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**iShares**<sup>®</sup>  
by BlackRock

# ETF Solutions for Insurers

How Insurers Adopt iShares ETF Strategies



## Case #1 Building Granular Solutions for TAA

### Capitalize on market shifts with precision – build nimble and granular portfolios with iShares ETFs

Market fluctuations present particular challenges to investors. The speed and severity of market moves may make it increasingly difficult for institutions to adjust quickly. Yet those that can adapt nimbly to fast-changing market action may have opportunities to boost performance.

Enter iShares ETFs - Investors can look to break down the index exposure into more granular components to infuse active views via tactical or strategic allocations to outperform the index or to reduce cost.

A building block approach for portfolios will allow investors to better navigate the new regime of greater macro volatility and dispersion. Investors can exercise flexibility within broad equity exposures via style-flexible strategies, and equal-weighted indices. Such flexibility allows them to continue to hold core regional market exposures and dial up or down other allocations. The building block approach can add nimbleness to portfolios and allow investors to react swiftly to changing market regimes and pick tilts such as defensive play, income play, and buffer strategies for potential gains while limiting the downside.

#### Challenge

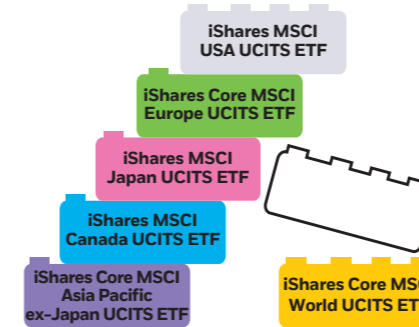
- A leading insurer was looking to implement active views via tactical or strategic asset allocations.
- The investor is benchmarked to MSCI ACWI but wants to be able to tilt regional and single country views to achieve alpha.
- Various investment solutions were considered.

#### ETF Solution

- The insurer was able to meet its objectives to track MSCI ACWI and optimize for tracking error (TE) with our ETFs.
- They were able to construct granular portfolios with over 1,600 global iShares ETFs to choose from, and tactically tilt between different ETFs based on their market views.
- Availability of 40 Act and UCITS solutions depending on investor preferences.
- Optimization capabilities to target low TE or low weighted total expense ratio (TER) approaches to replicate the index exposure.

### Replicating MSCI World Index & MSCI ACWI with iShares ETFs

#### A Building Block Approach - MSCI World



TER (bps)	Weights (%)	Single ETF
7	72.2%	–
12	16.6%	–
17	5.4%	–
48	3.1%	–
20	2.7%	–
20	–	100%
<b>Ex-Ante Tracking Error (bps):</b>		5
<b>Weighted TER (bps):</b>		9.7
		20

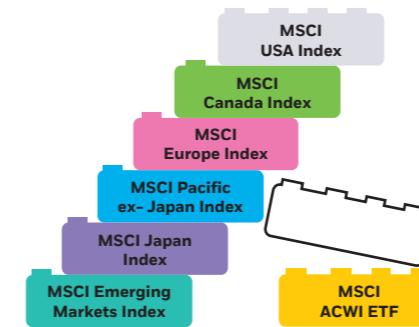
Source: BlackRock, iShares.com as of March 2025. The example contained herein is hypothetical and strictly for illustrative and education purposes only. Mentioning of iShares Fund does not constitute as any investment advice or recommendations. For illustrative purpose only.

Non-Ticker Version & Index exposure	TER (bps)	Weights			
		DM/EM	Tracking Focus Regional	Cost Focus Regional	Tracking Focus + SWAP
MSCI USA Index	7	–	72.2%	–	–
S&P 500 Index	7	74.3%	–	–	–
MSCI Canada Index	48	–	3.1%	–	3.1%
MSCI Europe Index	12	–	16.6%	–	16.6%
EURO STOXX 50 Index	10	9.5%	–	9.5%	–
FTSE 100 Index	7	6.0%	–	6.0%	–
MSCI Pacific ex-Japan Index	20	4.6%	2.7%	4.6%	2.7%
MSCI Japan Index	12	5.6%	5.4%	5.6%	5.4%
S&P 500 Index (Swap)	5	–	–	74.3%	–
MSCI USA Index (Swap)	7	–	–	–	72.2%

Total Weights	100.0%	100.0%	100.0%	100.0%
Ex-Ante TE	0.49%	0.05%	0.49%	0.04%
Weighted TER (bps)	8.2	9.7	6.7	9.7
Weighted WHT (bps)	19.2	23.4	3.5	8.3
TER + WHT (bps)	27.3	33.1	10.2	18.0

Source: BlackRock, Aladdin, iShares.com. Weights, WHT and Ex-Ante TE as of December 31, 2024. WHT refers to withholding tax on income distribution

#### A Building Block Approach - MSCI ACWI



TER (bps)	Weights (%)	Single ETF
7	64.8%	–
48	2.8%	–
12	14.9%	–
20	2.4%	–
12	4.9%	–
18	10.4%	–
20	–	100%
<b>Ex-Ante Tracking Error (bps):</b>		4
<b>Weighted TER (bps):</b>		10.6
		20

Source: BlackRock, iShares.com as of March 2025. The example contained herein is hypothetical and strictly for illustrative and education purposes only. Mentioning of iShares Fund does not constitute as any investment advice or recommendations. For illustrative purpose only.

Non-Ticker Version & Index exposure	TER (bps)	Weights				
		DM/EM	Tracking Focus Regional	Cost Focus Regional	Tracking Focus + SWAP	Cost Focus + SWAP
MSCI World Index	20	89.8%	–	–	–	–
MSCI USA Index	7	–	64.8%	–	–	–
S&P 500 Index	7	–	–	–	–	–
MSCI Canada Index	48	–	2.8%	66.7%	3.0%	–
MSCI Europe Index	12	–	14.9%	–	15.0%	–
EURO STOXX 50 Index	10	–	–	–	–	8.8%
FTSE 100 Index	7	–	–	8.8%	–	5.0%
MSCI Pacific ex-Japan Index	20	–	2.4%	5.0%	2.4%	4.3%
MSCI Japan Index	12	–	4.9%	4.3%	4.9%	–
MSCI Japan Investable Market Index	12	–	–	–	–	5.2%
MSCI Emerging Markets Index	18	10.2%	10.4%	5.2%	10.3%	10.1%
S&P 500 Index (swap)	5	–	–	10.1%	–	66.8%
MSCI USA Index (swap)	7	–	–	–	64.5%	–

Total Weights	100.0%	100.0%	100.0%	100.0%	100.0%
Ex-Ante TE	0.05%	0.04%	0.44%	0.06%	0.43%
Weighted TER (bps)	19.8	10.6	9.2	10.6	7.8
Weighted WHT (bps)	24.5	24.5	20.8	11.2	6.7
TER + WHT (bps)	44.3	35.1	30.0	21.8	14.6

Source: BlackRock, Aladdin, iShares.com. Weights, WHT and Ex-Ante TE as of December 31, 2024. WHT refers to withholding tax on income distribution

## Case #2 Unlocking Operational Efficiency

### Enhance portfolio efficiency – reduce operational complexity and time to market with iShares ETFs

ETFs provide immediate exposure to a portfolio of securities in one trade without the high operational costs and complexities of managing numerous individual securities and derivatives.

For example, an investor looking to make a core allocation to US equities could consider purchasing an ETF benchmarked against the S&P 500, which is consistently rebalanced to maintain its exposure. This way, investors can quickly access this efficient market in one simple, cost-effective trade. In contrast, an investor who purchases the underlying stocks for the same portfolio would incur additional brokerage and transaction costs in the initial trade, in addition to the burden of having to rebalance these exposures manually. This further applies to different indices, both in equities and fixed income.

In addition, the ease of implementation of our ETFs allows investors to go to market quicker and the transparency of underlying holdings brings efficiencies to portfolio and risk management.

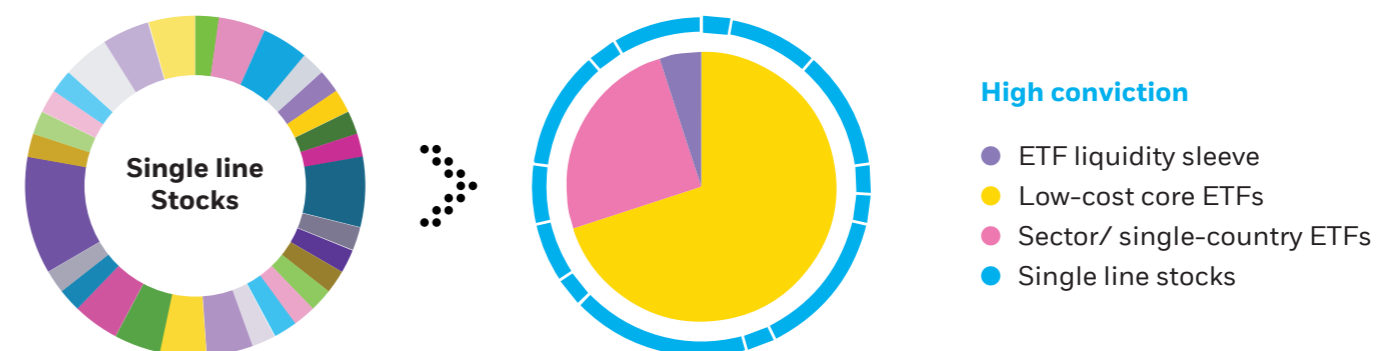
#### Challenge

- Several insurers used to manage their Asia ex Japan equity portfolio by picking single-line equities.
- This requires significant effort on research, selection, monitoring and rebalancing of each security and as a result, they were looking for a more efficient solution.

#### ETF Solution

- Instead of trading ~1,000 single-line securities, these insurers have used iShares ETFs to capture broad Asia exposure (Greater China, South Korea and Southeast Asia).
- Through our ETF, insurers can leverage the existing scale of the commingled fund, trading and portfolio management expertise of BlackRock – with a single trade.
- Suitable for strategic positioning with reduced operational complexity and time to market.

### ETFs can help transform traditional portfolios of purely single-line stocks into ETFs as core, tactical and liquidity sleeves to enhance portfolio management efficiency



Source: BlackRock, June 2024. Case studies are for illustrative purposes only; they are not meant as a guarantee of any future results or experience, and should not be interpreted as advice or a recommendation.

## Case #3 Interim Beta

### Manage Strategic Asset Allocation changes and efficient transitions between managers

ETFs can be valuable tools for interim beta, such as when adjusting strategic asset allocation positions, allocating investments to new managers, and restructuring or transitioning between managers.

Traditionally, insurers may have purchased individual securities or credit derivatives to initiate a position. The liquidity offered by credit derivatives, for example, enables insurers to quickly add and reduce positions at scale. However, basis risk can be substantial, and correlations with cash bond portfolios may deteriorate sharply during times of stress, as seen in 2022. Moreover, in volatile markets, it may be challenging to get desired allocations from new issuances or source single line bonds in the secondary market, which can trade at relatively wide bid-ask spreads.

The operational efficiency, liquidity and the fully funded nature of ETFs make them an attractive and actionable exposure vehicle. This allows insurers to invest easily and at low cost across traditional and niche exposures, such as high yield, leveraged loans, and emerging market debt, without the need for detailed analysis of specific issuers.

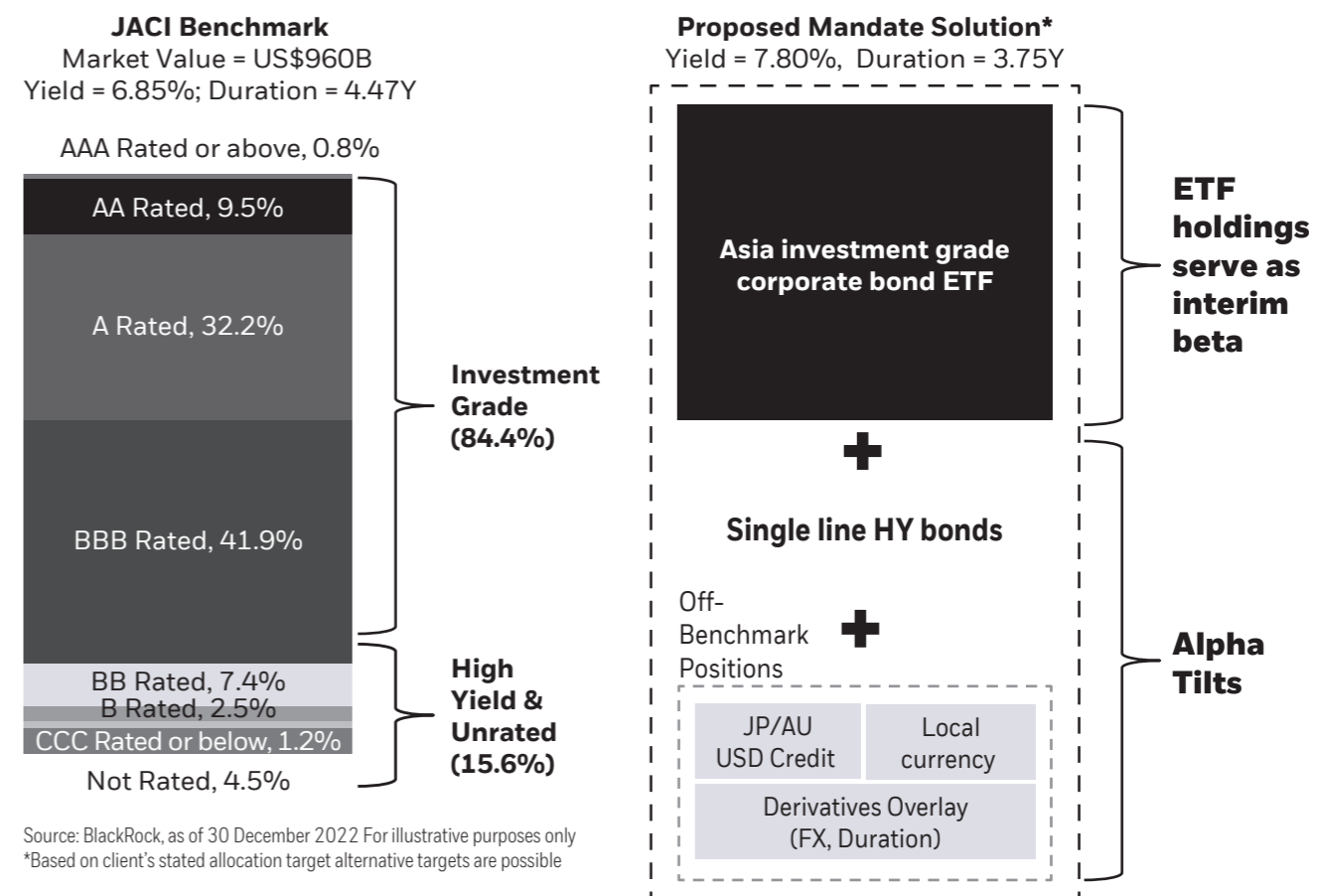
#### Challenge

- Asian insurers managing fixed income portfolios against the JP Morgan Asia Credit Index (JACI)—a widely used benchmark in the region—commonly do so through individual bonds.
- This traditional approach often involves acquiring Asia credit bonds line by line, a process that can be both operationally intensive and slow.
- In times of heightened market volatility, such as during the Asia USD credit dislocations in 2022, this sourcing method is further challenged by illiquidity and limited issuance.
- These hurdles make it difficult for insurers to remain fully invested, leading to cash drag and lost return potential—especially for those using JACI as their strategic benchmark.

#### ETF Solution

- To overcome delays in deploying and managing capital, several insurers have used our Asia IG ETF as a liquidity sleeve for their portfolios.
- By investing incoming cash flows directly into the ETF, investors were able to maintain benchmark-aligned exposure and avoid cash drag while gradually sourcing their desired individual bonds.
- Once they were able to source their desired bonds, they could then liquidate a portion of their ETF holdings to obtain the underlying bonds upon redemption or take cash and re-allocate it to other high conviction sources for alpha generation.
- This trade was executed in a single clip within one day, providing investors with the flexibility to efficiently adjust risk, stay invested and generate carry with iShares ETFs.

### ETFs can serve as an effective capital markets tool, enabling insurance companies to stay invested and generate carry until the desired securities are sourced



## Case #4 Liquidity Sleeve

### Maintaining market exposure and portfolio yield without sacrificing liquidity

Bond market liquidity has been challenged for a number of years, partly due to the reduction in dealer corporate bond inventory levels post-GFC, along with central bank interventions (and withdrawal thereof), and recently, the impact of rising interest rates and wider credit spreads contributing to lower bond issuance volumes. This has prompted many fixed income investors, including insurers, to explore alternative asset and risk management solutions for creating liquid beta sleeves that mirror their portfolios and/or deploy cash until a specific bond is sourced.

Historically, liquidity sleeves may have solely consisted of cash or cash equivalents, such as money market funds or treasury bills. However, these types of sleeves can result in cash drag, as they do not take into account the portfolio's asset allocation or its long-term investment objectives. During periods of heightened market volatility, significant deviations from the intended asset allocation can be expensive, potentially causing investors to miss out on market recoveries.

The granularity of exposures within the bond ETF universe offers insurers the opportunity to easily replicate their asset allocations. The intraday liquidity of bond ETFs enables insurers to transition from these allocations to cash as needed, without incurring unnecessary cash drag.

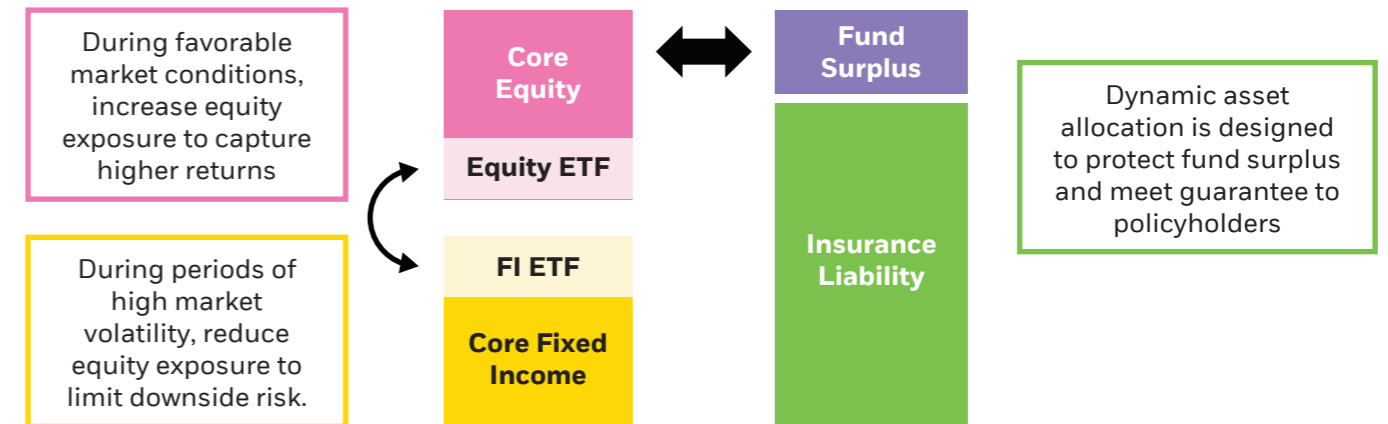
#### Challenge

- An insurer was looking to create a liquidity sleeve for their portfolios.
- With the introduction of IFRS 9/17 and RBC, insurers' balance sheets have become more sensitive to market movements.
- A common investment strategy by participating funds is where insurers dynamically allocate between equity and fixed income in response to changes in market conditions and fund surplus.

#### ETF Solution

- The insurer carved out a liquid beta sleeve built with iShares ETFs within the core portfolio to allow for swift de-risking and re-risking decisions between equity and fixed income.
- This allowed the insurer to efficiently manage portfolio changes, support fund surplus, and save trading cost and execution time compared to trading single-line securities.
- From broad market exposures to precise pockets, iShares fixed income ETFs offer efficient building blocks needed to reach almost every part of the fixed income market.

### Creating a liquid beta sleeve that aligns with the portfolio's strategic asset allocation to maintain market exposure and return without sacrificing liquidity



## Case #5 Efficient risk transfer during volatile markets

### Bond ETFs can trade more frequently than underlying bonds and provide price discovery in stressed markets

Bond ETFs have proven their resilience over time, enabling investors to navigate both benign and stressed market environments. Despite improvements in bond market transparency, periods of volatility have underscored the persistent opacity and fragmented nature of OTC bond markets. The continuous trading of bond ETFs provides invaluable price discovery and liquidity, showcasing their important role in the modernization of the bond market.

#### Challenge

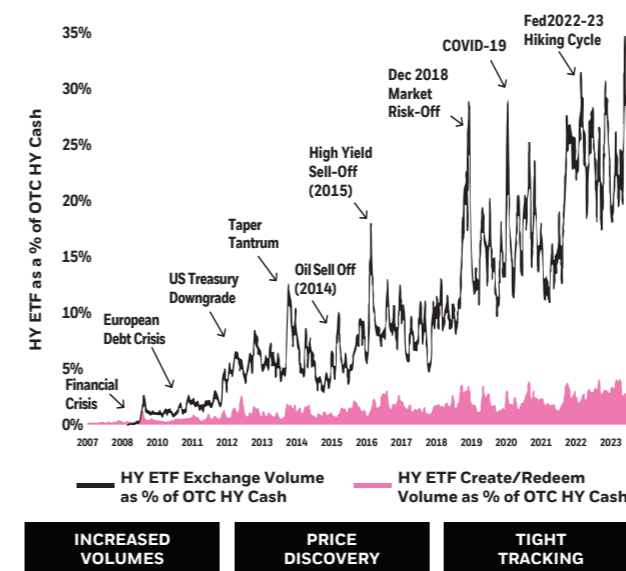
- An investor sought to gain exposure to high yield bonds.
- However, executing this strategic shift during the volatile markets of 2022 presented significant challenges, when the high yield space saw heightened market volatility, with widening bid-ask spreads and inconsistent bond pricing across OTC desks.
- The insurer needed to act swiftly—implementing the allocation within a short time frame—while maintaining daily liquidity and minimizing market impact.
- Navigating this transition through traditional bond trading channels would have been slow, costly, and operationally intensive.

#### ETF Solution

- The investor turned to a short-term allocation via a high yield corporate bond ETF.
- The iShares ETF provided immediate, efficient access to a targeted segment of the market, enabling the insurer to gain diversified high yield exposure without the delays and opacity of traditional bond execution.
- With challenges in the underlying market, the ETF provided price discovery and an efficient avenue for risk transfer.
- The high yield ETF recorded USD9.1B in trading volume in October 2022—surpassing peaks from June and even March 2020.
- Due to the liquidity of the ETF, the investor was able to complete the trade in a single day with transparency and reflect their tactical views.

### Efficient risk transfer using bond ETFs during stressed markets

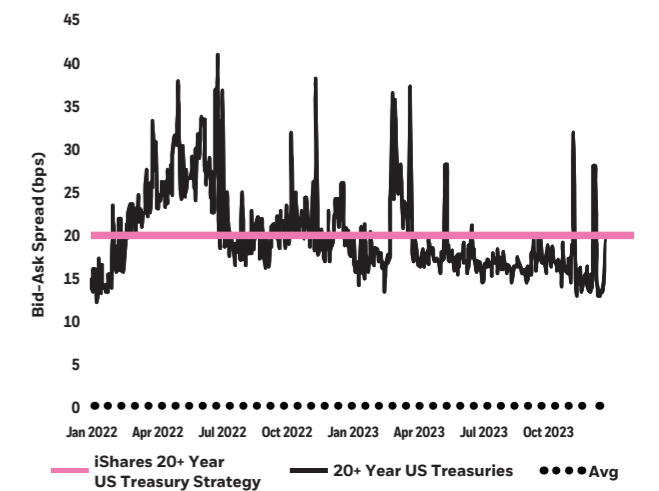
**Bond ETFs tend to trade more during a crisis, with most of the trading done on secondary market**



Note: Volumes are based on 20D ADV. "HY Cash" includes 1,44A securities. Source: BlackRock, Bloomberg, TRACE as of 12/29/2023. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. "OTC" refers to over-the-counter.

**Increasing liquidity in an already liquid sector**

**Trade costs for the iShares 20+ Year Treasury Strategy vs underlying bonds**

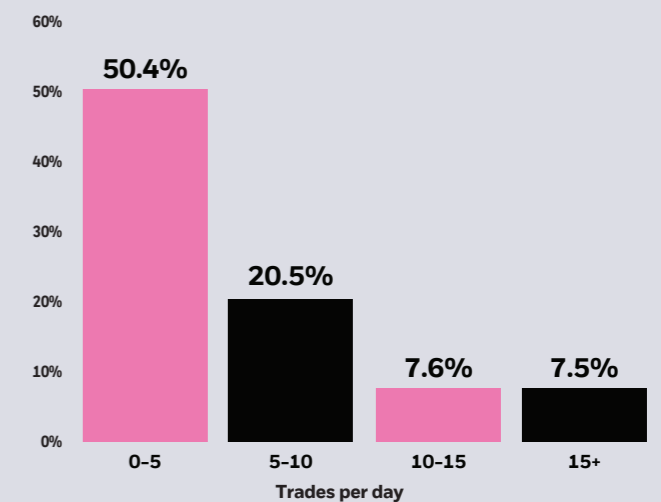


Source: Bloomberg as of 12/29/2023.

### Fixed income ETFs traded more frequently than underlying bonds

- On 12th March 2020, shares of our UCITS Corp Bond ETF changed hands more than 1,000 times on exchange and OTC, while its top five underlying holdings traded an average of only 37 times each.
- In March, more than half of its bonds traded between zero and five times per day, on average, while the ETF traded regularly more frequently than the bonds in the portfolio.

#### Trading activity in March 2020



Source: FINRA TRACE, BlackRock from 2 March 2020 to 20 March 2020. Includes only end investor buys and sells—not dealer-to-dealer trades.

## Case #6 Liquidity Solutions for Alternatives

### Bridge allocation gaps to alternatives – minimize cash drag and build liquidity solutions with iShares ETFs

APAC insurers have accelerated their allocation to alternative assets for yield enhancement and risk diversification. However, it may take some time, in some cases 1-3 years to fully deploy the planned capital, resulting in a period of performance drag.

Periodic capital distributions from the underlying investments make it difficult to reinvest timely, leading to lower-than-target exposure and under-utilization of the risk budget. Investors can look to ETFs for efficient liquidity solutions.

#### Challenge

- An insurer made a large allocation to private markets and was expected to have large cash reserves to meet capital calls over the next few years. The large allocation to cash had already resulted in cash drag of c0.5% per year.
- The investor was looking for a solution that was easy to manage, so they could focus their resources on their private market restructuring.
- The investor could not forego daily liquidity to meet cash flow requirements and was also concerned about trading costs. The client was therefore looking to deploy their cash in a highly cost efficient, liquid solution.

#### ETF Solution

- To address the impact of prolonged cash drag stemming from large reserves earmarked for private market capital calls, the insurer partnered with BlackRock to deploy an ETF-based strategy.
- The BlackRock team constructed a bespoke basket of iShares ETFs closely replicating the client’s strategic asset allocation, achieving correlation levels exceeding 0.99 while maintaining a reasonable cost range.
- Our ETFs offered daily liquidity and cost-efficient execution—key features that met the client’s need for a low-touch, nimble solution.
- This allowed the insurer to stay invested with minimal operational burden, optimizing return on idle capital until capital calls materialize.
- As a result, the investor was able to focus on private market restructuring, while mitigating cash drag and maintaining risk alignment across the portfolio with ETFs.

### ETF replicating portfolio for Alternatives



#### 01

##### Cash Flow Matching

**Objective:** match the stream of capital calls using laddered bond portfolios

**Advantage:** less cash drag, aims to reduce risk of not meeting capital calls

**Disadvantage:** will require laddering, requires projection of capital call distribution

#### 02

##### Yield Enhancement Solution

**Objective:** generate higher yields/ income than cash while limiting risk

**Advantage:** potentially better returns than money market

**Disadvantage:** higher risk than a pure cash approach and misalignment with the SAA is not overcome

#### 03

##### Alts Proxying

**Objective:** capture part of the non-idiosyncratic risk of the alts strategy the investor is accessing

**Advantage:** similar macro risk as target private market allocation

**Disadvantage:** higher risk, especially for growth private assets

<b>Risk of not meeting capital calls</b>	<b>Low (Minimised)</b>	Low	Moderate
<b>Potential of returns over cash</b>	Moderate	Moderate	High
<b>Tracking error of portfolio to SAA</b>	High	High	<b>Low (Minimised)</b>
<b>ETF building blocks</b>	Target Maturity ETFs	Shortdated Treasury and IG Credit ETFs	Calibrated to factor exposure of client’s alts strategy

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