How do I achieve the outcomes I need?

It's a changing world. Yields are low. Markets are volatile. Regulatory pressures are growing. Pension funds and insurers worry about meeting liabilities. Foundations and endowments have to ensure the longevity of their funds. And sovereign wealth funds and central banks face significant challenges in preserving the value of their investments for future generations.

Investors everywhere are looking for answers in this changing world. And no question is more pressing or challenging than “How do I achieve the outcomes I need?”

At BlackRock, we believe that no matter how tumultuous change is, it also brings opportunity for investors with the determination to seek it out and the confidence to act. Success in today’s markets requires strong partnerships, more flexible and dynamic asset allocation, enhanced governance and, above all, a comprehensive understanding of risks and opportunities.

Targeted risk management with dynamic asset allocation

To achieve the better outcomes they need in today’s changed world, investors have to revisit traditional investment strategies.

- It calls for an over-arching framework explicitly focused on liabilities – either individual or collective.
- It requires a more flexible approach with the ability to respond swiftly to change and opportunities in relation to liabilities as well as regulatory and policy changes.
- It needs targeted risk measurement and management, with transparency, comprehensive reporting and enhanced governance.
- It requires dynamic asset allocation that explores all dimensions of the asset universe; uses all available tools; and takes into account short- and medium-term views.
- It may also mean tailored partnerships with experts in capital markets and asset allocation.

Here are some ideas for investing that are gaining ground:

1. **Build an investment strategy around liabilities**

Gone are the days when liability values were rarely marked to market and smoothing was the norm. Adding to uncertainty and increasing funding shortfalls is the fact that people around the world are living longer lives. Managing liabilities are also a key concern for central banks as they deal with bloated balance sheets. In this changed world, resource-constrained pension funds, official institutions and insurers all seek new ways of responding more effectively to these fundamental challenges.

The answers are complex, but they include being relentlessly risk-aware and, in many instances, adopting a dynamic liability-driven investment approach.

For defined contribution providers, there is the opportunity to adopt institutional best practices to help members meet their individual goals and create flexible and more diversified solutions that keep money working for them longer – using longevity to influence investment strategy.

Some practical considerations to discuss with BlackRock and your adviser:

- How can I de-risk without exacerbating my funding shortfall?
- What type of institutional best practices can help deliver better outcomes for members or participants?

2. **Seek yield in different places**

Low yields are an undeniable feature of the new investment landscape. Investors who need income, either directly or as part of a total return strategy, have to look far and wide and also consider new opportunities in familiar places. In a variety of markets,
many companies that pay dividends are delivering twice the yields of benchmark government bonds. Those with the potential to grow their dividends offer an attractive opportunity for institutional investors seeking lower volatility equity investments. Attractive yields are also available in corporate, high-yield and emerging market sovereign bonds, as well as in alternatives such as real estate or infrastructure.

Some practical considerations to discuss with your adviser and BlackRock:
- How sustainable are the current levels of equity dividend growth?
- Which type of alternatives provide regular yield either as income or as part of a total return strategy?

3. Adopt alternatives as the new mainstream

Alternative investments – such as real estate, private equity, hedge funds, commodities, infrastructure and renewable energy – are no longer an ‘alternative.’ They are increasingly seen as a key component of portfolios. Combined with a commensurate focus on risk management, a core alternatives allocation has the potential to help institutional investors construct more risk-efficient portfolios, increase return over time and ultimately reach the outcome they need.

Some practical considerations to discuss with your adviser and BlackRock:
- What is the right level and mix of alternatives exposure for my portfolio?
- What are the risk implications of increasing the alternatives allocation in my portfolio?

4. Strike the right balance between active and passive

Getting the most from scarce capital and risk budgets through better portfolio construction is critical for investors to achieve the outcomes they need. On the return side, this means a real focus on spending the risk budget where it contributes the most return.

In many instances, this is best achieved through a barbell portfolio: combining active strategies that seek high returns – such as unconstrained equity approaches – with efficient and affordable beta exposure from index or ETF strategies. Index and ETF strategies are also important tools for adjusting portfolios nimbly and efficiently.

Some practical considerations to discuss with your adviser and BlackRock:
- How do I go about constructing a more effective portfolio?
- How can index and ETF strategies help me adjust portfolios more effectively?

5. Rethink risk-free

Institutional investors are rightfully cautious in the face of persistent uncertainty and volatility. But it’s also clear that the sovereign debt crisis has undermined the very notion of ‘risk-free.’

It’s time for investors to reset their perceptions of risk-free – and mitigate, for instance, unwanted exposure to those sovereigns that present significant credit risk. Likewise, it may be time for investors to reduce excess safe-haven cash balances before inflation erodes the value they seek to protect.

BlackRock was founded to provide answers that can help enhance performance.
- It’s why we have embraced a new standard of analytical rigour and fact-based investing. In vast quantities of information, we seek the insights that can change outcomes.
- It’s why we have built our capabilities around our clients’ greatest needs. And we strive to deliver those investment capabilities in a way that only BlackRock can – across asset classes, geographies and a full range of active and passive strategies.
- Providing answers has been our commitment to clients since we began. And in a world that grows ever more complex, it’s a responsibility that has never been more important.
- It’s why we are called in by companies, governments and investors all around the world, in crisis after crisis, to bring clarity to their most daunting financial challenges.
Instead, investors should consider increased diversification or new avenues such as the use of sophisticated screening techniques in their fixed income portfolios, or exposure to emerging market debt. And while many investors need to continue de-risking, they should counterbalance this de-risking by making the most of their limited risk budget.

**Some practical considerations to discuss with your adviser and BlackRock:**

- Should I consider tailoring my exposure to sovereign debt?
- Why is it time to reduce excess safe-haven cash balances?

**BlackRock was built for these times**

To build the more dynamic, diverse portfolios these times require, institutional investors need a partner with a vast depth of knowledge and breadth of capabilities. BlackRock brings it all together: a full range of active and passive strategies, including our iShares® ETFs; a deep belief in data and analytical rigour — backed by our world-class risk-management platform, Aladdin®; a singular focus on delivering strong, consistent performance; and the ability to look across asset classes, geographies and investment strategies to help our clients achieve better outcomes.

And in a world where investors need to ask whether the firm working for them is also betting against them, BlackRock knows what it means to be aligned with the interests of our clients. As an independent asset manager, we work only for our clients. We partner with clients and their advisers to build portfolios that reflect their objectives, risk tolerance and time horizons. And we take our responsibility extremely seriously — to our clients and all the workers, students and retirees whose futures depend on the assets they entrust us to manage.

It’s why all of our expertise, analytical power and technical acumen are devoted to helping clients and their advisers answer the questions on their mind — and achieve the outcomes they need — in today’s changing world.

To learn more, visit blackrock.com/conversations

---

This material is for distribution only to those types of recipients as provided below and should not be relied upon by any other persons. Circulation must be restricted accordingly. This material is provided for information purposes only and does not constitute a solicitation in any jurisdiction in which such solicitation is unlawful or to any person to whom it is unlawful. Moreover, it neither constitutes an offer to enter into an investment agreement with the recipient of this document nor an invitation to respond to it by making an offer to enter into an investment agreement. This material may contain forward-looking information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of yields or returns, and proposed or expected portfolio composition. Moreover, certain historical performance information other investment vehicles or composite accounts managed by BlackRock have been included in this material and such performance information is presented by way of example only. No representation is made that the performance presented will be achieved by any BlackRock funds, or that every assumption made in achieving, calculating or presenting either the forward-looking information or the historical performance information herein has been considered or stated in preparing this material. Any changes to assumptions that may have been made in preparing this material could have a material impact on the investment returns that are presented herein by way of example. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 30 September 2012 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Any investments named with this material may not necessarily be held in any accounts managed by BlackRock. Reliance upon information in this material is at the sole discretion of the reader. Past performances is no guarantee to future results. This material is issued in the UK by BlackRock Investment Management (UK) Limited (authorised and regulated by the UK Financial Services Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2033914. Tel.: +44 20 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is the trading name of BlackRock Investment Management (UK) Limited and BlackRock Advisors (UK) Limited. In Hong Kong, the information provided is issued by BlackRock (Hong Kong) Limited and is only for distribution to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rules made under the Ordinance). In Singapore, the information provided is distributed by BlackRock (Singapore) Limited (company registration no. 200010143H) and is for distribution to institutional investors (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the SFA) and accredited investors (as defined in section 4A of the SFA only). In Brunei, Malaysia and Thailand, this document is provided in a private and confidential manner to institutional investors only. This material is issued in the United Arab Emirates by BlackRock Advisors (UK) Limited – Dubai Branch which is regulated in the UAE by the Dubai Financial Services Authority (DFSA). It is directed at professional clients only within the meaning of the rules of the DFSA and no other person should rely upon the information contained within it. For distribution in EMEA, Korea and Taiwan for Professional Investors only (or professional clients, as such term may apply in the relevant jurisdictions). BlackRock Investment Management (Taiwan) Limited is an independent legal entity, which is located at 28F, 95 Tun Hwa South Road, Section 2, Taipei, Taiwan. Tel (02)23261600. In Japan, this material is not for use with individual investors. This material may be distributed/issued in Canada, Australia and New Zealand by BlackRock Financial Management Inc. (BFM), which is registered as an International Adviser with the Ontario Securities Commission. In Australia, BFM is exempted under ASIC Class Order 03/1100 from the requirement to hold an Australian Financial Services Licence and is regulated by the Securities and Exchange Commission under US Laws, which differ from Australian laws. In New Zealand, this presentation is offered to institutional and wholesale clients only. It does not constitute an offer of securities to the public in New Zealand for the purpose of New Zealand securities laws. BFM believes that the information in this document is correct at the time of compilation, but no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BFM, its officers, employees or agents. This document contains general information only and is not intended to represent general or specific investment advice. The information does not take into account your financial circumstances. An assessment should be made as to whether the information is appropriate for you having regard to your objectives, financial situation and needs. In Latin America, for Institutional Investors only. It is possible that some of the funds mentioned or inferred to in this material have not been registered with the securities regulator of Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay or any other securities regulator in any Latin American country; and, thus, might not be publicly offered within any such country. The securities regulators of such countries have not confirmed the accuracy of any information contained herein. No information discussed herein can be provided to the general public in Latin America.

BlackRock® is a registered trademark of BlackRock, Inc. BLACKROCK, BLACKROCK SOLUTIONS, ALADDIN, iSHARES, LIFERTH, SO WHAT DO I DO WITH MY MONEY, INVESTING FOR A NEW WORLD, and BUILT FOR THESE TIMES are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners. © 2012 BlackRock, Inc. All Rights reserved.

For institutional use only — not for public distribution.