

BlackRock.

The power of private markets

Unlocking the benefits of private assets in defined contribution plans

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Key points

01 We see an opportunity to help millions of Americans improve their retirement outcomes by offering access to private assets in their 401(k)s.

Private assets are increasingly important drivers of economic growth and can enhance traditional public market investment portfolios by providing higher risk-adjusted returns, along with diversification, stable cash flows and inflation protection.

02 Defined benefit pension plans have been investing in private assets for decades, and we believe this opportunity should also be available in US defined contribution plans.

Yet we recognize that defined contribution plan sponsors and their advisors have questions around liquidity, transparency and expenses, and are understandably focused on litigation risk. We are working closely with our clients to address these issues and help them navigate whether and how to incorporate private assets in their plans.

03 We believe incorporating purpose-built private asset allocations into target date solutions can help our clients capture the opportunity in private markets.

We estimate that thoughtful structuring and strategic allocation of private assets, alongside public equities and fixed income, could increase returns by an incremental 50 basis points each year over the life of the target date strategy – while also addressing the concerns of plan sponsors and their advisors.

04 The impact of this opportunity could be significant: we estimate that this approach could generate about 15% more money in a participant's 401(k) over 40 years.

We see offering plan sponsors the choice to include private assets in their retirement plans as an important part of our broader efforts to bring the full power of capital markets to all investors.

Authors



Jaime Magyera
Head of U.S. Wealth & Retirement Business, BlackRock



Nick Nefouse
Global Head of Retirement Solutions and Head of LifePath, BlackRock



Stacey Tovrov
Head of Investment Strategy for Retirement Solutions, BlackRock

Introduction

Personal savings have taken on more importance in funding retirement than ever before. Employees, employers and elected officials alike increasingly worry that Americans are not saving enough. Some 85 million US employees rely on defined contribution (DC) plans, many as their principal source of retirement savings.¹

Since the 1980s, the onus of saving for retirement has shifted to individuals as private-sector employers have turned away from offering defined benefit pension (DB) plans. The shift from DB plans to DC has transferred investment responsibility to individuals, and this has come at a price. In the early days of DC plans, participants lacked several benefits of DB plans, including professional investment portfolio management and guaranteed income in retirement.² In addition, DC plan participants have typically had a more narrow toolkit to build their retirement savings, because their plan investment options have provided limited access to the broad range of investment opportunities that are available to institutional investors.

It is encouraging to see how the evolution of DC plans over the years has helped restore some of these features, offering professionally managed solutions such as target date investment options and managed accounts, automatic enrollment and escalation and options to access guaranteed income streams provided by insurers.

We see the next step in this evolution as the ability to access a wider range of investment opportunities – in particular, private assets, which today play an increasingly important role in global capital markets and in driving economic growth.

Broadening access to private assets isn't new.

- Pension plans have held private assets as a core part of their portfolios for years, with US DB plans allocating roughly 16% of their assets on average to private assets in 2023.³ We believe this is one reason why pensions typically outperform 401(k)s by about 50bp each year.⁴

- Wealth investors increasingly have access to private assets in non-retirement accounts as the asset management industry expands its offerings.
- Outside the US, it's more common for retirement plans to include private assets.

From our standpoint, as a fiduciary asset manager driving innovation in DC plan investment options for more than 30 years, we believe that private assets can serve as a critical tool for building retirement savings. Private assets have the potential for higher risk-adjusted returns, diversification, stable cash flows and inflation protection. All of this can lead to better outcomes for investors – and ultimately to better retirements.

In fact, we believe it's possible to design an investment solution – which we discuss in detail below – that could deliver an estimated incremental 50bp in average annual returns over an employee's working lifetime. Compounded over 40 years, this could generate about 15% more money in a participant's 401(k) account.⁵

While we see a significant opportunity to create better retirement outcomes for millions, we also recognize that plan sponsors must ensure that their plans operate in accordance with legal and regulatory requirements and must act in the best interest of plan participants. As such, many plan sponsors have questions around adding private assets to DC plans, including liquidity, fees and transparency, and are focused on ensuring their processes meet the high standards under applicable legal requirements. There are many practical considerations to resolve. The stakes for retirement are high, and, for plan sponsors and their advisors, the fiduciary responsibility is significant.

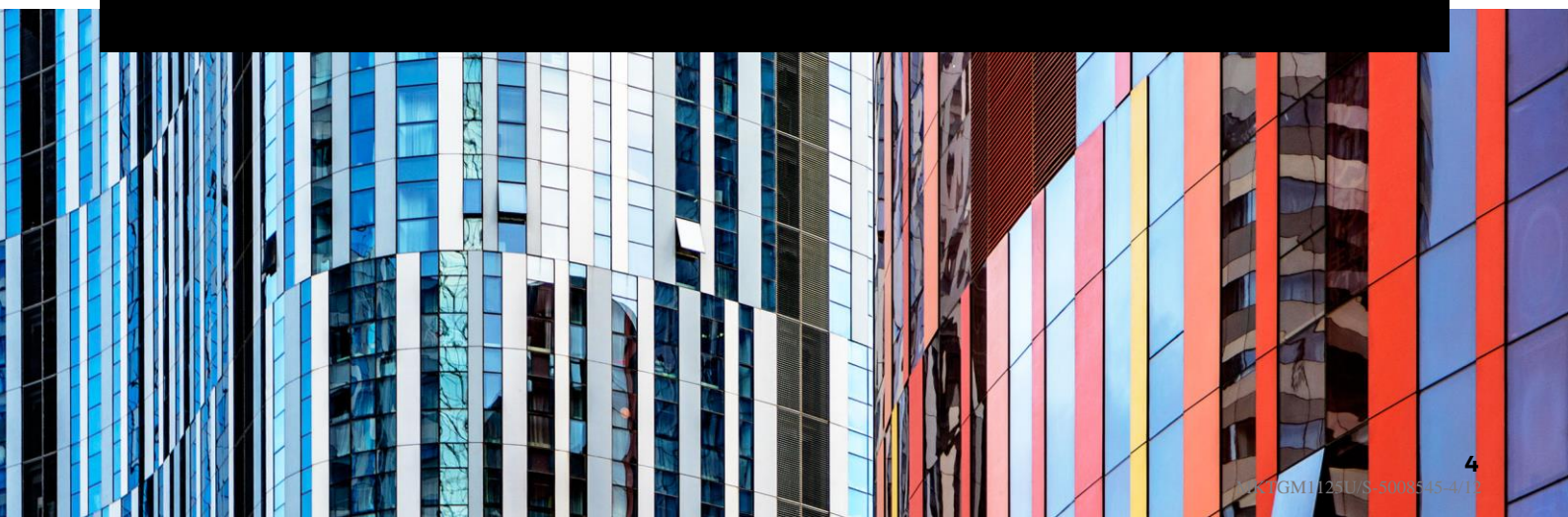
We are working with DC plan sponsors, as we always do, to understand and address their concerns and to design solutions that meet their participants' needs. As we lay out below, we believe it is possible to devise an investment solution that can offer exposure to private assets, with competitive fees, while aiming to offer transparency and liquidity. We appreciate that the path to adoption will be gradual, and we are committed to helping DC plan sponsors navigate this emerging opportunity.

At BlackRock, helping people achieve better retirement outcomes is our core business: more than half the money we manage is retirement money.⁶ We want to support plan sponsors in giving their participants a broad range of options to meet their retirement investing needs. We see offering DC plan sponsors the choice to include private assets in their retirement plans as an important part of our broader efforts to bring the full power of capital markets to all investors. **After all, it is all of our work to help more Americans invest better to retire better.**

Policymakers weigh how to support DC retirement ecosystem

Adding private assets to DC plans is a complex topic with many factors in play. Policymakers are actively considering how best to more fully support DC plan fiduciaries as they determine whether to add investment options that would provide participants with greater access to the wider 'investable universe' of private assets. These policy discussions are focused on providing plan fiduciaries with sufficient flexibility and certainty in selecting investment options that they believe best meet the long-term investment objectives of their plan participants. That certainty would help plan fiduciaries navigate the current litigation landscape, as more than half of DC plans with assets of \$1 billion or more have been sued for alleged excess fees.⁷

Our belief is that the policy discussion may be evolving to better enable these opportunities and that, when paired with the right product structure and education on the investment rationale, we may be closer to finding solutions. We are clear-eyed that progress on these fronts may take time, and the path will not be linear. But we believe that there is an opportunity to find solutions that over the long-term can help workers reach their retirement goals.



Private assets: an opportunity to improve retirement outcomes

There are many ways to incorporate private assets into DC plans. Because target date strategies are now the default investment option for most DC plans, we have spent time researching effective strategies for incorporating private assets as an integral component of a target date strategy.

We envision adding private assets into target date strategies through purpose-built exposures that are designed to meet the needs of the DC ecosystem and the clients they serve. We think this approach could also help address some common plan sponsor concerns. We focus on private equity and private credit specifically, due to the quantity and quality of data currently available for these assets.

Given our expectations that private equity and private credit will continue to outperform their public market counterparts over the coming decade, and using our proprietary BlackRock Investment Institute's publicly available [capital market assumptions](#) (CMAs) and data from Preqin, eFront and our private-markets investment teams, we estimate that adding private equity and private credit to a target date solution could boost overall investment performance by roughly 50bp on average, each year throughout the strategy's lifetime.⁸

We believe such a solution would draw market interest. When we recently surveyed DC plan advisors, 21% of respondents said they plan to include private market investments in the plans they manage. And when asked to rank their interest in various delivery solutions for private market investments, they named target date strategies as their top choice.⁹

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With respect to US defined contribution plans, there's a sea change happening, and I see a real pathway for private markets making their way into target date funds.”

Martin Small

Chief Financial Officer and
Global Head of Corporate
Strategy, BlackRock

Potential benefits of adding private assets to a target date strategy

1. Private assets have higher expected returns than publicly traded assets, according to our CMAs,¹⁰ meaning that adding allocations to higher-returning assets should increase the overall return of a portfolio, as shown in Figure 1.
2. Adding private assets diversifies the overall portfolio and thus enhances its risk/return profile, as illustrated in Figure 2. This chart (showing a static portfolio) does not directly translate into how we would approach incorporating private assets into a target date strategy (with strategic asset allocations that adjust over time). But it does illustrate the point that private assets can improve the risk/return profile when added to a portfolio of equities and fixed income.
3. The benefits of compounding mean that potentially higher returns from the greater allocation to private assets earlier in the glidepath can benefit the investor over the entire lifecycle.
4. We believe we can further improve returns by limiting cash drag by incorporating private assets as an integral part of the target date strategy, managing liquidity throughout the entire portfolio – which we discuss on page 9 – while maintaining competitive fees.

Figure 1: In 1995, investors could meet return objectives through a portfolio comprised of fixed income and cash. To meet the same target return objectives of 7% in 2025 requires an allocation to private markets.

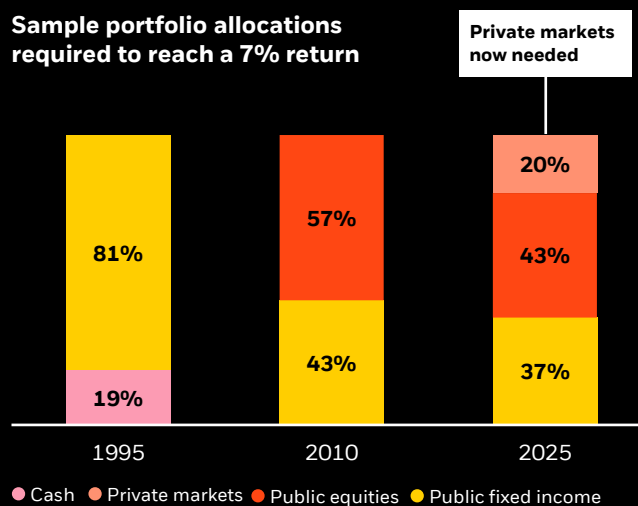
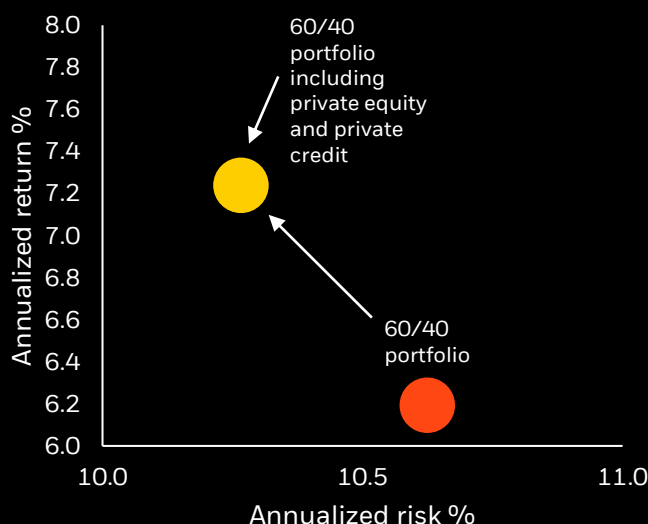


Figure 2: An illustration of how adding private equity and private credit allocations to a static 60/40 portfolio can improve the risk/return profile over a decade.



Source for Figure 1: Callan Associates, 2025 Capital Market Assumptions. The median return assumption for state and local pensions has decreased from 8% in 2010 to 7% in 2023 based on analysis from the National Association of State Retirement Administrators and is thus used as a representative figure to highlight how an investor may need increased alternatives exposure to hit a given return target. For illustrative purposes only. Index returns are for illustrative purposes only and do not represent actual 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.** **Source for Figure 2:** BlackRock and Morningstar from 12/31/2014 to 12/31/2024. The 60/40 portfolio referenced is 60% MSCI ACWI IMI and 40% Bloomberg US Agg bond. The 60-40 + Private Markets portfolio is 50% MSCI ACWI IMI, 30% Bloomberg US Agg bond, 10% Preqin Private Equity ex. VC index, and 10% Preqin Private Debt Direct Lending index. The two portfolios are rebalanced quarterly. Historical asset allocation changes are not reflected in the hypothetical performance shown. The two Preqin indexes are manually unsmoothed by BlackRock for purpose of analysis. For illustrative purposes only. Index returns are for illustrative purposes only and do not represent actual 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.



Private assets play an increasingly important role in the global economy

Private markets have seen strong growth in recent years: we now estimate that the private market investment opportunity can grow by about two-thirds by 2029, reaching \$23 trillion.¹¹ These assets are expected to play an increasingly important role in financing the global economy, with several structural dynamics underpinning their growth:

- Large companies are staying private for longer: in the US today, more than 80% of companies with over \$100 million in revenue are privately held.¹² This has opened the door for venture capital and private equity investments to help fund the early – and increasingly later – stages of companies’ growth.
- Private credit has grown into a sizeable, scalable market of investors and borrowers and continues to evolve to meet companies’ changing financing needs. BlackRock expects the private credit market will more than double to \$4.5 trillion by 2030.¹³
- The Global Infrastructure Outlook estimates that by 2040, the world will need \$68 trillion in new infrastructure investment, far exceeding the funding capacity of governments and taxpayers.¹⁴
- Real estate needs to be built and upgraded, particularly to support urbanization in emerging markets and the changing ways that people live and work.

Figure 3: Characteristics of private assets

Desired outcomes	Characteristics	Direct lending	Real estate equity	Infra equity	Infra debt	Private equity
Growth	High target returns	✓	✓	✓		✓
Inflation protection	Inflation-linked cash flows		✓	✓	✓	
Diversification	Low correlation	✓	✓	✓	✓	✓
Income	Stable cash flows	✓	✓		✓	

Note: While our initial research focuses on allocations to private equity and private credit, we believe a target date strategy could include purpose-built allocations to other categories of private assets with varying exposures over time.

Purpose-built private asset exposure in target date strategies seeks to benefit investors over their lifetimes

The glidepath of a target date solution follows investors’ needs throughout their lifecycle (Figure 4). It’s designed to adjust the mix of equities and fixed income to take on more risk for younger investors, who have longer investment horizons and higher risk tolerances, and then reduce risk as they near retirement and have shorter investment horizons and a greater need for income and liquidity.

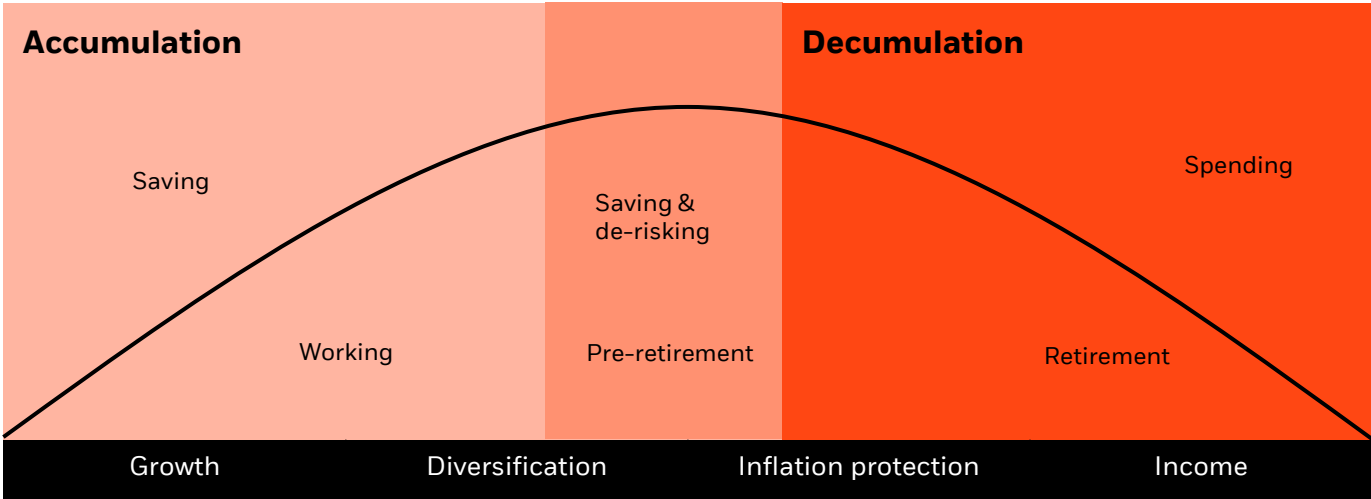
When adding private assets, we would follow a similar approach. We would consider the benefits and risks of private assets at each stage of an investor’s lifecycle, as well as the ways in which private assets interact with public holdings in the portfolio. Our proposed approach would make small but growing allocations to private assets when workers are younger and then reduce these allocations as workers near retirement.

- **When investors are young**, we would start with a small allocation to private assets, specifically private equity and private credit. Younger workers tend to change jobs (and therefore retirement plans) frequently, making a large allocation to less-liquid private assets not suitable. We would begin

to ramp up the allocation between ages 25-50, aligned with peak earning years, with an indicative allocation of roughly 15%-20%. The goal is to capitalize on private assets’ higher return potential while workers still have a longer investment horizon and higher risk tolerance. Growth-oriented private assets like private equity would play a key role at this stage; a higher allocation at this age also allows time for the benefits of compounding to work.

- **For older investors nearing retirement**, we would favor private credit, given its income-generating profile. We would also taper the overall private asset allocation to about 5%-10% (indicative) to reduce risk and avoid utility loss from early, distressed or unplanned private asset sales as retirement (age 65) approaches. This tapering is similar to the way we reduce equity exposures in all of our target date strategies. After age 65, we would expect to take a more conservative stance given the lower liquidity inherent in private assets, retirees’ typical liquidity needs and potential IRA rollovers.

Figure 4: Applying lifecycle insights into our design of target date strategies



For illustrative purposes only. A general lifecycle takes investors from working through retirement and has key goals throughout the phases, ranging from growth when young, to diversification, inflation protection and income near and in retirement.

Our glidepath design can help unlock the potential benefits of private assets

We think that thoughtfully incorporating private assets into a target date glidepath does not mean simply ‘bolting on’ an existing stand-alone private asset fund to a portfolio of public securities.

We believe the key to unlocking the growth potential of private assets is instead to incorporate them thoughtfully in ways that address head-on some of the inherent differences between public and private assets. Private assets tend to be less liquid and more opaque, and they are subject to higher fees and less frequent valuations.

As private assets move into mainstream investing, we are seeing more ways to address these characteristics. For instance, transparency is improving as more investors have greater access to private assets. Transparency is also improving as private markets data providers, such as Preqin, expand their data sets and analytics – capabilities that we are already using in our private asset offerings in other parts of our business.

We have heard DC plan advisors’ concerns, and we believe that careful product design that keeps DC-friendly characteristics (competitive fees, transparency) top of mind, along with more education, can help to ease them.

Specifically, our proposal seeks to minimize:

- **Fees:** Private assets generally come with higher fees than public assets, and in some cases charge variable fees or incentive fees based on fund performance. We believe it is important that a target date solution maintains competitive, transparent pricing. This will require allocating to private assets in a manner that enables fee simplicity – for example, flat fees that limit fee variability

over time. Additionally, we believe we can avoid further fees (including for distribution) by sourcing private investments from our own extensive private assets platform.

- **Cash drag:** Our proposed structure would also allow us to address plan sponsors’ concerns about the ‘cash drag’ that is commonly seen in private asset solutions, both early and later in their lifecycles. These products often need a large liquidity sleeve for cash flow management and to meet client redemptions – with the result that lower returns from these liquid assets can drag down the overall returns from the private allocation. But the solution we envision would derive liquidity from the broader target date strategy, along with a daily liquid, uncorrelated alpha stream that we would manage alongside the private assets exposure.
- **Liquidity:** There is a risk – inherent to private assets, regardless of how they are held – that early, distressed or unanticipated sales could lower the value of the strategy. Because private assets are less liquid than public ones, this problem will persist to some extent regardless of the structure. While there are several ways to manage liquidity, our preferred approach would include private strategies that are purpose-built for use solely in target date solutions. This approach would help to mitigate the impact of liquidity-driven shocks by giving us full control of the target date solution’s building-block architecture, cash flow and allocation management, where we could have tighter control of allocations and align liquidity more closely with expected flows.

We continue to work with plan sponsors, advisors and consultants to better understand their concerns and to ensure they have the information they need to make informed choices.

Strategically adjusting private assets within the glidepath

There is more to a target date strategy than just the glidepath, and when it comes to asset allocation, we seek to precisely align exposures to our lifecycle objectives. We carefully consider any asset class's contribution to the risk/return profile of each target date vintage. This will remain true when we introduce private assets into the glidepath; for example, as market conditions change, we expect our allocation to private assets will evolve as well.

It's important to bear in mind that private markets are not homogeneous. Each has its own unique risk and return characteristics, making it appropriate to adjust *within* these categories as macroeconomic and market conditions shift and our capital markets assumptions evolve.

We note that our indicative allocations and the estimated 50bp uplift may change depending on a variety of factors, including the macroeconomic and market environment, which private assets are used, expected risk and returns, issuer track records, liquidity tolerances, fees and plans' overall objectives. And while our initial research incorporates only private credit and private equity, we believe a target date strategy could include purpose-built allocations to other categories of private assets with varying exposures over time.

Conclusion

BlackRock has spent decades helping millions of people invest for their futures, and we are continually evolving our solutions to help deliver the retirement outcomes that investors need.

In our view, more plans should feel empowered to give people the option to include private markets in their DC retirement accounts, given the potential for higher risk-adjusted returns, diversification, stable cash flows and inflation protection – and ultimately for better retirement outcomes. That choice comes with the responsibility to incorporate private assets in the right way. We believe that target date strategies incorporating purpose-built private asset exposure offer that opportunity, drawing on these strategies' inherent flexibility to adjust allocations as macro and market conditions demand.

We believe a sea change is happening in the US, where the retirement and financial industries, as well as policymakers, are focused on how best to enhance Americans' retirement savings while also addressing plan sponsors' concerns. Policymakers can

address the hurdles keeping many DC plan participants from realizing the potential benefits from exposure to private assets as they invest to meet their long-term retirement goals. An appropriate focus for policymakers would be rebalancing the burden, and related legal risks, faced by plan fiduciaries in prudently selecting investment options, likely resulting in greater investor access to an important and growing segment of the investment marketplace.

BlackRock is well-positioned to incorporate private assets in target date strategies for DC plans. We have been serving DC plans and millions of participants for more than 30 years, and we are leaders in glidepath development. With the breadth of our \$300 billion private assets platform, we have access to deal flow at scale, enabling us to design cost-effective solutions and target returns that meet our clients' objectives.¹⁵ Our data capabilities across Aladdin, eFront and Preqin allow us to optimize to help clients meet their specific needs. And we remain committed to innovation. **When more people can share in the growth and prosperity created by capital markets, they can invest better, live better and retire better.**

Contributors:

Christopher Chung

Mason Hook

Michael Pensky

Emily Fredrix Goodman

Veda Kilaru

Cara Reisman

Jess Haas

Sandra Lawson

Ben Wallach

Endnotes

1. [Employee Benefit Research Institute](#), *Workplace Retirement Plans: By the Numbers* (2023)
2. [Congress](#), *A Visual Depiction of the Shift from Defined Benefit (DB) to Defined Contribution (DC) Pension Plans in the Private Sector* (2021)
3. Public Plans Database, accessible online [here](#). 16% asset allocation to private assets includes 14% to private equity and 1.9% to misc. alternatives, as of 2023.
4. [BlackRock](#), *Alternative investments in target date funds* (2025)
5. The 50bp average annual uplift and 15% higher account balance are derived using the BlackRock Investment Institute's [capital market assumptions](#) ("CMAs") for private credit (direct lending) and US private equity (buyout). The CMAs used are estimated over a 5-30-year investment horizon, allowing for flexibility in portfolio construction and scenario analysis, and assume a 10% return for private credit, 11% for private equity, 5% for public fixed income and 8% for public equities. A 10%-20% average reallocation from public to private, blended across private equity and private credit, is estimated to provide an uplift of approximately 50bp, averaged across target date vintages. Expected returns and risks are forward-looking projections that should not be relied upon when making an investment decision. Such projections do not reflect actual performance and cannot account for the impact that economic, market and other factors may have on the implementation of an actual investment program, nor do they consider the impact of trading decisions, liquidity constraints, fees, taxes and other factors on future returns. No representation is made that any proposed or future strategy will achieve the expected return or its investment objective. Actual returns may be higher or lower than the expected return. Source: BlackRock. For illustrative purposes only. Allocations are subject to change.
6. BlackRock estimates based on AUM as of Dec. 31, 2021, and Cerulli data as of 2020. ETF assets include only qualified assets based on Cerulli data and assumes 9.5% of institutionally held ETFs are related to pensions or retirement. Institutional estimates include assets defined as "related to retirement" and are based on products and clients with a specific retirement mandate (e.g., LifePath, pensions). Estimates for Latin America are based on assets managed for LatAm pension fund clients, excluding cash.
7. [Encore Fiduciary](#), Jan. 2025
8. The 50bp average annual uplift and 15% higher account balance are derived using the BlackRock Investment Institute's capital market assumptions ("CMAs") for private credit (direct lending) and US private equity (buyout). The CMAs used are estimated over a 5-30-year investment horizon, allowing for flexibility in portfolio construction and scenario analysis, and assume a 10% return for private credit, 11% for private equity, 5% for public fixed income and 8% for public equities. A 10%-20% average reallocation from public to private, blended across private equity and private credit, is estimated to provide an uplift of approximately 50bp, averaged across target date vintages. Expected returns and risks are forward-looking projections that should not be relied upon when making an investment decision. Such projections do not reflect actual performance and cannot account for the impact that economic, market and other factors may have on the implementation of an actual investment program, nor do they consider the impact of trading decisions, liquidity constraints, fees, taxes and other factors on future returns. No representation is made that any proposed or future strategy will achieve the expected return or its investment objective. Actual returns may be higher or lower than the expected return. Source: BlackRock. For illustrative purposes only. Allocations are subject to change.
9. NAPA Advisor Research Institute (NARI) Survey, in partnership with BlackRock, conducted March 2025 by the Retirement Leadership Forum
10. Our current research assumes that private equity, defined as broad-based private equity deals, returns roughly 12%-13% each year, and that private credit, defined as direct lending, returns 5%-6% above SOFR (the reference rate) annually. These assumptions are indicative and may change over time.
11. Preqin data as of Q3 2024, as published in 'Future of Alternatives 2029' in June 2025. Private equity is inclusive of venture capital. There is no guarantee that any forecasts made will come to pass.
12. S&P Capital IQ, BlackRock, as of February 24, 2025. Reproduction of any information, data or material, including ratings ("Content") in any form, is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.
13. BlackRock estimates for private credit AUM and asset-based finance total addressable market are based on analysis from multiple sources: Preqin, Goldman Sachs Research, SIFMA, Voya IM, Federal Reserve, Trepp, CMHC, European Mortgage Federation, S&P Global, Bank of America Global Research, JPMorgan, Oliver Wyman. Private credit funds include dry powder, or readily available cash or liquid assets held in reserves. Most recently available data as of December 2023. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass.
14. Global Infrastructure Hub ([gihub.org](#)), Deloitte. Infrastructure needs defined as new investment, replacement investment and spending on maintenance where the investment will substantially extend the lifetime of an asset, but excluding land purchases. Needs determined on the basis that countries match the performance of their best performing peers in terms of the resources they dedicate to infrastructure investment. Investment need calculated from 2024-2040.
15. BlackRock, as of Q1 2025. Private assets include private equity, private credit, infrastructure and real estate.

Disclosures

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