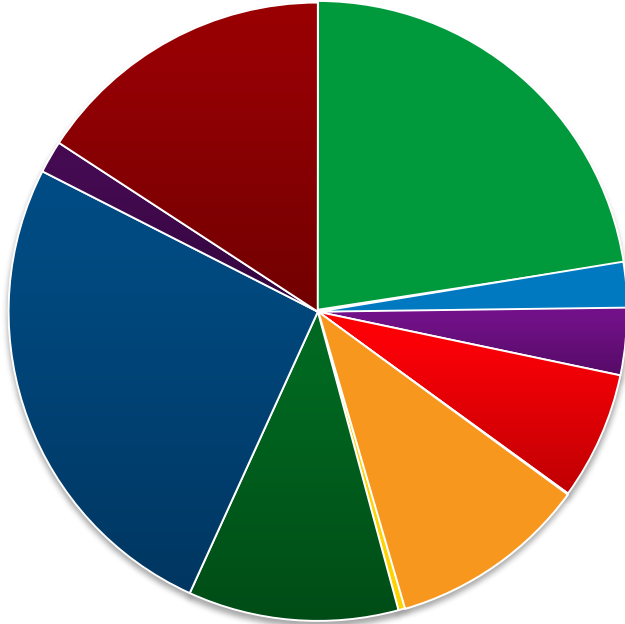
Source: BlackRock/Bloomberg US Employment data shown for period 1 Jan 1990 to 31 January 2016, US Interest rate expectations shown from 1 Dec 2013 to 29 February 2016 – both data series are subject to change / revision over time.

What have we been doing in portfolios?

31 December 2015



29 February 2016

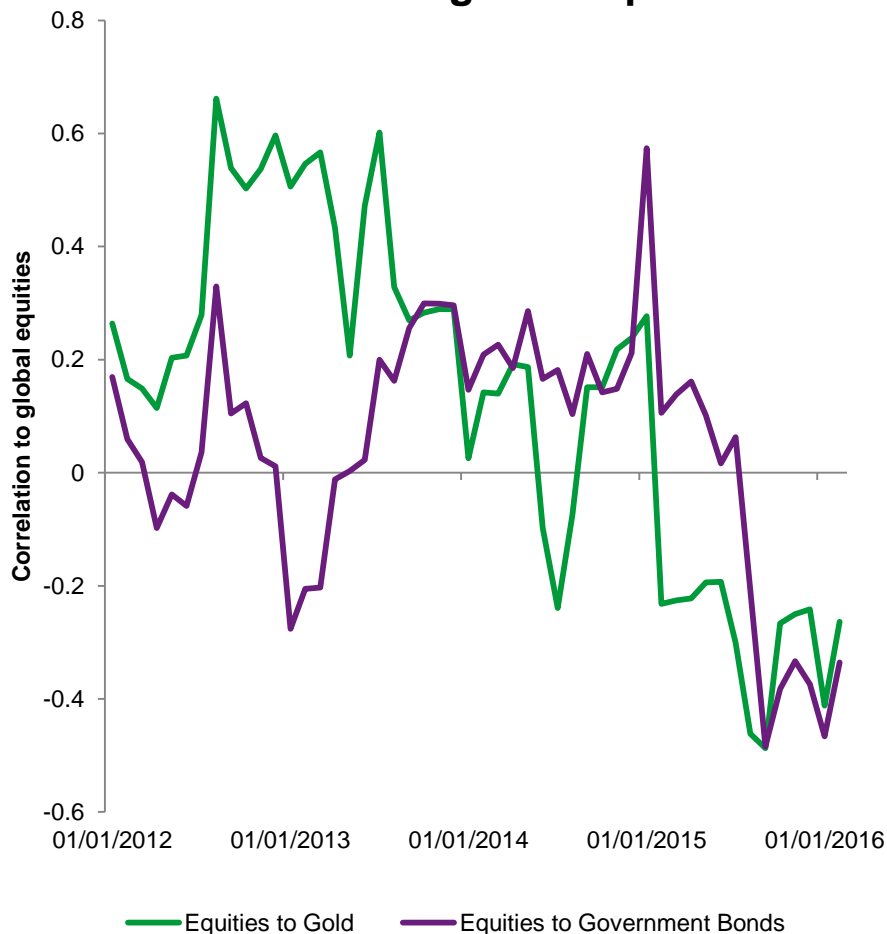


- Developed Market Equities
- Emerging Market Equities
- Hedge Funds
- Volatility Strategies
- Commodities
- Property & Private Equity
- Government Bonds
- Investment Grade Debt
- High Yield & Loans
- Cash & Derivatives Cover

Source: BlackRock – representative account – for illustrative purposes only and subject to change

The comeback of the traditional diversifier

Correlation to global equities



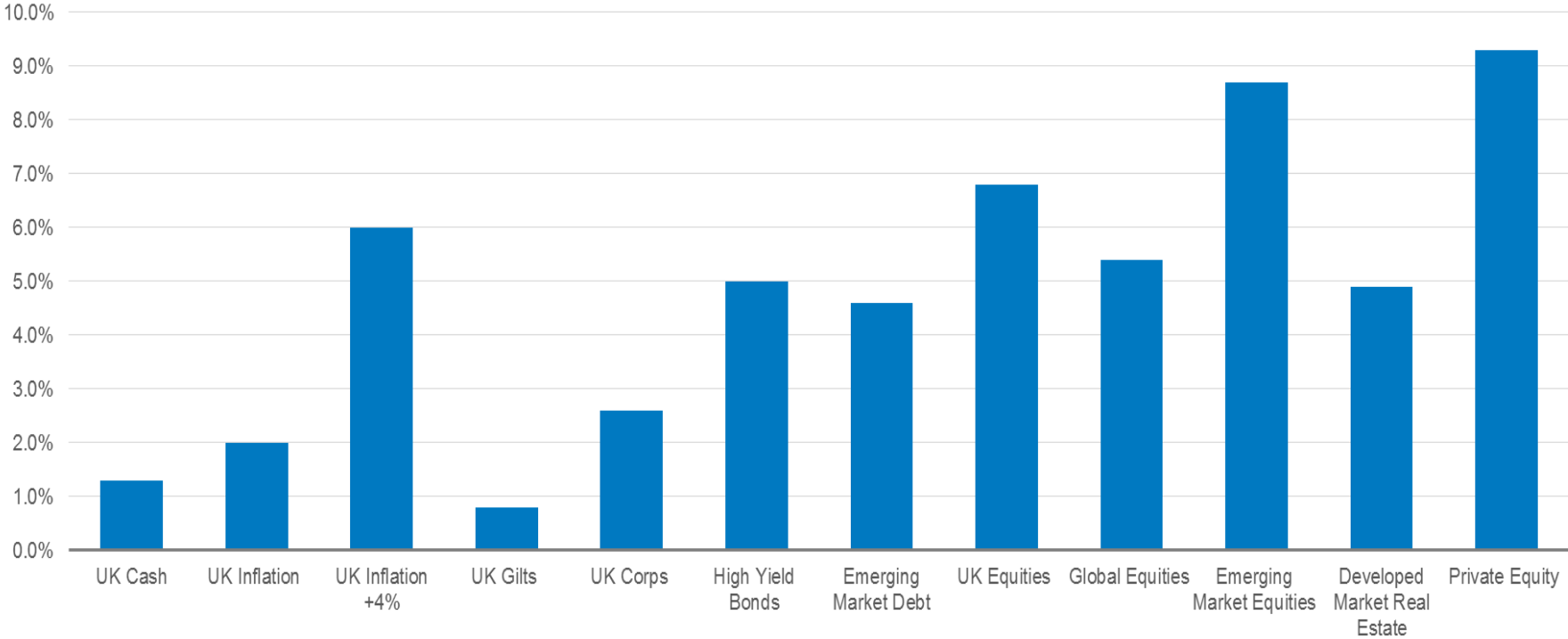
- ▶ Gold and government bonds have been unpredictable diversifiers since 2011.
- ▶ 2016 has seen the old relationship between equities and safe haven assets return.
- ▶ Increased volatility in currency markets and a new regime of negative interest rate policies from certain central banks has created a resurgence in demand for gold.
- ▶ Gold has provided one of the few safe havens for investors in 2016 thus far

Source: BlackRock/Bloomberg

Data provides correlation of MSCI World Equities (total return, local terms) to Gold Spot Rate (\$) and World Government Bond Index (local terms) respectively from 1 Jan 2012 to 29 Feb 2016

What are our expectations for longer term returns?

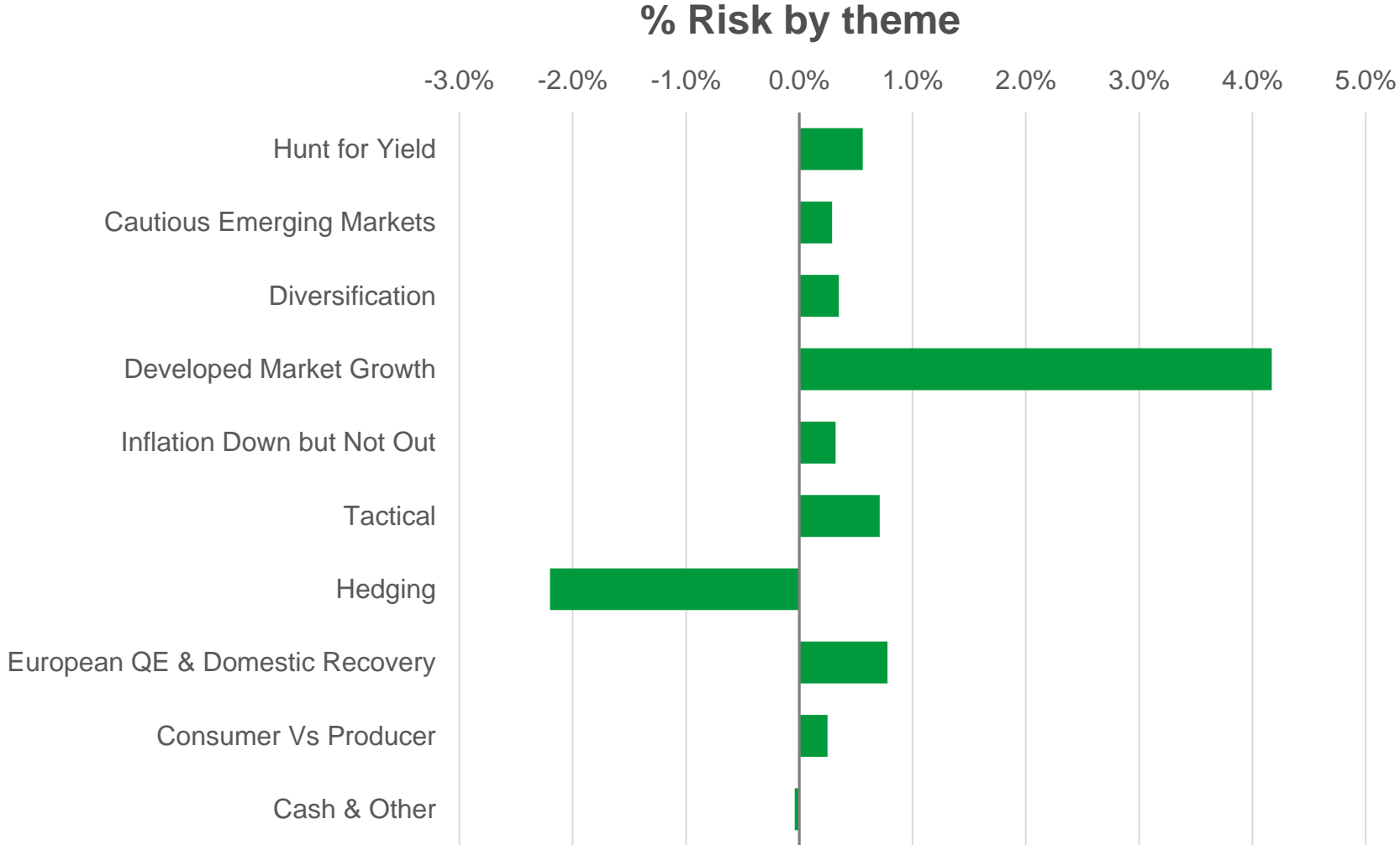
BlackRock's 5-year return assumptions



Source: BlackRock Investment Institute, January 2016.

Notes: Five-year annualised return assumptions are in arithmetic terms. Return assumptions are total nominal returns. Return assumptions for all asset classes are shown in hedged terms, with the exception of EM equity and local-currency EM debt. We use long-term volatility and correlation assumptions. Global equities are represented by the MSCI World ex UK Index in our correlation assumptions; global treasuries by the BofA Merrill Lynch Global Government ex UK Index. We break down each asset class into factor exposures and analyse those factors' historical volatilities and correlations over the past 15 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality. UK Inflation: CPI

So how are we allocating our risk budget?



Source: BlackRock, risk allocation within a representative account as at 29/02/2016 – subject to change

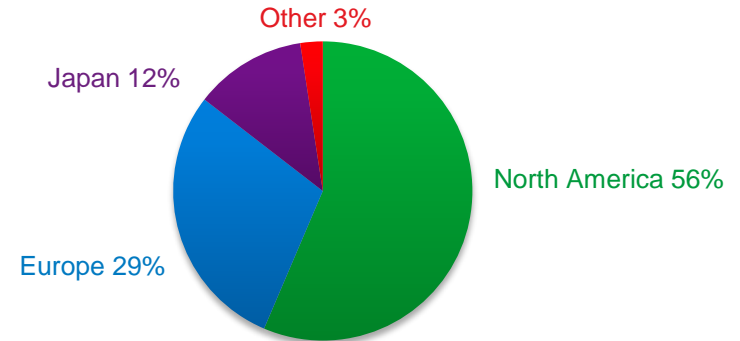
And how do we extract more value?

Trade example: Oil Beneficiaries basket

Multi-Asset Research

- ▶ Expect sustained lower oil prices – any recovery likely to be shallow rather than V-shaped.
- ▶ Industries that indirectly benefit from higher consumer disposable income and companies with operational costs linked to the oil price expected to outperform e.g. airlines, trucking, retail.

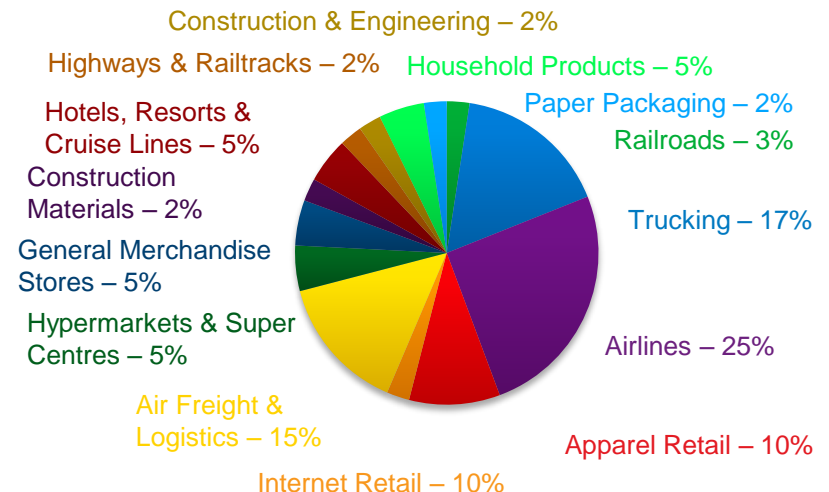
Market Cap split by Geography



Maximise return from our research

- ▶ Build bespoke basket to reflect these themes.
- ▶ Equal weighted constituent companies to avoid stock specific risk.

Market Cap split by Industry



Portfolio construction

- ▶ Implemented a 2% position on 30th January 2015.

Source: BlackRock representative account, breakdown of basket as at January 2016.

But what about the next generation of investing?

Big data and technology: BlackRock Impact World Equity Fund

Multi-Asset Research

- ▶ Companies that demonstrate positive impact on the **environment, employees, and society** are expected to **outperform** longer term.
- ▶ The latest technology and **'big data'** is used to identify defined impact outcomes that are **transparent and measurable** in client portfolios.

Maximise return from our research

- ▶ BlackRock's **Scientific Active Equity** (SAE) team provide in-house expertise through a systematic, model-driven investment process.
- ▶ Access traditional data and information from social media, crowd sourcing, and advances in natural language processing.
- ▶ Target three key issue areas, **health, the environment, and corporate citizenship**.



HEALTH



ENVIRONMENT

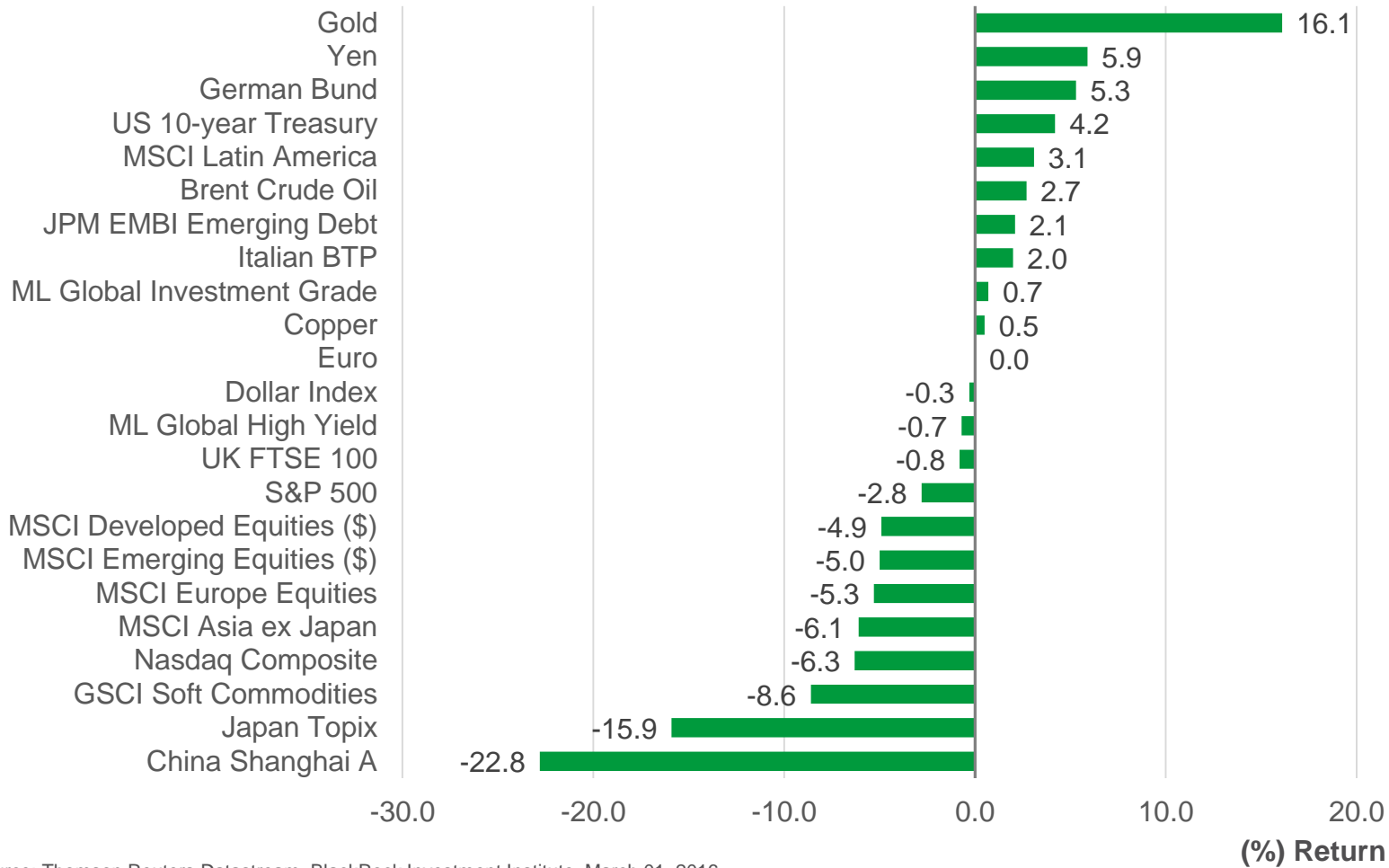


CORPORATE CITIZENSHIP

Source: BlackRock as at 31/12/2015.

How are markets shaping up in Q1 2016 so far?

Asset Performance – Year to Date

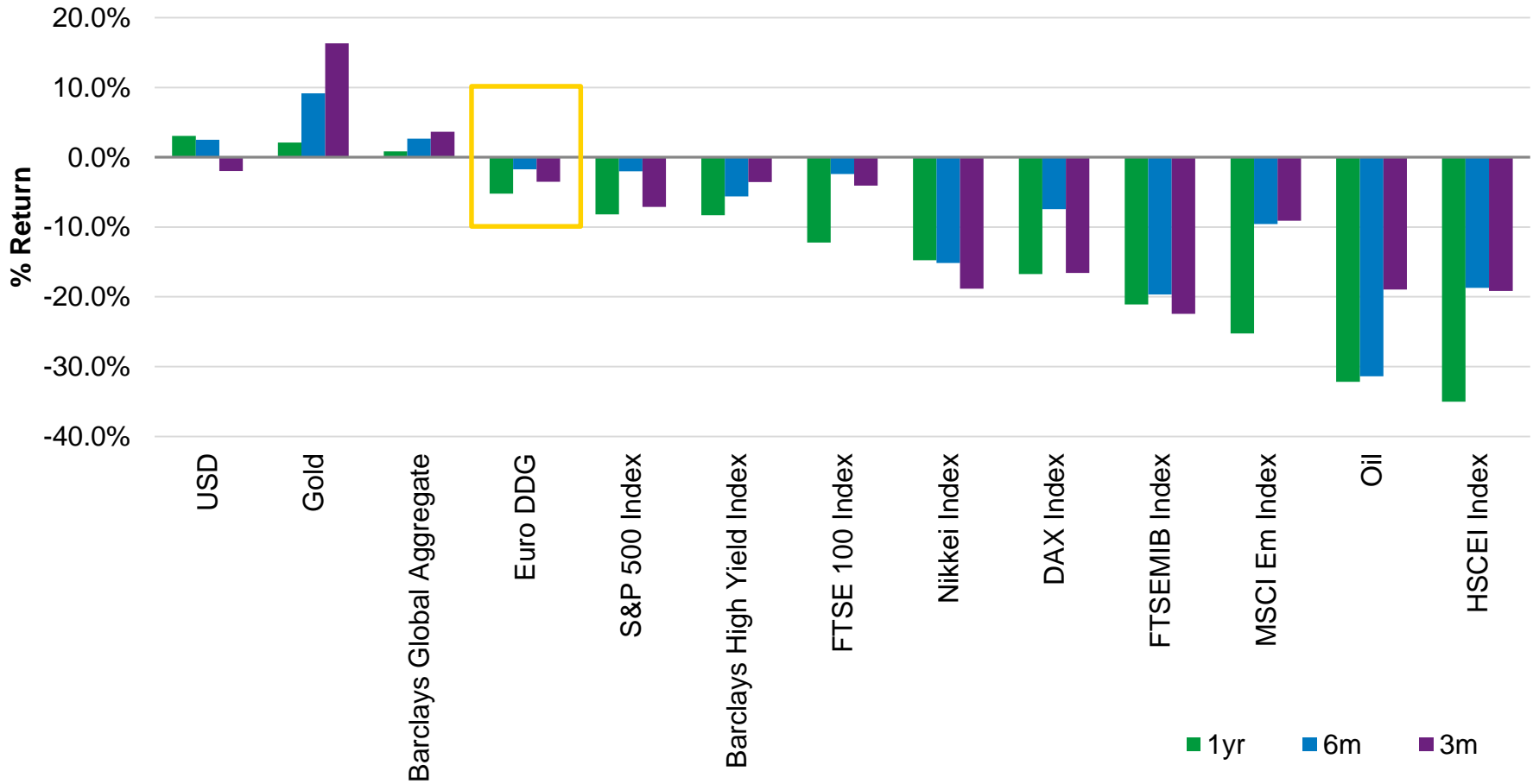


Source: Thomson Reuters Datastream, BlackRock Investment Institute, March 01, 2016.

Note: The bars show the total return in local currency terms, except for currencies, gold, silver, and copper, which are spot returns. Government bonds are 10-year benchmark issues. Euro and Yen are shown as strength vs. US Dollar.

... and how are we doing?

Asset Class Performance (local currency)



Source: Bloomberg as at 29/02/2016. Euro DDG I2 share class Gold: Gold spot price USD: DXY Index, Barclays Global Aggregate, US Equities: S&P 500 Index, Japanese Equities: Nikkei 225 index, German Equities: Dax Index Italian Equities: FTSE MIB index, Global Equities: MSCI World. Chinese Equities: HSCEI Index, Oil: WTI.

“Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security.”

John Allen Paulos

The following notes should be read in conjunction with the attached document

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