

INVESTMENT AND INDEPENDENCE
THE SCOTTISH REFERENDUM

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THE SCOTTISH REFERENDUM



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Introduction

Scotland votes for independence on 18 September. A 'Yes' vote would sever a 300 year-plus union, setting in motion a complex and uncertain process of separation. This would create risks for investors, corporations, savers and the UK economy.

The 'Yes' vote crept up to around 34% in early 2014 polls, while the 'No' vote stood at just under 50%. The three major UK political parties are against independence.

The debate over independence has been polarised and politicised. Claim and counter claim abound. The truth: Nobody knows the final outcomes if Scotland were to become independent. These would take years to crystallise and involve lengthy negotiations.

What are the key issues that investors and savers need to assess? This publication outlines our thoughts – which are deliberately apolitical in nature.

The opinions expressed are as of March 2014 and may change as subsequent conditions vary.

Scottish summary

- ▶ An independent Scotland would bring major uncertainties, costs and risks – mostly for Scotland, but also for the remaining UK (rUK). There is a lot to settle: a currency union or a Scottish pound, Scotland's opening balance sheet, division of the hydrocarbon bounty, financial regulation, EU membership, tax matters, timetables, and much more. Some balls are bound to be dropped.
- ▶ There are disagreements over future currency arrangements and debt apportionment. Negotiations would likely drag beyond the desired 2016 timetable of the Scottish Government (SG). Our view: The current SG will be hard-pressed to deliver many of its promised outcomes.
- ▶ A currency union with rUK looks infeasible, and would bring risks to both countries. Entrance into the eurozone does not appear to be a near-term option. The best of the (few) choices: Scotland launches its own currency, perhaps linked to the currencies of its main trading partners (sterling would feature prominently) and the price of oil.
- ▶ Scotland would have an estimated fiscal deficit of 5% to 15% of GDP, depending on its share of North Sea oil revenue. Absent an oil price spike, a fiscal surplus is not realistic any time soon because of promised tax cuts and a greying population. The country's initial net debt-to-GDP ratio could further weigh on its finances, depending on how much of the UK debt stock it inherits.
- ▶ The rUK would likely shoulder the legal responsibility for all gilts issued up to the point of formal separation. We expect Scotland would reimburse the rUK for payments on its negotiated share of issued debt across maturities. We do not see increased risk for UK debt holders other than in the (presumably) remote case that Scotland defaulted on this liability.
- ▶ Kilt-edged securities would sell at higher yields. Scotland would have to pay more to borrow than the UK – and accept shorter maturities. The country's likely high debt, fiscal deficit, weak economic growth, lack of institutional frameworks and low FX reserves suggest a higher-than-normal debut sovereign yield spread. This would add to Scotland's fiscal stress.
- ▶ Oil and gas are critical to Scotland's finances. North Sea revenues are volatile as they depend on energy prices, production volumes, costs and tax incentives. Fiscal spending based on specific oil revenue projections is uncertain and probably unwise. Credit investors will factor this uncertainty into yields, in particular if there are increases in populist spending programmes.
- ▶ Banks and insurers would face pressure to move headquarters to a stronger fiscal state with a more certain regulatory backdrop. Yet a wholesale exodus of staff and operations would be unlikely, given Scotland's cost advantage over London and other locations.
- ▶ Utilities doing business in Scotland would likely see financial returns fall as the country would be torn between ambitious targets for renewable power and popular pressure to keep electricity rates low.
- ▶ Independence would raise regulatory costs and uncertainties for companies. Pension sponsors and trustees would have to change scheme designs and operations.
- ▶ Fears an independent Scotland would become a bastion of anti-business sentiment are unfounded, in our view. The SG would likely go out of its way to accommodate the oil industry in particular. Why risk killing the Scottish grouse that lays the golden egg?

Scottish coin

Which currency would an independent Scotland use?

Scotland has three currency options: keep using sterling, launch its own currency or join the euro. All options come with pros and cons, as the chart below shows.

Weighing the costs and benefits, we believe the best available option would be for Scotland to launch its own currency. What would this mean?

- ▶ Scotland would have the best chance of operating under monetary policy conditions and an exchange rate suited to its economy.
- ▶ After Scotland established its monetary credentials, there could be advantages to operating the currency as a managed float. Its value could be linked to the currencies of its main trading partners and the price of oil.
- ▶ Scotland could choose to adopt the euro later or to operate a more freely floating currency.
- ▶ Scotland would nonetheless still bear costs, including some lack of policy sovereignty and the likely relocation of some financial sector players.

THE CURRENCY CALL

Scotland's currency options

 Keep using sterling		 Launch own currency			 Join euro
Set up currency union To be negotiated with rUK Pros Greatest degree of continuity Bank of England would remain lender of last resort to banks Cons UK political establishment has ruled it out Little Scottish control over policy levers Monetary and financial conditions could be inappropriate for Scotland	Use sterling informally 'Sterlingisation' (similar to small dollarised economies) Pros No transition or permanent transaction costs Cons Monetary and financial conditions set with no regard for Scotland No financial stability or lender-of-last-resort tools.	Fix to another currency Most likely pegged to sterling or euro Pros Import monetary policy credibility from the UK or eurozone Remove uncertainty over export prices Cons Transition and permanent transaction costs Little or no independent monetary policy No scope for exchange rate adjustments Exposes Scotland to energy price shocks	Move to free-floating currency Pros Gives the greatest policy flexibility and independence Monetary and financial conditions set to suit Scotland Cons Transition and permanent transaction costs Currency volatility likely, particularly initially as Scotland establishes credibility Risk of 'Dutch disease' with non-oil exports vulnerable to energy-induced currency swings	Implement managed float Pegged to basket of currencies and oil Pros Could deliver monetary and financial conditions suited to Scotland Gives non-oil industries some protection from 'Dutch disease' Cons Transition and permanent transaction costs Difficult to defend initially as Scotland establishes credibility	Negotiate with EU Would need to operate with independent currency for an interim period Pros Policymaking institutions in place Scotland would enter newly formed EU banking union Cons Scotland is less aligned with the eurozone than with UK Double transition costs Scotland may not meet euro criteria for some time.

Source: BlackRock, March 2014.
 Note: For illustrative purposes only.

Scottish thrift

How strong is Scotland's fiscal position?

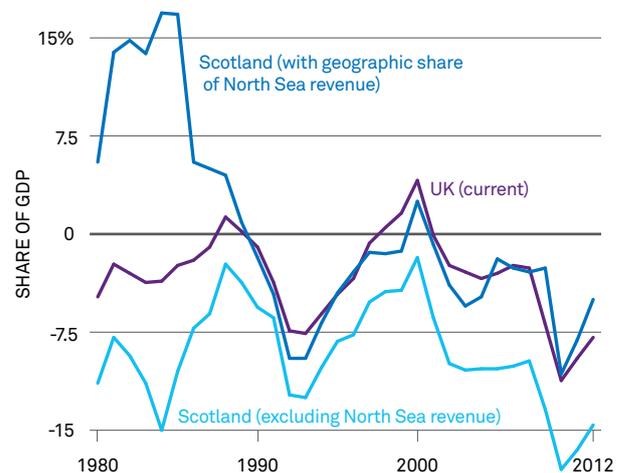
A newly-independent Scotland would need to issue debt to fund its government. Consider:

- ▶ Scotland's fiscal position is weak – even with the most generous allocation of North Sea oil revenues. Its estimated deficit totals 14.6% of GDP excluding North Sea revenues; 13.5% of GDP with a per-capita share of North Sea revenue; and still 5% of GDP with a geographical share, according to Government Expenditure and Revenue Scotland. See the chart on the right.
- ▶ Even an optimistic assessment for oil prices and production would leave Scotland's fiscal deficit at 0.6% of GDP by 2017-2018, according to the SG and the Centre for Public Policy for Regions.
- ▶ Scotland does not have a history of running fiscal surpluses. Its fiscal history looks similar to the UK's, with the exception of oil boom periods (early 1980s).
- ▶ Scotland would need a fiscal swing of at least five percentage points of GDP to get to a primary fiscal balance (excluding interest payments on Scotland's share of the UK debt), according to the Institute for Fiscal Studies.
- ▶ The uncertainty of North Sea oil revenues and the SG's low tax pledges suggest any additional fiscal effort would need to come from spending cuts.
- ▶ Spending cuts would involve difficult political trade-offs. Social protection and health care are the largest category of public spending. An ageing population suggests limited wiggle room here.
- ▶ Scotland expects to save around £1 billion per year on defence, offset partly by the SG's commitment to spend an extra £400 million a year on overseas aid.

The SG has floated the idea of a sovereign wealth fund to smooth out future oil and gas revenue fluctuations. Unlike Norway (which runs a fiscal surplus), however, the SG relies on oil revenues to fund expenditures. Contributions would have to come from 'savings from independence' because of the existing deficit, start-up costs for a new nation and the pledge to keep taxes low. These savings would yield no more than £600 million annually, based on 2011-2012 budget figures. This is a respectable contribution – but far less so when viewed against historical annual swings of up to £6 billion in oil revenues.

BALANCING ACT

Scotland and UK net fiscal balances, 1980-2012



Sources: BlackRock Investment Institute and Government Expenditure and Revenue Scotland Report, March 2013.

Note: The chart is based on fiscal years 1980-1981 through 2011-2012.

As a small open economy with a greying population and limited inward migration (see the table on the next page), Scotland has little choice but to provide a pro-business environment. The SG has promised a corporation tax rate three percentage points below the UK's. This ambition collides with potential negotiations for EU entry (Ireland's 12.5% rate has created angst among other EU nations). Our conclusion: fears an independent Scotland will be anti-business are unfounded (but the scope for largesse is limited).

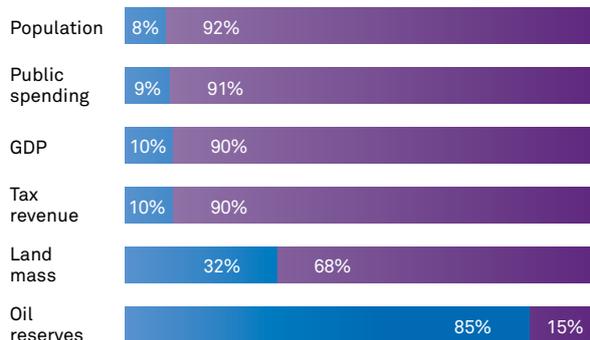
What type of credit rating would Scotland receive?

Scotland's initial stand-alone rating would likely be below the UK's Aa1/AAA/AA+ rating – possibly by several notches. Weighing on any Scottish rating:

- ▶ Separation negotiations with the UK (or potential ascension discussions with the EU).
- ▶ The out-sized banking sector.
- ▶ Uncertainty over the type of currency regime.
- ▶ New and unproven regulatory, debt issuing and monetary institutions.
- ▶ The time it would take to establish fiscal and monetary policy credibility.

SEPARATION ANXIETY?

Key Scotland and UK metrics, 2014



Metric	Scotland	UK
Population growth 2012-2062	4%	23%
Population aged under 45	55.7%	57.9%
Life expectancy - male	76.8	79
Life expectancy - female	80.8	82.7
Employment rates	72.2%	72.4%
Average weekly earnings	£438	£460
Benefit spending pp	£3,238	£3,176
Public service spending pp	£7,932	£6,803
Tax revenue pp	£11,172	£9,420
Oil and gas revenues pp	£2,078	£185
Share of exports to rUK	66%	n/a

Sources: BlackRock Investment Institute, National Institute Economic Review, Government Expenditure and Revenue Scotland (GERS), Global Connections Survey, Office of National Statistics and Kemp & Stephen—University of Aberdeen.

Note: The tax revenue and GDP data assume Scotland would receive a geographical share of the North Sea oil and gas revenue.

How would Scotland's account balances look?

An independent Scotland would probably generate enough domestic savings to finance the public sector's spending, and therefore not rely on non-resident funding.

Scotland registered a net trade surplus of 3% of GDP in 2012, according to our estimates. Without the energy sector, however, Scotland would have a deficit of 10% of GDP.

The picture for the overall current account balance is less clear due to uncertainties over other income flows, yet we believe an independent Scotland would likely have a current account in balance or slightly in surplus. This could change for the worse if financial services companies were to change their domicile of incorporation, hurting income flows.

The level of legacy public debt would be critical to Scotland's fiscal position and sovereign risk premium. Scotland would inherit some of the UK's debt stock; the share and composition would be a matter of (intense) debate. The formula would likely be between a per-capita sharing arrangement (implying a 62% net debt-to-GDP, based on 2011-2012 budget figures) and historical accumulation (38%).

The structure of these inherited liabilities also matters. Would they have the same maturity profile as the UK's, and who would bear the exchange rate risk?

FIRST-TIMER PREMIUM

As a first-time sovereign borrower, Scotland would likely need to pay a premium. This would be expressed in both higher yields and shorter maturities.

New sovereign issuers can lower their initial yield spread by:

- ▶ Building a record of solid economic performance and demonstrating debt sustainability.
- ▶ Maintaining robust growth and a positive medium-term outlook, keeping inflation under control and ensuring financing of external deficits.
- ▶ Improving data dissemination and transparency of macroeconomic policies.
- ▶ Having political support for sound economic policies (including a prudent fiscal stance), according to the 2003 International Monetary Fund (IMF) paper [Determinants of First-Time Sovereign Bond Issues](#).

An independent Scotland would need time to acquire these attributes.

In addition, Scotland would likely be penalised for its low level of foreign reserves. Gross foreign reserves appear to be an important indicator for explaining first-time market access, according to the 2008 IMF paper [Strategic Considerations for First-Time Sovereign Bond Issuers](#).

Bonds from first-time issuers generally have shorter maturities (five to seven years) than obligations from regular borrowers. Investors tend to prefer five- to seven-year maturities for new sovereign issuers due to unfamiliarity, the IMF has found.

What would the impact be on gilts?

The UK Treasury in January 2014 made clear the UK would 'in all circumstances honour the contractual terms of the debt issued by the UK government.' An independent Scotland would be responsible for 'a fair and proportionate share of the outstanding share of the UK's current liabilities.' The SG has accepted this position.

We take this to mean the rUK would shoulder the legal responsibility for all gilts issued up to the point of formal separation (until maturity). We expect Scotland would reimburse the rUK for payments on its share of issued debt on a pro rata basis.

Maturing notes and gilts would be refinanced either by the rUK on a continuing basis or proportionally transferred to Scottish issuance. Scotland would service its legacy debt and its own deficit, and assume legal liability for post-separation debt.

OPTIONS, OPTIONS

How might this work? Here are some options:

- 1 Gilts would remain the sovereign obligation of the rUK. Scotland would pay the rUK to service and retire the agreed-upon share of the UK debt stock. The cash flow structure would be negotiated.
- 2 The UK Debt Management Office (DMO) would assign a share of the total UK debt to the new Scottish DMO. This debt stock would be managed along with new Scottish debt issuance. Though not legally transferring title, this would anchor the Scottish DMO into a long-duration debt portfolio – and investors into the Scottish DMO.
- 3 Scotland would be forced to set up a sinking fund to repay the legacy gilt portfolio over time.
- 4 Scotland and the rUK would agree on payment-in-kind with North Sea oil revenues. This seems unlikely – absent severe fiscal distress.

Conclusion: We do not see material risk for holders of rUK debt unless Scotland were to default on its share of this liability (unlikely). Yet there could be some limited downward pressure on gilt prices due to the small probability of Scotland's finding it difficult to meet its obligations to the rUK at some point in the future.

Scottish rules

What would happen to pensions?

The SG has a stated ambition to join the EU. This is not a simple exercise. Scotland would likely have to go through a formal accession process, requiring the unanimous vote of EU states. Scotland would have an uphill battle negotiating the UK's existing 'opt outs' from certain EU rules. The adoption of the maximum work week (the UK has opted out) is particularly important for an avowed pro-business country. (The SG believes it has legal precedent to argue for opt outs. If true, this would involve a lengthy legal process.)

Immediate EU entry would therefore be tricky. Even trickier: it could come after the possible UK referendum on ongoing EU membership due in 2017. Imagine one nation negotiating for EU membership while simultaneously still in transitional arrangements with a state pledged to leave. The likely outcome: a transitional period in which Scotland would be neither part of the UK or the EU. This would add to regulatory, trade and economic uncertainties.

An independent Scotland could create difficulties for the Financial Services Compensation Scheme (FSCS). FSCS-eligible deposits held by Scottish firms (which would be covered by the Scottish compensation scheme) would total more than 100% of Scotland's GDP, representing a significant contingent liability for the state. There would be a risk of deposit flight.

PONDERING PENSIONS

Pension sponsors and trustees have a lot to think about. Scottish pension schemes or schemes with contributors in both Scotland and rUK are currently regulated by the Pensions Regulator and contribute to the Pension Protection Fund. The SG has confirmed Scotland would seek to establish its own regulator and protection scheme but would continue to pay into the existing UK Pension Protection Fund as a transitional arrangement (similar to agreements between Luxembourg and Germany).

How would two regulators, two countries and a single pension protection plan work in practice? Would the rUK regulator be prepared to take on regulation in a country where it is not part of formal government?

We expect scheme sponsors would want clarity on operational issues such as records transfers. A further risk: the impact of diverging policies. Scotland's lower life expectancy, for example, could lead to postponement of the proposal to raise the retirement age from 65 to 66 (albeit at a cost to future taxpayers).

An additional complication is the EU IORP directive. This currently requires schemes operating in more than one country to fund liabilities in full immediately (as opposed to implementing a recovery plan over time). The SG has indicated it would seek a grace period in any EU negotiations, but has talked about a three-year period – much shorter than the typical UK time span.

EU cross-border schemes must have annual actuarial valuations (rather than triennial in the UK). Sponsors and trustees likely would consider setting up separate rUK and Scottish schemes – despite the costs and complexities involved. We would advise them to start scenario planning today, given the time lags in splitting existing schemes.

CURRENCY CONUNDRUM

An added complexity in the likely absence of a currency union: contributions and pension payments would have to be made in different currencies. This may already be challenging for payments to beneficiaries living outside the UK, and perhaps even more so for collecting contributions.

These would not be just Scottish problems. All UK defined benefit schemes with contributors and/or operations on either side of the new border would face them.

Scotland would need a ream of new regulators (and transitional arrangements). Think a new central bank, new financial services and pension regulators, and new industry sector oversight mechanisms. Costs for companies operating in both Scotland and rUK would inevitably rise. Full harmonisation with UK law would be unlikely. This could be costly for companies – offsetting any benefits such as paying lower or no Financial Conduct Authority fees.

Whatever regulatory system Scotland were to adopt, it would have to be aligned to EU standards to avoid business flight. This makes concerns about the security of savings in Scotland probably overblown, in our view.

Scottish dowry

What is the state of play in North Sea oil?

Deciding the offshore boundaries between Scotland and the rUK could take years of protracted negotiations. We assume 85% of the UK energy reserves would be part of Scotland's dowry. This would include the key growth areas of West of Shetlands and Central North Sea. There is a long tail of output and revenues to accrue from the North Sea.

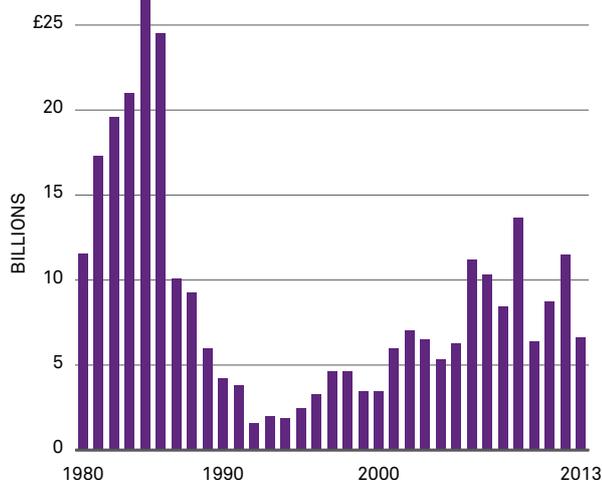
The UK Office of Budget Responsibility estimates some £50 billion of North Sea oil receipts over 2014-2019. (The SG has rosier predictions.) The outcome will depend on production costs, prices (including currency), tax deductible investment share (revenue reducing) and investment levels. UK government oil and gas revenues have been highly volatile, ranging from as low as £1.6 billion in 1991-1992 to as high as £27.6 billion in 1984-1985. See the chart below.

Development costs per barrel have risen by a factor of five in the past decade, Glasgow University estimates. Capital intensity has risen and production efficiency has declined.

Our view: hydrocarbon revenues would likely be volatile. This would make spending increases based on overly precise oil-derived revenue projections uncertain and unwise.

WHAT A RIDE!

UK government revenues from oil and gas, 1980-2013



Sources: BlackRock Investment Institute and HM Revenue & Customs, April 2013.

Notes: The chart is based on fiscal years 1980-1981 through 2012-2013. Revenues are in 2012-13 prices.

DECLINING FORTUNES

Some 42 billion barrels of oil equivalent (boe) have been extracted from the UK Continental Shelf, according to the UK government-commissioned [Wood Review](#). Estimates of remaining production vary from 12 to 24 billion boe. Yet there are risks to this forecast – and they are probably skewed to the downside.

UK oil and gas production has been on a steep decline since the late 1990s. Field shutdowns, delayed projects and poor efficiencies have been a drag. See the chart on the next page. Drilling activity today is far short of 2007-2008 levels and volumes discovered are low. This raises concerns over the UK's long-term project pipeline.

Capital investment is down to levels last seen in the mid-1970s in real terms, according to energy and mining consultancy Wood Mackenzie. Companies are working on more technically challenging, and therefore more costly, projects.

TAXING MATTERS

Energy companies operating in the UK face fiscal instability; there have been three hefty tax increases since 2002. The UK added tax incentives for economically marginal developments after the last tax hike. It is also entering into agreements with licence holders to guarantee the tax relief available on future abandonment spending, or so-called Decommissioning Relief Deeds (DRDs). The industry has welcomed these moves.

The SG has indicated it would cover the cost of DRDs – although it would negotiate with the rUK on who would pick up the bill. We do not think Scotland would call into question these guarantees. Any such move would severely damage investor sentiment toward Scotland and hurt future upstream activity.

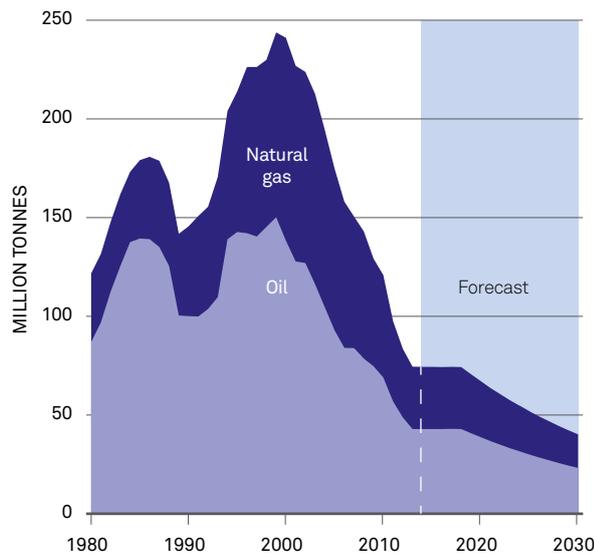
Policy could push for stricter local content requirements to increase Scottish employment, adding to costs and threatening some marginal projects.

Companies exposed include BG, which relies on the North Sea for 15% of its production, according to our estimates, Tullow (11%), BP (5%) and Royal Dutch Shell (4%). These companies, however, can and will allocate capital elsewhere if the economics no longer make sense. Smaller players have no such luxury – and are instrumental in the development of Scotland's remaining fields (with which Big Oil likely cannot be bothered).

A bearish scenario: populist policymakers see the industry as a source of extra taxes. This would be dangerous given a need to stem declines in production and tax revenue.

DRY HOLES IN THE SEA

UK oil and gas production, 1980-2030



Sources: BlackRock Investment Institute and Department of Energy & Climate Change, July 2013.
 Note: Production is expressed in oil equivalent terms.

A more likely outcome is a Scottish government eager to accommodate on tax and exploration matters. The oil industry is of key importance to the Scottish economy thanks to its contribution to tax revenue and employment – and can expect to be treated kindly.

FULL OF WIND?

Scotland has established itself as a hub for clean energy through wind, biomass, marine and carbon-capture projects. No surprise renewable energy is at the heart of the debate on Scottish devolution.

The UK has warned an independent Scotland would be burdened with higher electricity bills. Scotland receives a third of UK subsidies for renewable energy, although it represents less than a tenth of the UK's population.

The SG has argued electricity prices in Scotland would decline. Scots would no longer need to fund the UK's expensive nuclear ambitions. The rUK would pay handsomely for Scottish renewable exports due to its yawning power supply gap (we estimate 25% of UK generating capacity in 2011 will have been decommissioned by the end of 2015).

Both positions have merits. This much is certain: investors are likely to defer investment decisions in infrastructure projects in Scotland due to the uncertainty or apply an additional risk premium. This near-term uncertainty may impede Scotland's lofty long-term aims to deliver 100% of its electricity from renewable sources – and also hinder its fiscal and trade balance ambitions.

Scottish company

What would an independent Scotland mean for the corporate sector?

Scottish independence should have limited impact on UK equities overall – but would loom large for individual financial, energy, utility and defence companies.

BANKS

The European debt crisis underscored the risks of banks operating in economies with weak fiscal dynamics. Scotland's banking system is about 12 times the size of its GDP (versus the UK's five times). Government support to the Royal Bank of Scotland since 2008 has totalled more than 210% of Scotland's GDP, making it likely major banks would question if they should remain headquartered in Scotland.

This could push the likes of RBS to move headquarters to the rUK and establish Scotland as a subsidiary (à la Santander) - particularly in the absence of a formal currency union. They may have no choice: One interpretation of EU law holds banks must be headquartered in the same country as their registered office (and main business).

Cost advantages make a wholesale movement away from Scotland unlikely, however. Office costs in Edinburgh and Glasgow are 50% of City of London levels, Scottish Enterprise estimates. Employment costs are also lower (typically 30% or so). This suggests most existing businesses in labour-intensive operations such as asset processing and life assurance administration will stay put.

Could Scotland threaten locations such as Dublin and Luxembourg? Our view: strong fiscal dynamics in countries of incorporation will be the determining factor. Currency and regulatory risks also matter.

INSURERS

The probability of any major change to insurance legislation or capital rules is low because Scotland would likely adopt the Solvency II regime. Yet there would be risks during an interim regulatory phase. This has driven some to make contingency plans for relocation of regulated activities.

Fund management companies with investment trusts in their stable would presumably want to make similar preparations. The economic exposure of UK insurers to Scotland is small. Scottish Widows (owned by Lloyds) or Standard Life have just 10-20% of their assets geared to Scotland, we estimate.

Insurers with Scottish customers would have the potential problem of a currency mismatch. Customers would expect to be paid in Scottish coin, but assets would be invested in UK or other markets. It is unclear whether there would be any Scottish equity or bond market immediately. Insurers might be forced to 'hedge' by investing in UK assets, shorting sterling and buying Scottish currency. This would be complicated – and there might not be enough liquidity.

Insurers are required to stress-test their balance sheets for currency mismatches and hold capital against potential deficits under Solvency II rules. Policies of Scottish customers whose assets would now be invested 'overseas' would likely remain denominated in UK sterling. Insurers could be reluctant to invest in fledgling Scottish equity or debt markets and might prefer to issue new policies in UK sterling.

Non-life insurers, which also have a small exposure, have less of a problem because their assets tend to be very short duration (cash). They therefore have more liquidity to invest in Scottish assets.

UTILITIES

There has been talk of a Scottish utilities regulator – one more consumer-focused than its predecessor. This would be offset by the SG's pro-renewables stance, which would require significant investment in infrastructure.

The SG has a target of 100% renewable coverage of domestic electricity demand by 2020. This would require a doubling of existing renewables capacity – representing 35-40% of the 2020 UK renewable target or 30-40% of renewables capacity, according to the Department of Energy & Climate Change. Big plans for a small country.

Current electricity production in Scotland is about 50 terrawatt hours (TWh). Some 40TWh is consumed locally and 10TWh is exported to the rUK, according to the Department of Energy & Climate Change. Nobody would suggest cutting the power lines between Scotland and the rUK. The issues would be pricing and who would pay for capacity. UK politicians have indicated they are unwilling to back subsidies that would effectively be a value transfer from the rUK to Scotland.

Our view: financial returns for Scottish utilities are likely to fall and perceived risks to rise, resulting in reduced appetite for future capital involvement in the Scotland electricity market.

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Source: BlackRock, data as at 31 December 2013.

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