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Confronting Market Volatility: Help Clients Weather The Market's Ups And Downs

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How is BlackRock defining Smart Beta?

An evolution in the concept of passive investing

Smart Beta strategies seek to capture systematic sources of return, while retaining many of the benefits of passive strategies

What is Smart Beta?

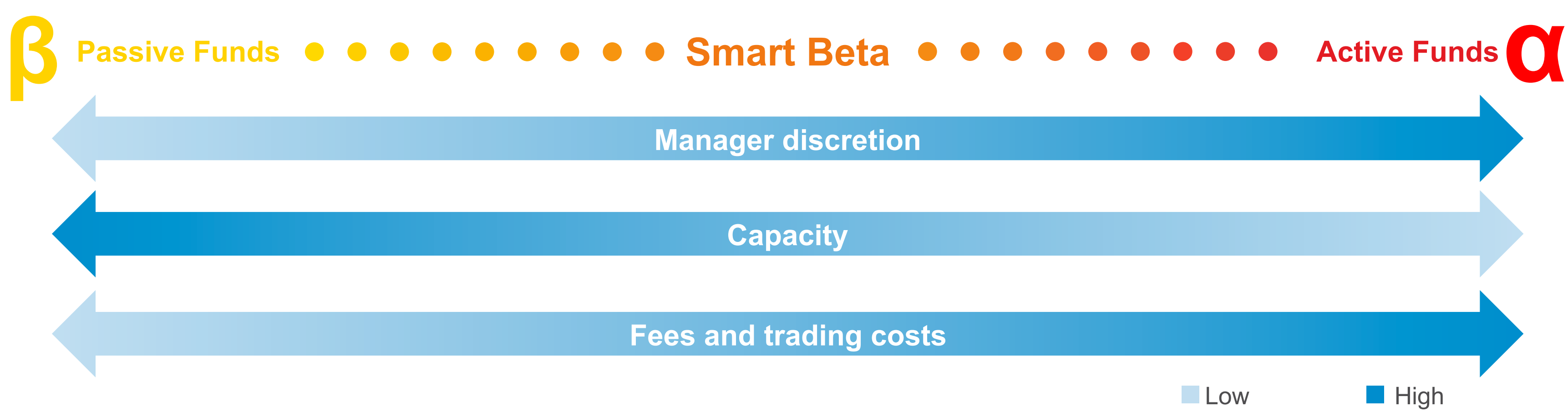
- Portfolio construction is rules-based, transparent and generally not cap-weighted
- Seeks to enhance risk-adjusted returns through exposure risk premia or market anomalies that are well-understood, persistent and desirable
- BlackRock looks for smart betas that are value creating over time and not correlated with core asset classes

What can Smart Beta do for a portfolio?

A powerful tool to potentially improve investment outcomes:

- Capture many of the themes present in active portfolios for a fraction of the cost
- Efficiently implement an investment view or theme
- Provides a factor-based view of the world to enhance returns or reduce risk

Smart Beta strategies reside in a continuum between active and passive



Rising Geo-Political Risk: Opportunities to Minimize Volatility

Expected of Rising USD interest rates

Weakening Euro, Strengthening USD

Possible Greek exit from the EU

Tensions with Russia

Alternative beta indices: Minimum Volatility

Cap-weighted benchmarks have long been the accepted standard

- Self rebalancing
- Emphasis on larger names has the potential to enhance liquidity
- Generally low turnover and T-costs
- Incorporates the collective information of all global investors

However, cap-weighted indexes can

- Incorporate the collective fears of the market
- Result in large positions in ‘over-valued’ securities due to price-driven weights
- Become overly concentrated in the largest securities

Minimum Volatility strategies seek to address these weaknesses

- Capture the equity opportunity with less risk
- Exploit a well-known anomaly in market behavior

The Minimum Volatility Anomaly

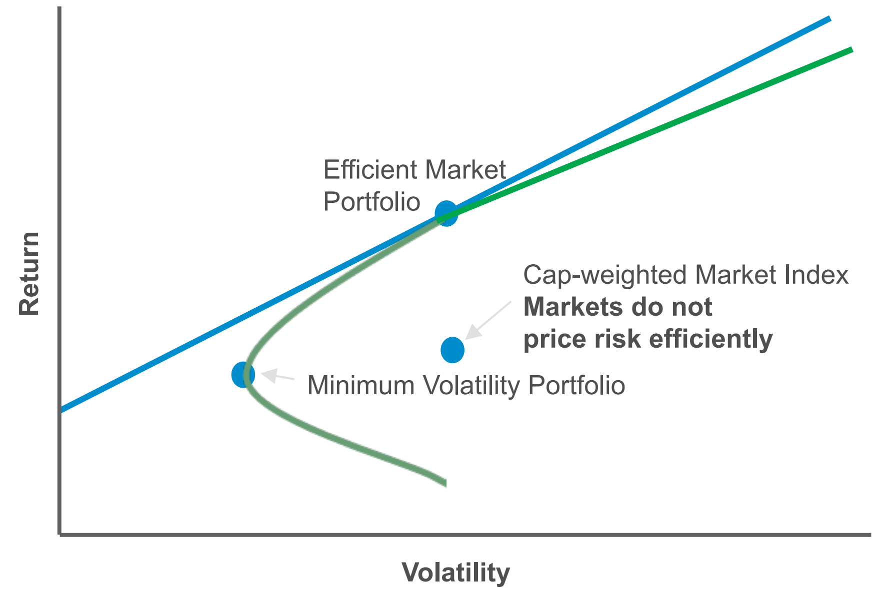
Higher return for higher risk?

- Modern portfolio theory tells us that there is an equity risk premium – higher risk portfolios should earn a higher return.
- The “optimal” portfolio is the efficient market portfolio – the highest return that can be earned for that level of risk.

But there seems to be an anomaly

- Empirically we observe that Minimum Volatility portfolios can provide more return per unit of risk than cap-weighted portfolios.
- Research[1] suggests existence of investors overpaying for higher beta stocks.
- Asset managers have little incentive to prefer low beta stocks given the level of “Active Risk” created.

Efficient Frontier and Minimum Volatility Index Portfolio



For illustrative purposes only.

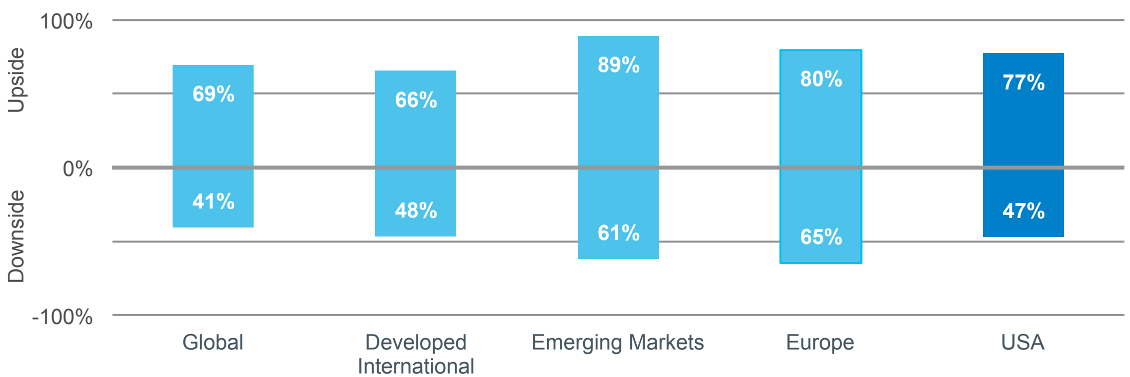
1. Baker, Malcolm P., Bradley, Brendan and Wurgler, Jeffrey A., Benchmarks as Limits to Arbitrage: Understanding the Low Volatility Anomaly (March 2010). NYU Working Paper No. FIN-10-002. Available at SSRN: http://ssrn.com/abstract=1585031

MSCI Minimum Volatility Snapshot

iShares MSCI Minimum Volatility Index Methodology Overview

Objective	Goal	Methodology inputs	Weighting methodology	# of constituents	Country / sector parameters	Risk model
Deliver low volatility returns while maintaining the exposure of the parent index	Superior long term risk-adjusted returns relative to cap weighted, through lower portfolio volatility	Risk and correlation Factor exposures of the relevant Barra Equity Model Variance and Covariance	Mean-variance optimization Stocks are weighted based on contribution to total risk (portfolio variance) and dependent on constraints	Dynamic	Style bias constrained Countries and Sectors constrained to +/- 5% Individual securities have a max weight of 1.5% or 20x cap weight and min weight of 0.05%	Yes – minimizing Barra Volatility factor

Downside Protection, Upside Participation



- Since inception, the MSCI MV Indices have captured **more upside than downside** relative to their standard indices.
- The chart at left displays the **percentage of the upside and downside (relative to the standard index returns) that the MV indices have captured since December 2009.**

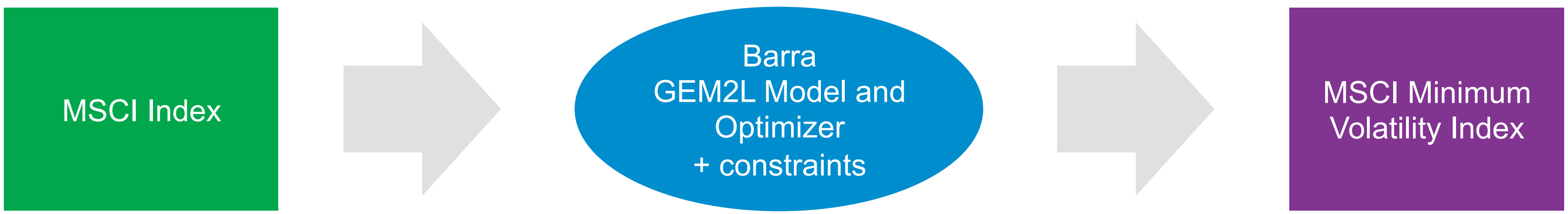
Source: Morningstar. Based on monthly index returns from 12/1/09 – 12/31/14.
MSCI USA MV Index incepted: 5/30/08, all other MSCI MV Indices above incepted: 11/30/09.

Index returns are for illustrative purposes only and do not represent actual iShares 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.

MSCI Minimum Volatility Indices Methodology

Barra GEML model captures effects of global common factors on portfolio return

- Optimization process that finds the best combination of stocks within stated constraints – ***not necessarily the lowest volatility stocks***
- The risk model uses ***marginal contributions*** to risk values to evaluate which assets are the most diversifying and concentrating to the portfolio's risk.



Marginal contributions to active risk (MCAR) measures the correlation of an asset with respect to overall portfolio risk.

- As a result, even stocks with higher relative volatility can lower risk when combined with other assets, especially those with lower correlations.

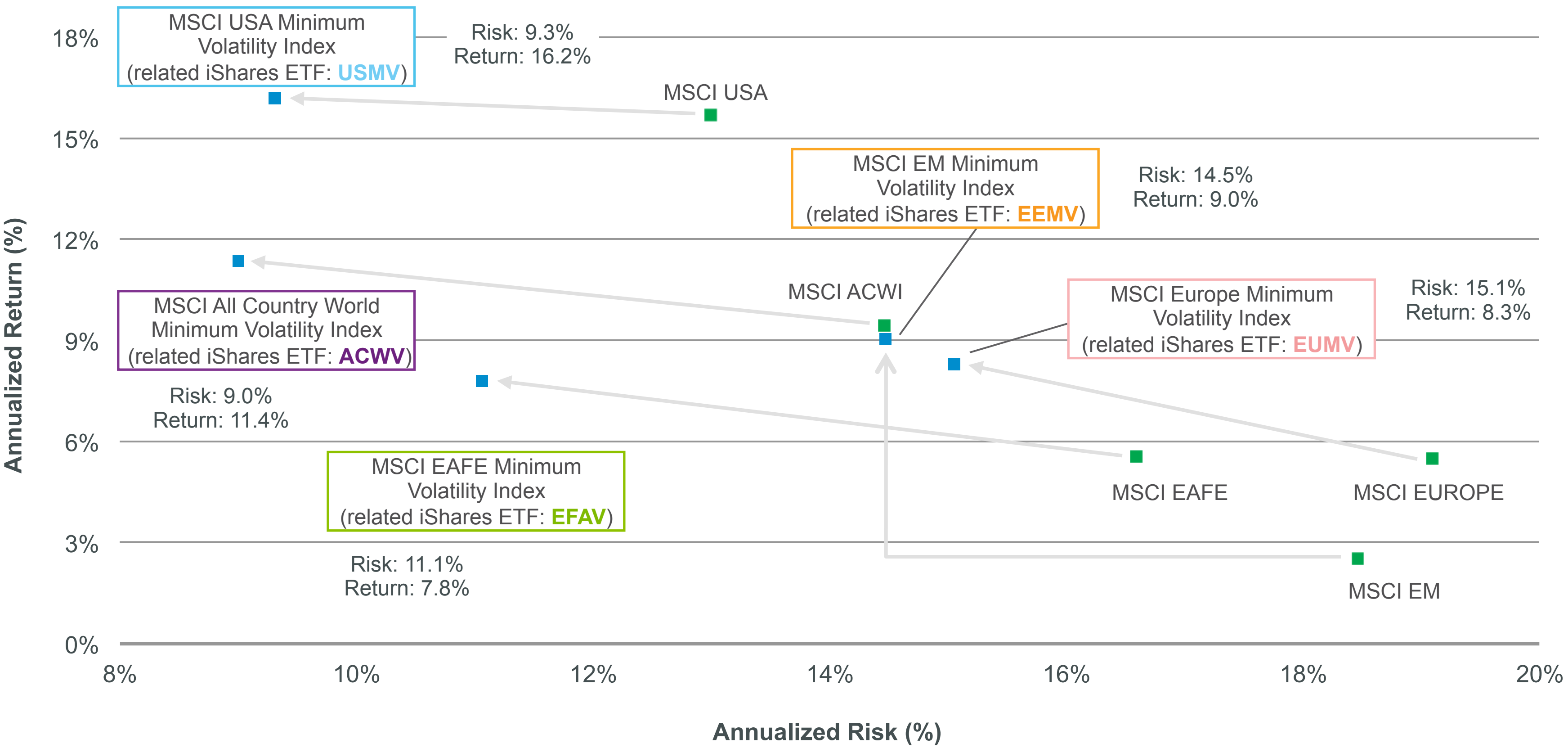
	90-day Realized Volatility	MCAR	Newmont Mining Corp	Pfizer Inc	Family Dollar Stores
Newmont Mining Corp	50.16%	-0.0011	1		
Pfizer Inc	16.20%	-0.0178	0.060	1	
Family Dollar Stores	7.30%	-0.0118	0.016	0.056	1

Source: MSCI Barra, BlackRock.
For illustrative purposes only. Securities shown should not be deemed as a recommendation to buy or sell securities.

Risk-Adjusted Return Index Profiles

Minimum Volatility Strategies seek to provide

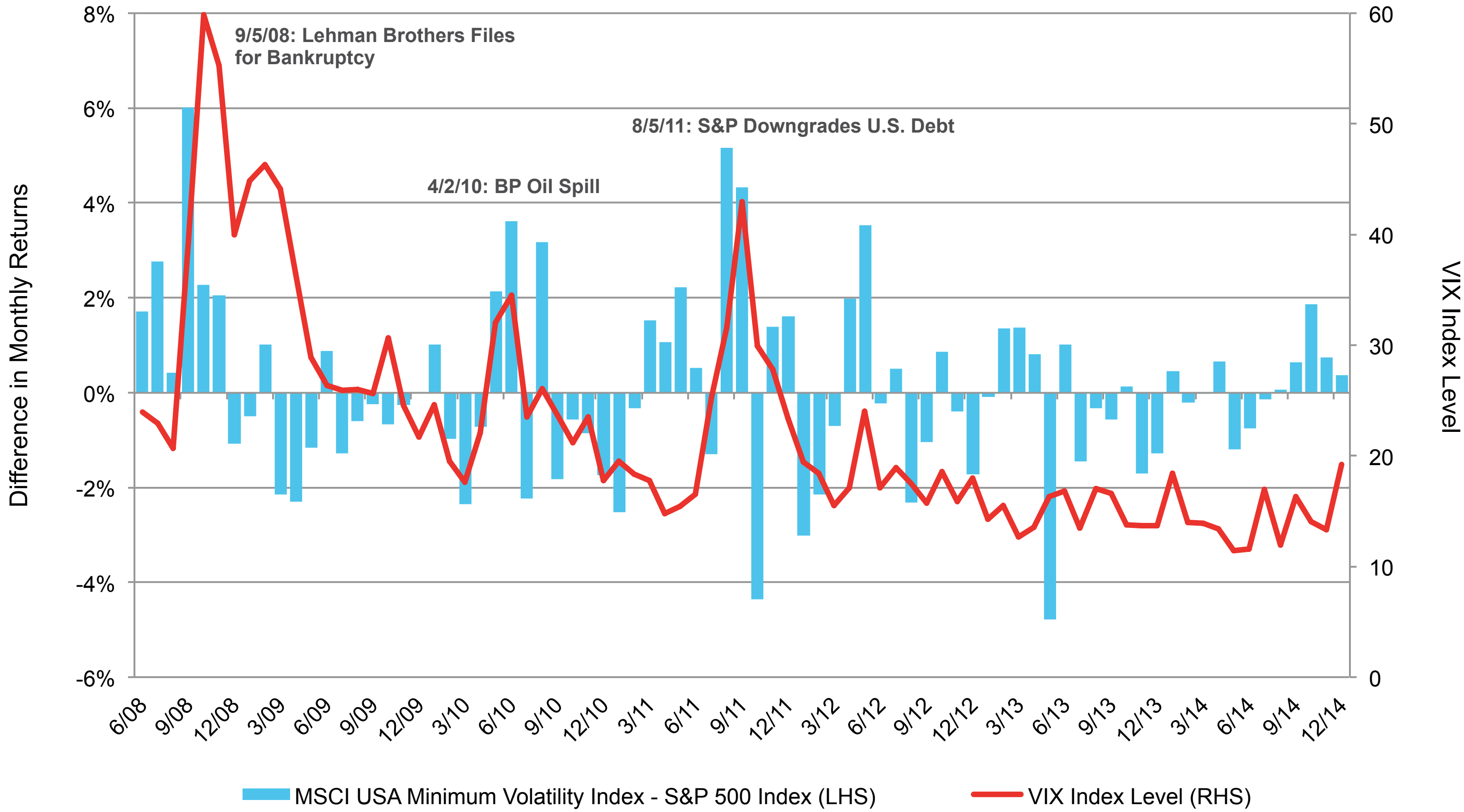
- Downside protection while maintaining some exposure to upside price movement.
- Targeted equity market returns with less variability.



Source: Morningstar and MPI Stylus. MSCI Minimum Volatility indexes incepted 5/30/08 (USA) and 11/30/09 (EM, EAFE, ACWI, EUROPE). Data shown based on index returns from 12/1/09 – 12/31/14. **Index data are for illustrative purposes only and do not represent actual iShares 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.** For actual iShares Fund performance, please visit www.iShares.com or request a prospectus by calling 1-800-iShares (1-800-474-2737).

MSCI USA Minimum Volatility Index - S&P 500 Performance vs VIX Index Monthly Difference in Returns (June 2008 – December 2014)

Minimum Volatility indices have performed best when market volatility was high.



Source: Bloomberg, as of 12/31/14.

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.
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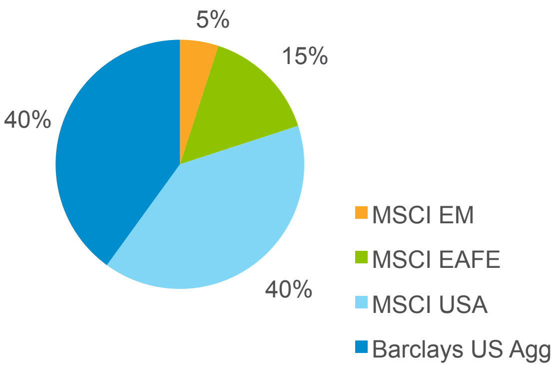
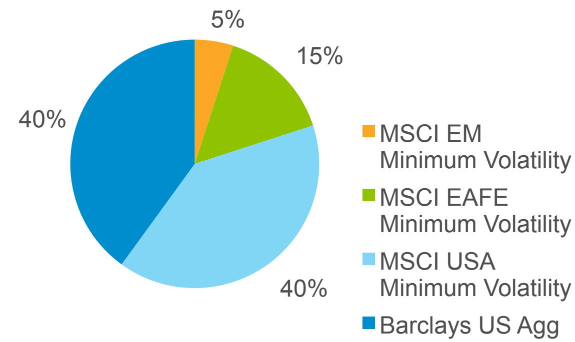
Implementation Strategies

Sample: No Minimum Volatility Indexes



MSCI Index	Related iShares ETF
MSCI EM Minimum Volatility	EEMV
MSCI EAFE Minimum Volatility	EFAV
MSCI USA Minimum Volatility	USMV

Sample: Minimum Volatility Indexes



	Sample Portfolio No Minimum Volatility Indexes	Sample Portfolio With Minimum Volatility Indexes
Annualized return (Since inception)	9.16	9.81
Annualized standard deviation (Since inception)	8.05	5.76
Sharpe ratio	1.12	1.64
Max drawdown return	-9.50	-3.82
# Max drawdown months	5	2

Portfolio Inception Date 12/1/09.

- **Potentially reduce risk of the overall portfolio.**
- Retain risk budget and allocate additional assets to high conviction exposures.
- Introduce new asset classes to risk averse clients.

Sources: BlackRock, Morningstar and MPI Stylus. 12/1/09 – 12/31/14. Sample portfolios are for illustrative purposes only, and do not represent a recommendation of any security or asset allocation strategy. Returns are hypothetical are not representative of any funds of investments.

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. Sharpe Ratio is a measure of an investment's return per unit of risk. It is the investment's excess return relative to the risk free rate, divided by the investment's standard deviation. A higher Sharpe Ratio implies greater efficiency.

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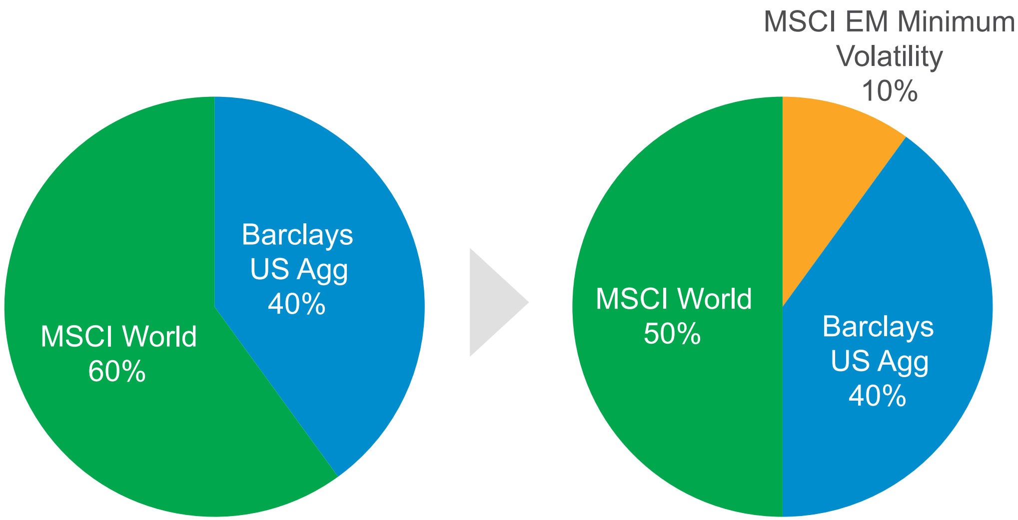
Implementation Strategies (Cont'd)

Sample: Replace 10% of equity exposure with MSCI EM Minimum Volatility Index



MSCI Index	Related iShares ETF
MSCI EM Minimum Volatility	**EEMV**

	Sample Portfolio: No EM Exposure	Sample Portfolio: with EM Min Vol Exposure
Annualized return (since inception)	8.19	8.06
Annualized standard deviation (Since inception)	8.30	8.16
Sharpe ratio	0.98	0.98

Sample Portfolio Inception Date: 12/1/09.
Sources: Morningstar and MPI Stylus, as of 12/31/14.

Potential Benefits

- Implement high conviction areas for up-capture, such as Emerging Markets.
- Expose a conservative portfolio to a new asset class, while seeking to maintain same risk budget.
- Further diversify with unique exposures to additional countries.

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. Sharpe Ratio is a measure of an investment's return per unit of risk. It is the investment's excess return relative to the risk free rate, divided by the investment's standard deviation. A higher Sharpe Ratio implies greater efficiency.

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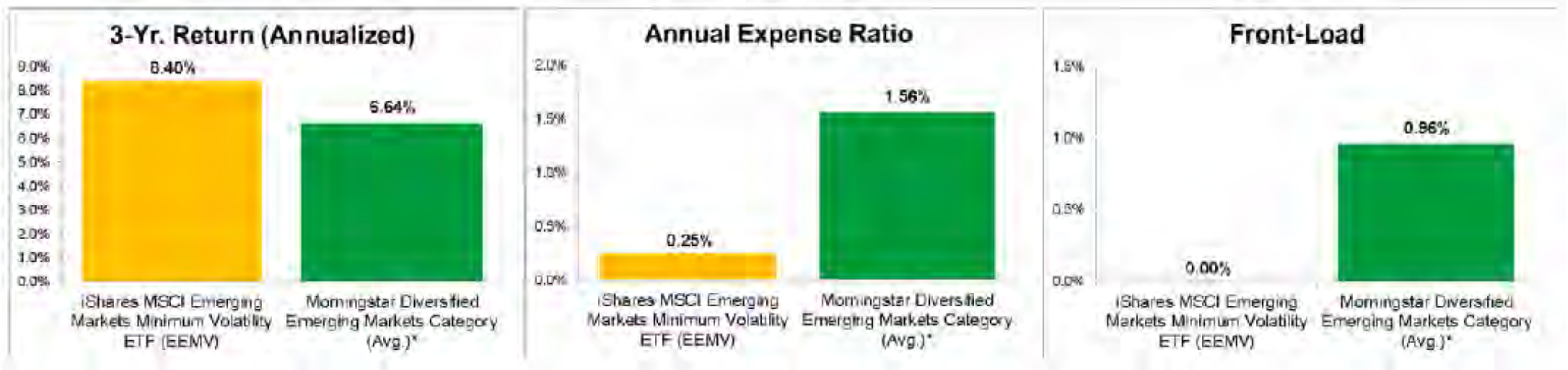
Implementation Strategies (Cont'd)

- **Potentially replace underperforming active funds.**
- Seek to reduce risk while harnessing return.
- Lower expense and daily transparency vs. active funds.



Sources: Bloomberg, Morningstar. 11/30/11 – 11/30/14. Morningstar category performance average for Diversified Emerging Markets mutual fund category.
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 or www.blackrock.com. Shares of ETFs 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 ETFs), and do not represent the returns you would receive if you traded shares at other times. The net expense ratio is shown for EEMV. The gross expense ratio is 0.67%. BlackRock Fund Advisors ("BFA"), the investment adviser to the Fund and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees through December 31, 2014.

Standardized Performance as of 12/31/14

Fund Name	Fund Inception Date	Expense Ratio	30-Day SEC Yield With/Without Waiver	1-Year	5-Year	10-Year	Since Inception
iShares MSCI Emerging Markets Minimum Volatility ETF (EEMV)	10/18/2011	0.25%[1]	2.52%/2.09%				
Fund NAV Total Return				0.87%	--	--	7.38%
Fund Market Price Total Return				-0.16%	--	--	7.22%
Index Total Return				1.10%	--	--	7.63%

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 or 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.

[1]BlackRock Fund Advisors ("BFA"), the investment adviser to the Funds and an affiliate of BlackRock Investments, LLC, has contractually agreed to waive a portion of its management fees through 12/31/15 for EEMV.

Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

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 or in concentrations of single countries. 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.

The information provided is not intended to be a complete analysis of every material fact respecting any strategy and has been presented for educational purposes only.

Asset allocation models and diversification do not promise any level of performance or guarantee against loss of principal.

Shares of iShares Funds are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

Mutual funds and iShares Funds are obliged to distribute portfolio gains to shareholders by year-end. These gains may be generated due to index rebalancing or to meet diversification requirements. Trading shares of the iShares Funds will also generate tax consequences and transaction expenses. Certain traditional mutual funds can be tax efficient as well.

When comparing stocks or bonds and iShares Funds, it should be remembered that management fees associated with fund investments, like iShares Funds, are not borne by investors in individual stocks or bonds. The annual management fees of iShares Funds may be substantially less than those of most mutual funds. Buying and selling shares of iShares Funds will result in brokerage commissions, but the savings from lower annual fees can help offset these costs.

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